Grand Strategy of Islamic Banking Market Development
EXECUTIVE SUMMARY
Islamic Banking in Indonesia has not yet shown any significant existence despite the use of “total football” approach for a relatively long term.

“A total football approach of Islamic Banking development”
Acceleration Initiative of Indonesian Islamic Banking market development is conducted through systematic implementation

Grand Design Strategy of Market Development

**VISION OF MARKET DEVELOPMENT AND TARGET**

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>I (2008)</td>
<td>“to build understanding of Islamic Banking as Beyond Banking”, Achievement of asset target of Rp50 T; Achievement of industrial growth rate of 40%.</td>
</tr>
<tr>
<td>II (2009)</td>
<td>“to make Indonesian Islamic Banking as the most attractive Islamic Banking in ASEAN”, Achievement of asset target of Rp87 T; Achievement of industrial growth rate of 75%.</td>
</tr>
<tr>
<td>III (2010)</td>
<td>“to make Indonesian Islamic Banking as the Leading Islamic Banking in ASEAN”, Achievement of asset target of Rp124 T; Achievement of industrial growth rate of 81%.</td>
</tr>
</tbody>
</table>

**NEW IMAGE PROGRAM**

- **POSITIONING**
  - Banking which is mutually beneficial for both parties
- **DIFFERENTIATION**
  - Content: Various products with variation scheme
  - Context: Transparent to be fair to both parties
  - People: Competent in finance & ethics
  - Technology: Updated & user friendly IT system
  - Facility: Investment, finance and Islamic experts
- **BRAND**
  - MORE THAN JUST A BANK (BEYOND BANKING)

**NEW MAPPING OF ISLAMIC BANKING MARKET SEGMENTATION**

**PRODUCT DEVELOPMENT PROGRAM**

**SERVICE IMPROVEMENT PROGRAM**

**PUBLIC EDUCATION AND INDUSTRIAL COMMUNICATION PROGRAM**
NEW VISION OF GRAND STRATEGY OF MARKET DEVELOPMENT
Albeit its low total asset, Islamic Banking has become a global phenomenon, including in countries where majority of its population is non-Muslim.

Global Market of Islamic Banking

Projection by McKinsey 2008

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Muslim %</th>
<th>GDP (USD Billion)</th>
<th>Financial Sector (USD Billion)</th>
<th>Islamic Banking Asset (USD Billion)</th>
<th>Islamic Banking Shares (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iran</td>
<td>65,875,223</td>
<td>98</td>
<td>278.1</td>
<td>162.2</td>
<td>162.2</td>
<td>100</td>
</tr>
<tr>
<td>Sudan</td>
<td>40,218,455</td>
<td>70</td>
<td>49.71</td>
<td>63.8</td>
<td>58</td>
<td>90</td>
</tr>
<tr>
<td>UAE</td>
<td>4,621,399</td>
<td>96</td>
<td>189.6</td>
<td>340</td>
<td>46.3</td>
<td>13.5</td>
</tr>
<tr>
<td>Bahrain</td>
<td>718,306</td>
<td>81.2</td>
<td>16.89</td>
<td>251.1</td>
<td>16.4</td>
<td>6.5</td>
</tr>
<tr>
<td>Qatar</td>
<td>928,635</td>
<td>77.5</td>
<td>65.81</td>
<td>81.3</td>
<td>14.8</td>
<td>18.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>25,274,133</td>
<td>60.4</td>
<td>165</td>
<td>387</td>
<td>50</td>
<td>12.9</td>
</tr>
<tr>
<td>Singapore</td>
<td>4,608,167</td>
<td>14.9</td>
<td>153.5</td>
<td>27.6</td>
<td>1.8</td>
<td>6.5</td>
</tr>
<tr>
<td>UK</td>
<td>60,943,912</td>
<td>2.7</td>
<td>2,756</td>
<td>19,100</td>
<td>10</td>
<td>0.05</td>
</tr>
</tbody>
</table>

Comparison of Annual Growth Rate

The Fact of Islamic Banking Market

- Proportion of 1.3 billion Muslim using Islamic Banking is relatively small
- Asset share of Global Islamic Banking is small

Sources: Fact Book, Asian Banker, Forbes, McKinsey
In order to optimally taking benefit of the global trend, Indonesian Islamic Banking must have the initiative to conduct extraordinary acceleration on market development.

