

## Opportunities and Challenges of Islamic Bank Mergers in Indonesia During a Pandemic

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### Abstract

*The presence of COVID-19 in Indonesia has had an impact on the economy, including the banking industry. However, the Shariah banking industry has not shown a positive trend. However, despite the positive trend in Shariah banking business, the penetration rate of the Indonesian Islamic banking market is still relatively small compared with traditional banking business. This led the government to decide to formulate a merger policy for the state-owned Sharia Bank, hoping that it can increase Indonesia's market penetration. Considering the important role of Shariah banking industry in improving the national economy, this article aims to analyze the opportunities and challenges of Shariah banking merger policy. On the other hand, this policy was implemented during the COVID-19 pandemic. This article uses qualitative data analysis through descriptive methods and literature research methods. The data analysis focuses on the opportunities and challenges of the Indonesian government's Shariah Bank merger policy. Researchers use secondary data as a source for writing articles. According to the research results, the Indonesian Islamic Bank (BSI) formed after the merger provides many opportunities, such as increasing assets, expanding market penetration, and operating cost efficiency. At the same time, financing and operational risks are two major challenges that need to be paid attention to. This research helps stakeholders make decisions in the development of Islamic banking and finance.*

**Keywords:** Merger; Islamiic Bank; Pandemi

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### 1. INTRODUCTION

The spread of COVID-19 in Indonesia has had such an impact in various sectors, not only having an impact on the health sector. One of the impacts that have a significant impact is from an economic perspective as found in the corporate sector, MSMEs, households, and financial sector. Bank Indonesia (BI) as the central bank in Indonesia seeks to maintain the stability of the exchange rate so that the rupiah does not experience excessive stress. Some steps are like starting from using foreign exchange reserves to invite investors into Indonesia to reduce the Statutory Reserves (GWM) from banks general, from 8% down to 4%. (Goutama 2020) BI policy This has had a significant impact on the banking sector as an actor important in the economy in Indonesia because of the the decrease in the reserve requirement allows banks

to increase sales financing is one that occurs in Islamic banking. (PS 2018)

With regard to the banking industry, in terms of assets, the number of distribution of financing, as well as Third Party Funds (DPK), the banking sector Sharia law in Indonesia has grown and developed well. From data taken on the website of the Financial Services Authority (OJK), to be precise in June 2020, the wealth of Islamic banking in Indonesia grew by 9.22% (approximately Rp545.39 trillion yoy). Meanwhile, the amount of financing in Islamic banking has increased to Rp. 377.53 trillion (growing by 10.13%), while growth from TPF to Rp430.21 trillion (growing by 8.99%). (Alfi 2020)

However, the growth of Islamic banking in Indonesia positive status, Islamic banking market penetration is still small compared to conventional banking market penetration. level Indonesia's Islamic

banking penetration in 2020 is only 6.18%, while the rest is owned by conventional banks. (Alfi 2020) Departing from these problems, then agreed the existence of a merger plan in state-owned Islamic banking in Indonesia, namely Bank Negara Indonesia Syariah (BNIS), Bank Syariah Mandiri (BSM), and Bank Rakyat Indonesia Syariah (BRIS) which has a new name as Bank Syariah Indonesia (BSI). With This merger is expected to produce even greater assets so that it can increase the level of market penetration throughout Indonesia. If these three Islamic banks have officially merged, then banking Sharia as a result of the merger is expected to have assets of Rp220-Rp225 trillion. (Wiratmini 2020)

Meanwhile, the merger in the company turned out to be will pose many challenges considering that the merger is carried out in the middle The COVID-19 pandemic disaster takes place as the risk of financing and operational risk. In order to provide additional literacy related to the phenomenon of this new merger, the authors do critical analysis of the opportunities and challenges of the establishment of BSI. more In detail, the results of this study are expected to provide information related to problems arising from the merger policy so that stakeholders can minimize risks and take advantage of existing opportunities to maximize the growth of Islamic banking in Indonesia. (Lokadata.id 2020)

## **2. RESEARCH METHODS**

This article uses qualitative data analysis with the method descriptive and through a literature study approach. Qualitative research is a research strategy that emphasizes words rather than quantification in data collection and analysis. (Bryman and Bell 2003) The purpose of this article is to analyze related opportunities and challenges of the merger policy for Islamic banking considering the large role of Islamic banking in improving the country's economy, while on the other hand there are polemics between parties. Qualitative data analysis focuses on the opportunities and challenges of the policy merger of Islamic banks by the Indonesian government. Researchers use secondary data as a source of making the article. The needs of this secondary data the authors get through the data distributed by three Sharia Commercial Banks belonging to the participating countries merger, namely Bank Syariah Mandiri (BSM), Bank Negara Indonesia Syariah (BNIS), and Bank Rakyat Indonesia Syariah (BRIS). As for literature, references,

and other documents in the form of previous research journals, e-books, as well as several articles and news related to the COVID-19 pandemic and the planned merger of State-Owned Sharia Commercial Banks.

