

## Impact of Sharia Bank Merger on Economic Development in Indonesia

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### ABSTRACT

Islamic banks in Indonesia have made a new story. Three major Islamic banks in Indonesia have successfully merged under the name Bank Syariah Indonesia. The purpose of the study is to determine the impact of the merger on economic development in Indonesia. The methodology used is a non-interactive qualitative method, which is research on concepts through a document analysis. In conducting non-interactive qualitative research, researchers identify, study the available data to provide understanding of the concepts studied and data analysis used for data triangulation. The results showed that the impact of the merger of three state-owned banks (BRI Syariah, BNI Syariah, Bank Syariah Mandiri), has shown positive value in economic development in Indonesia as evidenced by the increase in the value of financing distribution, Indonesian Islamic banks are able to compete globally by prioritizing more complete services, wider reach, and better capitalization.

**Keywords:** Mergers, Banking, Islamic Banks, and Indonesia

### Introduction

A healthy and good economic system is an important requirement for a country in supporting sustainable national development efforts. According to the Research Director of the Center of Reform on Economics (CORE) Indonesia, Piter Abdullah said that the role of a banking institution in driving the national economy is very large. Banking is engaged in all economic activities, including the main driving sector for Indonesia's Gross Domestic Product (GDP). The main movements of the national economy that play a major role in banking are investment, consumption and export and import activities. Banking is everything that concerns a bank, a business activity, an institution, and how and processes in carrying out its business activities as a whole. (Hermansyah, 2022)

In Indonesia, initially there were conventional banks that implemented an interest system, as a reward for customers. This interest system is of course not in line with the system or teachings of Islam, where Islam forbids usury. This system can have an unhealthy impact on an economy, especially in the banking world. This is the reason why Muslims must rise to no longer be bound by the usury system, and look for a system that can avoid usury.

The banking system is not textually contained in the Qur'an, only the principles governing transactions, one of which is Q.S. Ali-Imron [3] Paragraph 130 concerning the prohibition of usury clearly. (Nainggolan, 2021)

Meaning: "O you who believe, do not eat usury doubled, and fear Allah so that you will be lucky." (Q.S. Ali Imron [3]:130)

Indonesia is a Muslim-majority country. Therefore, the development of the banking world to Islamic banking is an embodiment of the needs of the community who want a banking system that can provide healthy, good financial services and is also based on sharia principles (Nainggolan, 2021)

It was recorded at the Financial Services Authority that in March 2021 there were 15 Sharia Commercial Banks. Looking at the development of Islamic banking in Indonesia, it is one of the government's efforts and commitments in advancing the Islamic economy as a new pillar for the strength of the national economy which in the long term can encourage Indonesia to become one of the centers of Islamic finance in the world. (Keuangan, 2021)

Although there has been an increase in Islamic banks in Indonesia, if seen from the data from The Asian Banker's page in 2020, Indonesian-owned banks only rank below 30. Even though Indonesia is a predominantly Muslim country that should be able to compete in the global market. the world of Islamic banking at the ASEAN level. In order to compete with other state banks, Indonesian local banks must be able to increase the scale of their assets.

To enlarge the scale of assets, the government has carried out what is called a merger or merger of Islamic banks owned by BUMN (State-Owned Enterprises). With the merger, it is expected that the total assets owned by this bank can increase, and can form banking services that are wider, better and of higher quality. In short, a merger can be described as “ $A+B = A$  or  $B$ ”. In a merger there is usually a negotiation process involving two companies before the merger takes place, both of which can consider that the merger will result in a larger market share and the product will be available in a wider geographic area.<sup>5</sup> The bank that is being sought for a merger is PT BRI Syariah, PT Bank Syariah Mandiri, and PT Bank BNI Syariah became Bank Syariah Indonesia BSI. With the merger of Islamic banking in Indonesia, it can become more innovative, so that it can become a driving part of Indonesia's development. (Josua Tarigan, Alfonsis Claresta, 2018)

However, not all mergers are always fully successful, coupled with system updates, both in terms of employees (HR), services, or in terms of facilities, of course there are changes and must be readjusted. There are historical records that say that mergers have failed. In Kemal's book (2011) Mergers and acquisitions do not guarantee increased performance in the areas of profitability, liquidity, and cash flow. Twenty ratios have been used to analyze the performance in four years, the average of these ratios shows that the merger of royal bank of Scotland to bank Faysal failed to increase its profitability. (F Ahmed, A Manwani, 2018)

In addition, bank mergers, especially for banks that have overlapping branches, will also cause problems, as well as problems that are often faced by small borrowers who are often overlooked in the merger process. From several previous studies or research on bank mergers in Japan, it has been proven that weak consolidation can only cause bank weakness and for some banks that are weak as a result of the merger, the possibility of bankruptcy is very clear.