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Muslim %</th>
<th>GDP (USD Billion)</th>
<th>Financial Sector (USD Billion)</th>
<th>Islamic Banking Asset (USD Billion)</th>
<th>Islamic Banking Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>237,512,355</td>
<td>85</td>
<td>410.3</td>
<td>180.13</td>
<td>3.9</td>
<td>1.99</td>
</tr>
</tbody>
</table>

**Area Grand Strategy of Market Development**

<table>
<thead>
<tr>
<th>DOMAIN</th>
<th>ISSUE</th>
<th>INITIATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulator (BI, DSN, IAI)</td>
<td>Publication of Islamic Banking Act</td>
<td>To accelerate Islamic Banking Act</td>
</tr>
<tr>
<td></td>
<td>Tax related regulations</td>
<td>To accelerate specific taxes regulation</td>
</tr>
<tr>
<td></td>
<td>Product license</td>
<td>Harmonization of product regulation</td>
</tr>
<tr>
<td>Support of Development of Islamic Banking</td>
<td>Product and Service Innovation</td>
<td>To actively innovate &amp; adopt Islamic Banking products &amp; services</td>
</tr>
<tr>
<td></td>
<td>Branding &amp; communication Innovation</td>
<td>New approach of branding &amp; communication</td>
</tr>
<tr>
<td></td>
<td>Enhancement of market capacity</td>
<td>Internal marketing, empowerment of qualified human resources, network and capital</td>
</tr>
<tr>
<td>Main complement of Islamic Banking</td>
<td>To make a more universal Islamic Banking</td>
<td>To show that Islamic Banking is an attractive global trend</td>
</tr>
<tr>
<td></td>
<td>Assistance in the promotion of Islamic Banking</td>
<td>To show more variations in Islamic Banking</td>
</tr>
<tr>
<td></td>
<td>Accountancy standardization</td>
<td>Adoption &amp; harmonization of accounting standard</td>
</tr>
<tr>
<td></td>
<td>Improving the quality of Islamic Scholar</td>
<td>Targeting Islamic Scholar with international quality</td>
</tr>
<tr>
<td></td>
<td>Different Sharia principles &amp; standards</td>
<td>Accommodation &amp; harmonization of Sharia principles &amp; standards</td>
</tr>
</tbody>
</table>
Initiative with extraordinary acceleration on Islamic Banking market development also needs to take into account aggressive, moderate, and conservative growth scenario.

Projection of Islamic Banking Market Development

**Asset Growth Opportunity**

- **AGGRESSIVE**
  - Asset nominal: 62 T
  - Asset growth: 81%
  - Assumption: Successful of new public education

- **MODERATE**
  - Asset nominal: 50 T
  - Asset growth: 44%
  - Assumption: As Current Condition

- **CONSERVATIVE**
  - Asset nominal: 45 T
  - Asset growth: 32%
  - Assumption:
    - Oil price increases ➔ loan/financing, disposable income ↓, depositor funds
    - Conversion UUS becomes BUS

**AGRESSIVE**
- Asset nominal: 87 T
- Asset growth: 75%
- Assumption: Improvement in the quality of human resources of Islamic Banking

**MODERATE**
- Asset nominal: 68 T
- Asset growth: 37%
- Assumption: External factors (economics, election) ➔ growth ↓

**CONSERVATIVE**
- Asset nominal: 57 T
- Asset growth: 25%
- Assumption: Conversion UUS becomes BUS

**AGRESSIVE**
- Asset nominal: 124 T
- Asset growth: 70%
- Assumption: Improvement in the quality of human resources of Islamic Banking

**MODERATE**
- Asset nominal: 97 T
- Asset growth: 43%
- Assumption: As current condition

**CONSERVATIVE**
- Asset nominal: 72 T
- Asset growth: 26%
- Assumption:
  - Conversion UUS becomes BUS
  - Public Education at conservative progress, external risks (economics, political)
Targets are set up in phases for the realization of vision of becoming a leading Islamic Banking in ASEAN in 2010

Vision On Grand Strategy Of Market Development

**PHASE 1**
“**To build understanding of Islamic Banking as Beyond Banking**”
- Target achievement of Rp50 T
- Achievement of industrial growth rate of 40% and asset share of 2.26%
- Completion of imperatives for development mainly those related to regulations
- To do an approach to other regulator institutions (internal and external) to give incentive to conventional banks in order to support UUS (Islamic Business Unit).

**PHASE 2**
“**To become the most attractive Islamic Banking in ASEAN**”
- Target achievement of Rp87 T & asset share of 3.5%
- Achievement of industrial growth rate of 75%

**PHASE 3**
“**To become a leading Islamic Banking in ASEAN**”
- Target achievement of Rp124 T
- Achievement of industrial growth rate of 81% & Asset Share of 4.75%
- Many product and network development innovation, as well as to become one of the Center of Excellence in South East Asia.