## **3. RESULTS AND DISCUSSION**

### **Conditions of Islamic Banking in Indonesia**

Islamic banking as a financial distribution institution (financial intermediary) in Indonesia today growing rapidly with proven data from the Service Authority Finance (OJK) that currently there are 14 Sharia Commercial Banks (BUS), 20 Sharia Business Unit (UUS), and 162 Sharia People's Financing Banks (BPRS). In terms of assets, Islamic banking also continues to increase. As of June 2020, growth in sharia banking assets by 9.22% year on year with total assets of 545.39 trillion. In addition to assets, Third Party Funds (DPK) which include current accounts, savings, and time deposits also increased by 10.13% y-o-y to a total of 430.21 trillion. (Sipangkar and Sihalohe 2020)

Likewise with Disbursed Financing (PYD) experiencing an increase of 8.99% from June 2019 with a total PYD of 377.53 trillion. Types of use of PYD include consumption, as much as 45.02%, working capital 31.60%, and investment as much as 23.38%. In semester I In 2020, the average Capital Adequacy Ratio (CAR) owned by BUS of 21.2% which is an increase from last year previously amounted to 19.56%. Meanwhile, the average of the quality ratio financing (NPF) decreased by 3.34% from the previous year of 3.36%. (OJK 2020)

Meanwhile, for Islamic banking participating in the merger, as of September 2020, BSM achieves quality business growth by achieving profit of 1.077 trillion (a significant increase when compared to the month September 2019 amounted to 810,573 billion). In terms of business capacity, BSM noted that until the end of September 2020, the amount of TPF amounted to Rp106.12 Trillion which then increased by 17.26% from previously amounted to 90.49 Trillion as of September 2019. Then in Islamic banking the merger participants Furthermore, BNIS achieved a profit of 387.02 billion as of September 2020, which decreased by 16.22% yoy as of September 2019, while TPF increased by 21.76 % of 45.65 trillion from the previous 37.49 trillion. PYD from BNIS also increased by 1.49% to 32.28 trillion from the previous 31.81 trillion (Bank Negara Indonesia Sharia, 2020). On the other hand, BRIS also experienced an increase

in profit of 238% as of September 2020 of 190 billion from the previous 56 billion in September 2019, while TPF has increased by 43% i.e. 49 trillion and PYD increased by 47% i.e. 40 trillion. (BRIS 2020)

#### **Islamic Bank Merger Opportunity**

Asset growth from Islamic banking has increased significantly significantly over the last three years compared to 2015 namely from the previous 8.78% to more than 12%. Not adrift significantly, the growth of conventional banking and Islamic banking which is at 8.55% and 8.78% only has a difference of 0.23%. The overall asset growth of Islamic banking is trending increased from 2005 to 2019. However, asset growth overall driven by compound annual growth rate investment or Compound Annual Growth Rate (CAGR) of 15 % yet can increase the penetration rate of the Islamic banking market rapidly. Market share in Islamic banking from 2005 to 2016 still struggling at 5%.

From the data above, it can be concluded that Islamic banking has not able to outpace the overall sector growth of the sector banking on total assets intrinsically around 15-20%. So, need to be held other strategies that encourage to increase penetration exponential development of the Islamic banking industry, namely by to merge or merge. From the merger, banking sharia will have several opportunities including:

##### **a. Increasing Islamic Banking Assets**

Based on statistical data from the Financial Services Authority (OJK), it is recorded that as many as 14 BUS, 20 UUS, and 162 BPRS that have been registered with OJK. By Overall, the total assets of BUS and UUS in September 2020 reached 375.1 trillion and UUS 186.6 trillion, which has increased when compared in September 2019, BUS amounted to 325 trillion and UUS 165.3 trillion. (KNKS 2019)

If the Islamic banking sector is freed, it will grow organized with an Annual Compound Growth Rate (CAGR) of 15% and at Conventional banks are assumed to be 10%, which can be projected from total assets, including the largest national bank in terms of assets. Therefore, the target of the overall assets that should be achieved by Islamic banking amounting to Rp290,29 trillion which will later make banking Shariah is able to occupy the top ten banking positions at the banking level nationally. (KNKS 2019) Of the three BUS plates In the red, the largest asset is

held by Bank Mandiri Syariah, followed by by BNI Syariah and BRI Syariah. If projected after legal process the merger is complete, it is estimated that the merger will occur in the first quarter of 2021 will pocket assets of IDR 220-225 trillion. (Lokadata.id 2020) To find out the total assets of sharia banking participants in the merger in first semester in 2020, can be seen in Table 1.

