

## Shariah Banks Finally Enjoying the Benefits of Synergy

To further push the growth of Shariah banking, Indonesia's financial services authority, the OJK, issued Regulation No. 28 of 2019 on Synergy of Banks under One Ownership for the Development of Shariah Banking at the end of 2019. Besides aimed to increase the efficiency of the national banking industry, the new regulation is also designed to develop Shariah banking in Indonesia by encouraging cooperation between ordinary banks and Shariah banks that have an ownership relationship (through common controlling shareholder or where the conventional bank is the controlling shareholder of the Shariah bank).

Under the regulation, synergy between ordinary and Shariah banks is to be reflected in resources sharing, including with respect to human resources, network and IT. While Shariah banking in Indonesia has grown steadily, their resources are still not on par with conventional banking. By allowing Shariah banks to tap into the resources of their conventional counterparts, OJK hopes that Shariah banks would finally be able to compete in a level playing field.

In human resources, the regulation permits the holding of concurrent positions in the Shariah and conventional banks. In addition, Shariah bank can also appoint members of the committees and the independent commissioner of the conventional bank to its corporate body.

Another sector where this synergy can be reflected is in the banking network, where a Shariah bank and conventional bank can share a branch office to serve their customers. This means that Shariah bank's customers is no longer required to travel to a specific Shariah branch office to conduct their banking activities. If the banks use this co-sharing model, then the conventional bank needs to ensure that its office and the Shariah bank's office are separated, and that there is no operational or reputational risk for the conventional bank.

Lastly, this synergy can be reflected in the sharing of a conventional bank's data centre and disaster recovery centre. The Deputy Commissioner of Banking Supervisor I of OJK, Teguh Supangkat, also mentioned that the sharing of IT resources include call centre and ATM network.<sup>1</sup>

Before enjoying these privileges, banks need to be aware that the Regulation specifically excludes the capitalisation and management of the conventional bank. This means that a Shariah bank cannot include the conventional bank's capital to calculate the maximum funding limit (*batas maksimum penyaluran dana*), and members of the board of directors, board of commissioners (except the independent commissioner), mandatory committees and executives cannot hold a concurrent position in the Shariah bank. In addition, both banks need to enter into a cooperation agreement and submit their synergy plan to the OJK for its approval. The Regulation also requires the banks to set policies and

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<sup>1</sup> <https://finansial.bisnis.com/read/20191209/90/1179521/angin-segar-dari-relaksasi-aturan-bank-syariah>

procedures to manage the inherent risks of the synergy. Here, it is interesting to note only the Shariah bank will be responsible for the risks arising from the synergised activities.

There is no doubt that Shariah banks can greatly benefit from this synergy. But whether this regulation would actually level the playing field for Shariah banks is remained to be seen.

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