- **Asset Growth Opportunity**
- **Industrial Growth**
  - **2008**
  - **2009**
  - **2010 Time**
GRAND STRATEGY OF MARKET DEVELOPMENT

- Islamic Banking New Image Program
- Islamic Banking Market Segment Development Program
- Product Development Program
- Services Improvement Program
- Public Education and Communication Program
After becoming global phenomenon and attracting wide attention, it is reasonable that Indonesian Islamic Banking should have a new image to attract all segment of population

### Change of image of Islamic banking industry

<table>
<thead>
<tr>
<th>ASPECT</th>
<th>CURRENT IMAGE (1)</th>
<th>FUTURE IMAGE (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>POSITIONING</td>
<td>• Bank for Muslim society/people who are going for pilgrimage</td>
<td>• For all communities looking for mutual benefits between bank &amp; customer</td>
</tr>
<tr>
<td>ATTRIBUTE</td>
<td>• Focusing more on Islamic symbol</td>
<td>• Focusing more on substantial/universal values (benefits for all)</td>
</tr>
<tr>
<td>PRODUCT</td>
<td>• Profit sharing savings and deposits • Loan without interest, but similar with conventional bank</td>
<td>• Product with variety of banking financial schemes</td>
</tr>
<tr>
<td>OFFERING METHOD</td>
<td>• Many Arabic terms that are actually incomprehensible to customers or potential customers</td>
<td>• The use of other terms that are more understandable in addition to Arabic terms in the agreement legal documents</td>
</tr>
<tr>
<td>SERVICES</td>
<td>• Limited network • Service facilities are frequently in problem</td>
<td>• Wide network • Service facilities are reliable</td>
</tr>
<tr>
<td>BRAND</td>
<td>• Fair and reassuring Bank</td>
<td>• More than just a bank (Beyond banking)</td>
</tr>
</tbody>
</table>

Source: 
(1) research output of focus group discussions (FGD)  
(2) FGD research output of In-depth Interview, and Desk Research
To build the new image of Islamic Banking, a new PDB must be formulated as the core of new image

Islamic Banking New Image Program

<table>
<thead>
<tr>
<th>POSITIONING</th>
<th>DIFFERENTIATION</th>
</tr>
</thead>
</table>
| Banking with mutual benefits to both parties | • Content: Various products with variative scheme  
• Context: Transparent to be fair for both parties  
• People: Competent in finance & ethical  
• Technology: Updated & user friendly IT system  
• Facility: Investment, financial and Islamic expertise |

BRAND

MORE THAN JUST A BANK  
(BEYOND BANKING)
Differentiation realization of Islamic Banking must be reflected from its content & context, people, technology, and facility

Elaboration of Differentiation

**DIFFERENTIATION**

- Content: Various products with diversified schemes
- Context: Transparent to be fair to both parties
- People: Competent in finance & ethical
- Technology: Updated & user-friendly IT system
- Facility: Investment, financial, and Islamic expertise

**Facilities available in every Islamic Banking**

- **Investment expert** → will help to make industrial sector priority that would have Islamic Banking financing and to understand domestic and international trends of certain industrial sectors (possibly also conducted also through regular meetings facilitated by Islamic Banking association and Bank Indonesia with experts in certain industrial sectors)

- **Financial and banking experts** → will help for development or modification of Islamic Banking new products with high acceptability in the market

- **Islamic expert** → who can convince customers for transaction compliance with Islamic banking principles

**COMPETENT**

- Understand financial and banking
- Understand financial structure of Islamic Banking products

**ETHICAL**

- Understand Islamic issues
- To follow Islamic procedures (Sharia compliance)

**User Friendly**

Simulation of product concept → to facilitate customer service in explaining to customers

**Update**

Always updated in order to provide the latest information on product performance based on Sharia scheme/agreement used
Logo of Indonesian Islamic Banking Industry

1. Officially launched on July 2, 2007 by the Governor of Bank Indonesia on 54th anniversary of Bank Indonesia.

2. Logo as the identity of Islamic banking industry in Indonesia

3. The objective is to help the public in recognizing Islamic Banking Services all over Indonesia

4. To create confidence and security for the public. The existence of this logo will ensure that the available banking products and services are in accordance with Sharia principles (fair, balanced, socialized, ethical)

5. Provide value added to the Bank. Implementation of this logo will position the bank as part of the solid, well-governed, integrated and progressive Indonesian Islamic banking industry
**Logo of Indonesian Islamic Banking Industry**

**Geometric Ornament**
As crystallization of the values of balance and harmony, mathematical precisions and ongoing transformation towards perfection

<table>
<thead>
<tr>
<th>Color</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue</td>
<td>Professionalism and integrity</td>
</tr>
<tr>
<td>Red</td>
<td>Dynamic</td>
</tr>
<tr>
<td>Orange</td>
<td>A warm color that reflects kindness and low-profile in personality</td>
</tr>
<tr>
<td>Green</td>
<td>Symbolizes growth</td>
</tr>
<tr>
<td>White</td>
<td>Reflects clean and transparent system in compliance with Sharia principles</td>
</tr>
</tbody>
</table>
ISLAMIC BANKING MARKET SEGMENTATION DEVELOPMENT PROGRAM
The target market segmentation development program is essential in positioning in to customer’s mind