Table 1.

Total Assets of Islamic Banking Merger Participants

Bank	Assets (trillion)
BSM	114
BNIS	50,76
BRIS	49,6
Total	214,36

Source: Lokadat.id 2020

One of the drivers of the real sector of a country that plays an important role for economic growth is the finance. The amount of assets in the bank will make it easier for banks to do business expansion. If by conducting a bank merger, it will increase in assets, the larger the businesses that owned by Islamic banking. The size of the Islamic banking business will affect the Indonesian economy. Islamic banking financing positive effect on real sector GDP because if more financing from Islamic banking is channeled, then the capital in the business especially MSME will also increase.

From this, it can increase the economy of the real sector which will also result in an increase in economic activity and increase GDP. Especially during the COVID-19 pandemic 19 There are many businesses that require financing so that they can make Islamic banking expand financing. From This is where Islamic banking will improve the Indonesian economy in the time of the COVID-19 pandemic. (El Ayyubi, Anggraeni, and Mahiswari 2017)

##### **b. Expanding Market Penetration**

If the network in Islamic banking expands, automatically Islamic banking is also able to get more new customers with the existing market share. As already projected by KNKS in the picture in the previous sub-chapter that the market the share of state-owned Islamic banking mergers in 2024 is estimated can reach 7.58%. According

to Ihalaw (2017), things that can be done to realize market penetration is to maintain customers, in this context are partners.

If a merger is carried out in Islamic banking, various innovations will be carried out can only increase and can attract the attention of candidates partners to be partners. With a merger, it will be easier to add value to build customer partnerships. For example, with various business products such as wholesale, retail, to MSMEs. If the penetration rate the market is already high, then the products of Islamic banking will has its own advantages. From there it will improve the quality of result of the merger of Islamic banking which of course can also increase the rate of the economy in Indonesia, especially in the midst of the COVID-19 pandemic like this because like MSMEs that have put full trust in conduct transactions in Islamic banking.

c. Financing Cost Efficiency

Efficiency in Islamic banking mergers will certainly occur because it can create a new entity that is increasingly agile and competitive in carrying out its operations. With the merger, banking sharia is able to cope with high burdens such as operational costs, capital expenditure, and costs such as fundraising deposits which will later be pressed. With the existence of a national economic stimulus policy that stated in POJK Number 11/POJK.03/2020 prove that the government is trying to stabilize financial sector due to the COVID-19 pandemic. This policy will provide directions to banking institutions to conduct mergers, consolidation, acquisition, and/or integration with the aim of maintain financial system stability in a pandemic. (OJK 2020)

This can be a reference for conducting a merger in Syariah banking. If the merger has been carried out, it will strengthen The automatic Islamic financial system will also be more efficient in financing partners. Through the OJK policy above It also makes Islamic banking try to seek relaxation financing through several methods such as:

1) Rescheduling

This is in the form of an extension of the payment period (term) without change the amount to be paid (selling or agreed price).

2) Reconditioning (Restructuring)

This reconditioning is a change in an Islamic financing in principle, including changes in the structure (a contract that used), the amount of margin (profit rate) or the main clause of the contract.

The two methods above apply to financing that has been issued by Islamic banking. However, this solution cannot be done on an ongoing and temporary basis. This policy can also to help MSMEs in continuing their business in difficult times like this as has been done by BRIS in restructuring financing to 29,000 partners affected by COVID-19. Besides relieve partners, this method is also carried out by Islamic banking to can reduce the financing problem ratio or NPF to remain in line with the the applicable provisions are below 5%.

One of the Islamic banks that has done this is BRIS. On In June 2020, the NPF of BRIS was in the range of 3.5-4% because the bank has refinanced to 29,000 partners amounting to IDR 5.4 trillion. Meanwhile, other merger participants, namely BNIS holding an NPF of 3.8% in the first quarter of 2020 and BSM has an NPF of 2.57% (gross) and 0.88% (nett) in the semester first year 2020. (Ubaidillah and Aji 2020) It can be further strengthened again if a merger is carried out because of financing restructuring it can done more easily and efficiently as the number of assets increases. Apart from sharia banking, the regulations from the OJK are listed in the POJK Number 34/POJK.3/2020 (Financial Services Authority, 2020c) which provides relaxation for Sharia Rural Banks (BPRS) without burdensome calculation of allowance for write-off of general earning assets, the value of foreclosed collateral as a deduction factor for core capital in calculation of the Minimum Capital Adequacy Requirement (KPMM), as well as provision of funds in the form of interbank placements.