Relation between Imaging Program and Segmentation Development

**POSITIONING**

Banking with mutual benefits to both parties

**DIFFERENTIATION**

- Content: Various products with diversified schemes
- Context: Transparent to be fair to both parties
- People: Competent in finance & ethics
- Technology: Updated & user-friendly IT system
- Facility: Investment, financial and Islamic expertise

**BRAND**

MORE THAN REGULAR BANK (BEYOND BANKING)
In developing segmentation in compliance with the new image, MarkPlus has conducted research on conventional and Islamic Banking customers

Customers mapping based on banking orientation dimension

<table>
<thead>
<tr>
<th>Segment</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Essentially Islamic banking</strong></td>
<td>(regardless the condition, will use Islamic Banking)</td>
</tr>
<tr>
<td><em>For me,</em> usury (riba) is illegitimate</td>
<td></td>
</tr>
<tr>
<td><em>In my opinion, bank which is based on interest (conventional) considered as usury (riba)</em></td>
<td></td>
</tr>
<tr>
<td><em>I will use non-interest based bank (sharia) despite its limited facilities and network.</em></td>
<td></td>
</tr>
<tr>
<td><strong>Follower</strong></td>
<td>(will use Islamic Banking if many people use it)</td>
</tr>
<tr>
<td><em>I will use non-interest based bank (sharia) if most of my friends/relatives are using it</em></td>
<td></td>
</tr>
<tr>
<td><em>I will use non-interest based bank (sharia) if its facilities &amp; network are good</em></td>
<td></td>
</tr>
<tr>
<td><em>I will use non-interest based bank (sharia) if it can give me more profit than interest based bank (conventional)</em></td>
<td></td>
</tr>
<tr>
<td><strong>Functional</strong></td>
<td>(Use Islamic or conventional Banking based on its function or advantage)</td>
</tr>
<tr>
<td><em>I will use both interest and non-interest Banks (sharia) equally</em></td>
<td></td>
</tr>
<tr>
<td><em>In my opinion, non-interest based bank (sharia) is only an alternative of interest-based bank (conventional) and both can be used</em></td>
<td></td>
</tr>
<tr>
<td><em>Since both interest and non-interest based banks (sharia) have their own uniqueness, I will use it accordingly</em></td>
<td></td>
</tr>
<tr>
<td><strong>Obligatory</strong></td>
<td>(use Islamic Banking services due to obligation or mandating)</td>
</tr>
<tr>
<td><em>I will use non-interest based bank (sharia) so that people see me obeying my religion or I am open for all financial alternatives</em></td>
<td></td>
</tr>
<tr>
<td><em>I still do not believe yet that non-interest based bank (sharia) is applicable</em></td>
<td></td>
</tr>
<tr>
<td><em>I have not yet used non-interest based bank (sharia) due to difficulties in understanding its terminology and its system</em></td>
<td></td>
</tr>
<tr>
<td><em>I will use non-interest based bank (sharia) if obliged by my business partner</em></td>
<td></td>
</tr>
<tr>
<td><strong>Essentially conventional</strong></td>
<td>(regardless the condition, will use conventional Banking)</td>
</tr>
<tr>
<td><em>I will keep using interest based bank (conventional) since I have been using it for a long time</em></td>
<td></td>
</tr>
<tr>
<td><em>I will use interest based bank (conventional) due to its user friendly system, requirements, and familiar terminologies</em></td>
<td></td>
</tr>
<tr>
<td><em>I will keep using interest based bank (conventional) despite of current existence of non-interest based bank (sharia) with excellent facilities and service network</em></td>
<td></td>
</tr>
</tbody>
</table>

Source: (1) Qualitative research results
Looking into banking orientation and the product used, banking customers’ behavior reveals a paradox

A portrait of banking users for short-term saving

Short-term Saving Product per segment

Bank used by Customers Segment

<table>
<thead>
<tr>
<th>TOP 10</th>
<th>Essentially Islamic Banking</th>
<th>Followers</th>
<th>Functional</th>
<th>Forced</th>
<th>Essentially conventional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total of Respondent</td>
<td>105</td>
<td>105</td>
<td>156</td>
<td>59</td>
<td>217</td>
</tr>
<tr>
<td>BRI</td>
<td>31.4</td>
<td>32.4</td>
<td>25.0</td>
<td>25.4</td>
<td>29.5</td>
</tr>
<tr>
<td>Bank Central Asia (BCA)</td>
<td>25.7</td>
<td>24.8</td>
<td>30.8</td>
<td>22.0</td>
<td>29.0</td>
</tr>
<tr>
<td>BANK MANDIRI</td>
<td>15.2</td>
<td>20.0</td>
<td>28.8</td>
<td>20.3</td>
<td>24.0</td>
</tr>
<tr>
<td>Bank BNI</td>
<td>17.1</td>
<td>16.2</td>
<td>13.5</td>
<td>25.4</td>
<td>18.9</td>
</tr>
<tr>
<td>Bank LIPPO</td>
<td>4.8</td>
<td>2.9</td>
<td>3.8</td>
<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Bank Danamon</td>
<td>1.0</td>
<td>6.7</td>
<td>3.2</td>
<td>5.1</td>
<td>3.7</td>
</tr>
<tr>
<td>BANK NIAGA</td>
<td>*</td>
<td>2.9</td>
<td>3.8</td>
<td>1.7</td>
<td>1.4</td>
</tr>
<tr>
<td>BTN</td>
<td>1.9</td>
<td>2.9</td>
<td>1.3</td>
<td>3.4</td>
<td>1.8</td>
</tr>
<tr>
<td>Bank DKI</td>
<td>2.9</td>
<td>1.9</td>
<td>*</td>
<td>3.4</td>
<td>1.8</td>
</tr>
<tr>
<td>BANK MUAMALAT INDONESIA</td>
<td>5.7</td>
<td>1.9</td>
<td>1.3</td>
<td>*</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Customers from “essentially Islamic Banking” segment are also customers of conventional bank
Paradox in User Profile is a result from pragmatic behavior of islamic banking users in Indonesia

Portrait of Islamic bank users as well as conventional bank

<table>
<thead>
<tr>
<th>Type of banking</th>
<th>Conventional Banking</th>
<th>Islamic Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of account both types of banking (1)</td>
<td>Savings</td>
<td>Savings</td>
</tr>
<tr>
<td>Activities related to the account</td>
<td>Transactions</td>
<td>Savings/Deposits</td>
</tr>
<tr>
<td>Consideration in Choosing an Account</td>
<td>Wide network, and reliable service facilities</td>
<td>High profit sharing</td>
</tr>
</tbody>
</table>

Portrait of Users of Islamic Banking

- Users understand the advantages of each bank where conventional bank is leading in term of wide network and have reliable and numerous service facilities currently incomparable to those of Islamic Banking. On other hand, Islamic Bank has a unique advantage from its product characteristics
- Users want to use both types of banking

Source: (1) Research result of FGD, Diary
By referring to users paradox and their pragmatism, new segmentation of Islamic Banking is developed based on banking orientation vs. psycho-graphic values.

Customers Segmentation of Islamic Banking

<table>
<thead>
<tr>
<th>Psychographic Values</th>
<th>Banking Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>SECURITY OF THE FUND IS MOST IMPORTANT</td>
<td>“ESSENTIALLY ISLAMIC BANKING” (Regardless its condition, use Islamic Banking)</td>
</tr>
<tr>
<td>SECURE, GOOD PRODUCTS AND SERVICES</td>
<td>“FOLLOWERS” (Will use Islamic Banking if many people use)</td>
</tr>
<tr>
<td>SECURE, GOOD PRODUCTS AND SERVICES, AS WELL AS PROFITABLE</td>
<td>“FUNCTIONAL” (Use Islamic or Conventional Banking based on its benefit)</td>
</tr>
<tr>
<td></td>
<td>“OBLIGATORY” (Use Islamic Banking since it is obliged or mandatory)</td>
</tr>
<tr>
<td></td>
<td>“ESSENTIALLY CONVENTIONAL” (Regardless its condition, use conventional bank)</td>
</tr>
</tbody>
</table>
PRODUCT DEVELOPMENT PROGRAM
Product development program to deliver the uniqueness of Islamic Banking with its various products and diversified financial schemes

Relation of Branding Image and Product Development Program

**POSITIONING**
- Banking with mutual benefits to both user dan bank

**DIFFERENTIATION**
- Content: Varied products with various schemes
- Context: Transparent to be fair to both parties (user and bank)
- People: Competent in finance & ethics
- Technology: Updated & user friendly IT system
- Facility: Investment, Finance and Islamic expertise

**BRAND**
- MORE THAN JUST A BANK (BEYOND BANKING)
Promotion of Islamic banking products by using Indonesian terms & various schemes has received a positive feedback.

Opportunities and Challenges in Product Development of Islamic Banking

<table>
<thead>
<tr>
<th>OPPORTUNITIES IN PRODUCT DEVELOPMENT: POSITIVE RESPONSES TOWARD ISLAMIC BANKING PRODUCTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual users show a high level of interest</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level of Interest of INDIVIDUAL Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOSLEM</td>
</tr>
<tr>
<td>INTEREST</td>
</tr>
<tr>
<td>AVERAGE</td>
</tr>
</tbody>
</table>

UKM/ corporate (who is familiar with complex transaction) relatively is not very interested ....