Those are some of the opportunities that the company will get banks if they carry out a merger policy with other companies. Predictions about these opportunities have supported previous research what Prakoso has done said that one of the increase in value obtained by banking sector after implementing the merger policy, namely an increase in financial performance in banking, one of which can be tested through the comparison of the bank's internal financial ratios such as the Return on Assets (ROA), Capital

Adequacy Ratio (CAR), Ratio Loans Against Deposits (LDR), and also Bad Loans Rate (NPL) compared between before the merger and after the merger. (Prakoso and Yahya 2016)

#### **Sharia Bank Merger Challenge**

##### **a. Financing Risk**

The success of the financing program in Islamic banking from mudharib (debtor) to the shohibul mal (partner who makes the gift) financing) is related to the ability of the mudharib carry out their business activities, are their business activities organized? smoothly or vice versa. In this time of the COVID-19 pandemic make market conditions less stable. One of the current market conditions These are the many companies that have been impacted by the COVID-19 pandemic.

Those affected must maintain their business even those who could not survive were forced to stop their operations. Only a handful of companies can survive with their existence This COVID-19 pandemic is like a company engaged in the food industry and beverage, telecommunications industry, medical equipment needed medical personnel, as well as agriculture and plantations. Even though there are laws the law governing the restructuring of financing aimed at To facilitate financing installments for partners, Islamic banks must remain cautious in deciding to provide financing to partners by being more selective in choosing potential partners who if his efforts are able to survive in the midst of the COVID-19 pandemic.

##### **b. Operational Risk**

The impact in the form of internal problems in the merger participants is also can occur in the policy of merging state-owned Islamic banking because with this merger policy, the composition of the board of directors served as a banking leader will be reduced and the amount will be a little. From this shrinking it will most likely also have an impact on the release of positions of several directors who have served previously. This can also happen at other levels like for example at the managerial level (middle level management). So that post-merger business operations are not disrupted, the government must be able to eliminate internal conflicts that occur between merger participants. (Wiratmini 2020) On the other hand, there is a policy from the

government to tackling the COVID-19 pandemic such as Large-Scale Social Restrictions (PSBB) resulted in the community (including partners from banks sharia) spends more time doing activities in the home such as Work From Home (WFH) self-quarantine, etc., so this is also a new challenge for Islamic banking that must remain serve its partners even though it is not face-to-face/offline.

Those are some of the challenges that the company will face banks if they carry out a merger policy with other companies. predictions regarding these challenges have supported previous research conducted by Noegroho which said that in conducting a merger, the company in particular banks will face several risks, one of which is operations such as cultural or cultural differentiation caused by there is a meeting of two or more companies that are different in terms of habits, values, even the country. (Noegroho 2017)

#### **4. CONCLUSION**

The number of Islamic banking in Indonesia has been steadily increasing lately increase. Apart from the number of companies, asset level, Party Funds Third (DPK), Disbursed Financing (PYD), and also Capital Adequacy Ratio (CAR) in Islamic banking also increased. Meanwhile, Non-Performing Financing (NPF) in Islamic banking decreased (An increase). From this it can be concluded that even during the COVID-19 pandemic it did not make the industry Sharia banking, including Bank Syariah Mandiri (BSM), BNI Syariah (BNIS), and BRI Syariah (BRIS) as participating Sharia Commercial Banks (BUS) merger, experienced a slump.

With the merger of the three state-owned Islamic banks, then it will have several opportunities including increasing assets in Islamic banking, especially for merger participants because they have automatically when a company is merged, its assets will also be accumulation. In addition, with this policy, it will expand market penetration because if a merger is carried out in Islamic banking, it will new innovations can be added and can attract attention from potential partners to become partners. The third chance to have by sharia banks participating in the merger is the more efficient the cost of financing because with the merger, Islamic banking is able to overcome high burdens such as operational costs, capital expenditure, and costs such as fundraising which can later be reduced.

On the other hand, there is a merger in the three state-owned Islamic banks. This turns out to also pose a lot of challenges considering the merger carried out in the midst of the ongoing COVID-19 pandemic disaster, including is the risk of financing by the banks themselves considering that COVID-19 has made the economy in Indonesia, especially for MSME owners and large companies were shaken. Therefore, for Islamic banking must be careful in deciding to provide financing to partners by being more selective in selecting candidates a partner whose business is able to survive in the midst of a disaster COVID-19 pandemic so that there will be no financing problems in the future come. In addition to financing risk, operational risk is also a challenge for sharia banks participating in the merger, considering the policies of the government to tackle the COVID-19 pandemic such as Restrictions on Large-Scale Social (PSBB) which resulted in the community (including partners from Islamic banking) require for more spending time in their activities at home such as Work from Home (WFH) self-quarantine, etc., so this is also a challenge new for Islamic banking which must continue to serve its partners even though not face to face or offline

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