<table>
<thead>
<tr>
<th>Level of Interest of CORPORATE Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Banking Customers</td>
</tr>
<tr>
<td>INTEREST</td>
</tr>
<tr>
<td>AVERAGE</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHALLENGES IN ISLAMIC BANKING PRODUCT DEVELOPMENT: PRODUCT EXISTING IN THE MARKET IS STILL LIMITED</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISSUES</td>
</tr>
<tr>
<td>• The Arabic language that is not supported with other understandable language is a constraint in showing the uniqueness of the product</td>
</tr>
<tr>
<td>• Many potential customers do not know that Islamic Banking has various products and schemes</td>
</tr>
<tr>
<td>• In terms of individual customer, non-Muslim Banking customers show higher interest</td>
</tr>
<tr>
<td>• Corporate conventional customers are not too enthusiastic since they are not confident with Bank’s ability in delivering the advantages</td>
</tr>
<tr>
<td>• Without having to remove the term of product scheme using Arabic language, the product must be offered in understandable language</td>
</tr>
<tr>
<td>• Variations in products and scheme in Islamic Banking must be presented in offering Islamic Banking products</td>
</tr>
<tr>
<td>• By using Indonesian Language as well, Islamic Banking product will not be perceived exclusively for Muslim community</td>
</tr>
<tr>
<td>• To attract conventional customers, Islamic bank must be able to deliver the products offered</td>
</tr>
</tbody>
</table>
Proposition value of Islamic Banking as "beyond banking" needs further elaboration on its benefits

Proposition value of Islamic Banking

Proposition of Islamic Banking

- The various Islamic agreements provide a variation of products selection to meet the transaction needs
- Ability to have higher benefits or profit sharing compared to conventional
- Ability to use schemes that cannot be offered by conventional bank

Beyond Banking

Price + Other Expenses

Value = Functional Benefit + Emotional Benefit

- To provide banking services in compliance with sharia
- To offer higher benefits compared to conventional bank
- Transparency and fairness in delivering profit for both parties

- Investment or expenses directly spent to obtain Islamic Banking services
- Implication of various legal interpretations of Islamic Banking to be followed by customers and players
A new approach in product communication and packaging is required to facilitate adoption of the use of Islamic banking without undermining its Islamic’s unique characteristics

New approach of communication

Customer’s Needs & Player Responses

<table>
<thead>
<tr>
<th>Users &amp; Potential Users (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Indonesian terms are available besides Arabic terms for explaining the schemes</td>
</tr>
<tr>
<td>• Indonesian Language will help in understanding complicated financial schemes</td>
</tr>
<tr>
<td>• Higher interest from user-friendly terminologies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Player (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Arabic term is considered as the uniqueness of Islamic Banking</td>
</tr>
<tr>
<td>• The use of Arabic terms for back office documents</td>
</tr>
</tbody>
</table>

Conducting benchmarking in countries where Islamic Banking are widely accepted

Setting up standard for products naming which is understandable without undermining its characteristics

Source: (1) Research result of focus group discussions (FGD)
(2) Research result of In-depth Interview, and Desk Research
A new approach in product communication and packaging is required to facilitate adoption of the use of Islamic banking without undermining its Islamic characteristics.

New Approach of Product Communication and Packaging

**BI ROLE / INITIATIVE**

- To give direction on new branding and product communication to players:
  
  *Saving Deposit* - (iB)
  
  *KPR* - (iB)
  
  *KPM* - (iB)

**PLAYER ROLE / INITIATIVE**

- The use of Indonesia Language for product packaging and the use of agreement in Arabic language for back-office purpose only

- Using the word iB in all products to show to customers that Islamic Banking has various products with different scheme variations

(Letter of Deputy Governor No.10/57/DpG/DPbS dated May 27, 2008 regarding Naming Standard of Islamic Banking Products and Services)
In addition to new approach on product communication, guidance and new measures for product channeling are also required for commercialization of new products.

New approach in channeling

### Quantitative Survey Result

<table>
<thead>
<tr>
<th>Channel</th>
<th>Special branch</th>
<th>Office channeling</th>
<th>Conventional bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>81.2</td>
<td>88.3</td>
<td>77.0</td>
</tr>
<tr>
<td>2</td>
<td>18.8</td>
<td>11.7</td>
<td>23.0</td>
</tr>
</tbody>
</table>

### Most Selected

- **Channel 1**: Special branch
- **Channel 2**: Office channeling
- **Channel 3**: Conventional bank
- **Channel 4**: Conventional bank

### Qualitative Survey Result

- Distributed by conventional banks through the same staff in conventional bank as product alternatives
- Distributed by specific staff of non-conventional bank but the transaction is conducted in conventional bank through special counter (office channeling)
- Distributed separately (in different location) although it is still the business unit of conventional bank
- Distributed separately (in different location) and as separate business unit (independent) from conventional bank

- The need of product distribution alternatives allowing easy access for potential customers such as at counters of conventional bank
- No significant difference, especially specific channels at conventional banks, thus requiring that staff in conventional counter has sufficient product knowledge
- Preference on channel must be accommodated in the guidance of channel development by supervisory agency
SERVICE IMPROVEMENT PROGRAM
Service quality of Islamic Banking is not always lower than conventional banking

Customer Satisfaction Level on Savings in Conventional Bank and Islamic Bank (%)

Base: All bank customers, F2F Survey

- Number/Availability of ATM Machine
- Availability of electronic transaction channel
- Availability of various facilities on e-channel
- Number of branch offices
- Proximity to domicile/office/campus
- Staff knowledge on products and services
- Services
- Modern, luxury and clean building
- Number of products offered
- Gift offered by bank
- Interest rate
- Transaction charge
- Conformity to sharia principles
- Security/risk ratio
- Return compared to inflation rate
- Transparency of fund placement portfolio
- Return scheme variation offered
- Transparency on return determination
- Transparency in all financial aspects
- Mutual benefit in any business condition

Customer Satisfaction Level on Loan/Financing in Conventional Bank and Islamic Bank (%)

Base: All bank customers, F2F Survey

- Easy requirement
- Process speed
- Credibility
- Interest rate
- Installment
- Flexibility
- Easy process
- Compliance to sharia principles
- Loan/Financing limit
- Scheme variation
- Transparency on return calculation
- Transparency in all financial aspects
- Mutual benefit in any business condition

- Service quality of Islamic Banking is better in almost all aspects except in credibility and processing speeds

- Islamic Banking quality is better in almost all aspects except in credibility and processing speeds

- Service quality of Islamic Banking is better in the core benefit offered

- Service quality of Islamic Banking is lower in service network
For a solid banking service quality in the future, improvement on service quality must be conducted in general areas or those related to uniqueness.

**Target of Improvement**

**Competitive Advantage Area**
- Islamic Banking

**Reliability**
- Human Resources that can support promises

**Assurance**
- System availability & capable human resources

**Tangible**
- Human Resources System Condition

**Empathy**
- System & Human Resources capable to anticipate curiosity

**Responsiveness**
- System & Efficient and Dynamic Human resources

**Target of Improvement**

**Banking General Area**

**Reliability**
- 24/7 Services
  - Human Resources capable of delivering promises
  - System availability & sufficient Human Resources
  - Back-up available

**Assurance**
- Condition of service network

**Tangible**
- Availability of supporting system in case of problem

**Empathy**
- Standby system & ready for 24/7 to solve customer’s problem

**Responsiveness**
- Human Resources that are ready to serve customers 24/7
- IT system allowing Human Resources to provide 24/7 service

• Requirement on Human Resources who are experts in finance & Islamic
• IT system to process & explain various Islamic schemes
PUBLIC EDUCATION AND COMMUNICATION PROGRAM
Public Education is developed to introduce grand strategy of market development to stakeholders for its realization

The existing issues and initiatives for socialization program

<table>
<thead>
<tr>
<th>CURRENT ISSUES</th>
<th>IMPLICATION</th>
<th>INITIATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. less intense communication due to limited budget and campaign is only limited to certain information on Islamic Banking</td>
<td>• Not effective communication approach</td>
<td>• Comprehensive and integrated communication approach with effective expected output and cost efficiency</td>
</tr>
<tr>
<td>2. Uniformity of Communication program to all stakeholders</td>
<td>• Messages delivered are not well targeted</td>
<td>• To obtain effective results, public education concept must be modified from one size fit for all communication to customized</td>
</tr>
<tr>
<td>3. No creative concept to better introduce Islamic Banking including its various advantages and benefits</td>
<td>• Difficulties to make the audience aware with Islamic Banking communication presented and to understand the messages delivered in the communication</td>
<td>• The need of creative concept in order to make customers and potential customers interested to know further about Islamic Banking Concept and its benefits</td>
</tr>
</tbody>
</table>
With the objective of reaching all stakeholders as expected a comprehensive and integrated approach is required which is effective in term of result but efficient in term of budget.

A more effective and comprehensive communication

**FOCUS OF EFFICIENT AND EFFECTIVE COMMUNICATION**

**QUADRANT I**
- Do anything (with high budget)

**QUADRANT II**
- Do something effectively

**QUADRANT III**
- Do everything and fails

**QUADRANT IV**
- Do nothing only minor promotions

**EFFICIENCY AXIS**

**IMPACT (RETURN)**

- H (High)
- L (Low)

**BUDGET (INVESTMENT)**

- H (High)
- L (Low)

**A MORE COMPREHENSIVE AND INTEGRATED COMMUNICATION APPROACH**

- TV advertisement
- Broadcasted Talk Show
- Seminars & Conferences
- Personal Approach
- Industrial profile
- Exhibition
- Co-branding
- Website & Internet-based
- Creative Media
- Brochure
- News and publicity
- Printing advertisement
- Outdoor Media
- Radio advertisement

STAKEHOLDERS
-伊斯兰银行

**EFFECITIVENESS AXIS**

- H (High)
- L (Low)
To be more effective, public education program will gradually reach all stakeholders of Islamic banking

Socialization reaching all stakeholders
Concept of creative for communication activities is modified into direction that has hard-sell natures, engaged communication, and provocative.

Change of Creative Communication Concept

**SOFT-SELL**  \[\text{CHANGE OF NUANCE}\]  \[\text{HARD-SELL}\]

**Fairness in Benefit**  \[\text{CHANGE OF Logo Content}\]  \[Beyond Banking\]

**Aspirational**  \[\text{CHANGE OF COMMUNICATION TONE}\]  \[Provocative\]

"Islamic banking is more profitable!.."

"There are various products in Islamic Banking"

"Mutual benefits for both parties .."
Major themes to be promoted in all socialization activities is “Beyond Banking”

### SOCIALIZATION THEME: Beyond Banking

<table>
<thead>
<tr>
<th>COMMUNICATION CHANNEL</th>
<th>VISUALIZATION (30% ATL)</th>
<th>ACTIVATION (70% BTL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Indonesia (DPbS)</td>
<td>• TV Advertisements</td>
<td>• Creative Media</td>
</tr>
<tr>
<td></td>
<td>• Radio Advertisements</td>
<td>• Public Event</td>
</tr>
<tr>
<td></td>
<td>• Outdoor Media</td>
<td>• Exhibition</td>
</tr>
<tr>
<td></td>
<td>• Printing Advertisements</td>
<td>• Brand Ambassador</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Website &amp; Internet-based</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>COMMUNICATION CHANNEL</th>
<th>VISUALIZATION (30% ATL)</th>
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<tbody>
<tr>
<td>Bank Indonesia (DPbS)</td>
<td></td>
<td>• Dialogue &amp; Workshops</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Seminars &amp; Conferences</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PRIORITY OF AUDIENCE TARGETS</th>
<th>VISUALIZATION (30% ATL)</th>
<th>ACTIVATION (70% BTL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bank Customers</td>
<td></td>
<td>1. Bank Customers</td>
</tr>
<tr>
<td>2. Industrial Participants</td>
<td></td>
<td>2. Industrial Participants</td>
</tr>
<tr>
<td>3. Stakeholders indirectly related to development</td>
<td></td>
<td>3. Stakeholders indirectly related to development</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OBJECTIVE</th>
<th>VISUALIZATION (30% ATL)</th>
<th>ACTIVATION (70% BTL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness Enhancement</td>
<td></td>
<td>• Increase the total of accounts/transactions or only to invite</td>
</tr>
<tr>
<td>Educational Campaign/Industrial socialization</td>
<td></td>
<td>• To start using Islamic bank</td>
</tr>
<tr>
<td>Building understanding about PDB concept</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MESSAGE TO BE CONVEYED</th>
<th>VISUALIZATION (30% ATL)</th>
<th>ACTIVATION (70% BTL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explaining the superiority of Islamic Banking</td>
<td></td>
<td>• Explaining the superiority of Islamic bank</td>
</tr>
<tr>
<td>Inviting people to use Islamic Bank</td>
<td></td>
<td>• Explaining the concept of Islamic products</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Inviting people to use Islamic bank</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROGRAM INITIATIVE</th>
<th>VISUALIZATION (30% ATL)</th>
<th>ACTIVATION (70% BTL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Indonesia (DPbS)</td>
<td></td>
<td>• Bank Indonesia (DPbS)</td>
</tr>
<tr>
<td>Events such as exhibition will involve the participation of banking players</td>
<td></td>
<td>• Bank Indonesia (DPbS) by inviting Islamic banking players to participate in sharing sessions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROGRAM INITIATIVE</th>
<th>VISUALIZATION (30% ATL)</th>
<th>ACTIVATION (70% BTL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Stakeholders who directly associated with the development</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Communication Channel:**

- TV Advertisements
- Radio Advertisements
- Outdoor Media
- Printing Advertisements
- Creative Media
- Public Event
- Exhibition
- Brand Ambassador
- Website & Internet-based

**Priority of Audience Targets:**

1. Bank Customers
2. Industrial Participants
3. Stakeholders indirectly related to development

**Objective:**

- Awareness Enhancement
- Educational Campaign/Industrial socialization
- Building understanding about PDB concept

**Message to be Conveyed:**

- Explaining the superiority of Islamic Banking
- Inviting people to use Islamic Bank

**Program Initiative:**

- Bank Indonesia (DPbS)
- Events such as exhibition will involve the participation of banking players
- Bank Indonesia (DPbS) by inviting Islamic banking players to participate in sharing sessions
Thank You

For further information, contact:
Directorate of Islamic Banking
Bank Indonesia

email: dpbs@bi.go.id