Theresia Gunawan provides an explanation of the post-merger bank failure prediction model. Since the first bank merger in Indonesia was carried out in 1971 until June 2004, there were 20 merged banks that were liquidated, while the merged banks still survived to date 19 banks. Based on the comparison between the number of surviving bank mergers, it is known that the number of bank merger failures in Indonesia is quite high, in the range of 51% which says that this reality is not in line with the government's expectations for the purpose of the merger.

An international study also concluded that even if a banking authority is transferred or a bank that accepts a bank merger is feasible and larger, the possibility of merger failure can also occur. One of these failures occurred because of a failure to estimate the fair value of assets and failure to settle the obligations of the bank after the merger. From this failure led to a significant destruction of shareholder value. The results of this finding also say that for banks

that have merged and if the market reaction results are negative, then in this period there must be better shareholder value creation through new strategic decisions. In addition, the merged bank must also be prepared to face economic uncertainty.

With the legalization of the merger at Bank Syariah Indonesia since Monday, February 1, 2021. So researchers feel that various analyzes must be carried out to measure and find out how the possible strengths, opportunities, threats, and challenges that will occur in the future to BSI using a SWOT analysis approach to what occurred in Bank Syariah Indonesia after the merger or merger of Bank PT BRI Syariah, Bank Syariah Mandiri, and Bank BNI Syariah. (Ioannis A Tampakoudis, Michael Nerantzidis, 2019)

## **Method**

The methodology used is a non-interactive qualitative method, namely research on concepts through a document analysis. In conducting non-interactive qualitative research, researchers identify and study available data to provide understanding (understanding) about the concepts studied and data analysis used by data triangulation.

## **Result And Disucussion**

The Indonesian economy has experienced good adaptation to the sharia economic system, as evidenced by the rapid development of the sharia-based financial industry. Many people are starting to be interested in the wisdom and benefits that are prioritized in the sharia economic system. For this reason, it is a great opportunity for the sharia industry to expand its network and destination sector in this Muslim-majority country.

From year to year the Islamic economy shows positive values in its development, this year, for example, the Islamic banking industry launched its creative strategy. Three banks that used to be sharia business units of leading conventional banks, namely BRI Syariah, BNI Syariah, Bank Syariah Mandiri, have now merged with a new name, namely Bank Syariah Indonesia. This shows that Islamic financial institutions also have a contribution to the Indonesian economy.

The merger of three Islamic commercial banks, state-owned companies, answered the long wait to form the largest national Islamic commercial bank with strong capital. The merger explained that this merger has a vision of the Merger itself having a meaning as a business union, so that joint ownership is achieved. The merger strategy between Islamic banks is categorized as a horizontal merger. National Islamic banking will be one of the 10 largest Islamic banks based on global market capitalization in the next 5 years.

Supervision of sharia bank mergers is the duty and authority of the Financial Services Authority so that the implementation of the merger of 3 (three) BUMN sharia banks can have an impact on society and the country's economy. The opportunity for a merger of state-owned Islamic banks, of course, has an impact on the country's economic stability in the midst of a pandemic. The economy slowed down as long as Covid-19 had become a disease that never went away from Indonesia, so the government issued a policy of Government Regulation in Lieu of Law (Perppu) No.1/2020 concerning State Financial Policy and Financial System Stability for Handling the Covid-19 Pandemic, in order to face the threat of endangering the National economy and or Financial Stability.

### **a. Merger of the three banks into BSI**

Merger itself comes from the Latin term "Mergere" which means: to unite, join, or combine, and also has the meaning of being absorbed. So in general, a merger can be interpreted as a merger of two or more companies, where there will only be one company that survives with or without a new name. (Vivi Porwati, dkk., 2021)

With this, the decision to merge the three banks is not without reason, the following are the various objectives of the merger of the three banks to become BSI:

1. The problem of capital in the three Islamic banks is solved and Islamic banks are expected to be able to expand more widely to meet the needs of the community and provide greater financing to the community.

2. Can accumulate large assets, thus making BSI equal to or even above conventional banks which on average already have a scale IV BUKU level. (Anis Fatinah, 2021)

3. Increase and strengthen the literacy (understanding of the existence of Islamic bank products) related to Islamic financial institutions, as well as expand the existence of Islamic banks to various sectors. The capital market, for example, with the existence of BSI, removes public doubts about buying sharia shares (Sutantri, 2021)

From various things that used to be a challenge for the three Islamic banks before the merger, now after the merger they are compared to goals that have been implemented and will develop other Islamic bank goals.

### **b. Its influence on the Indonesian economy**

Positive growth was shown in Bank Syariah Indonesia (BSI), in the period after the merger, this had its own influence and impact on other Islamic financial institutions and the Indonesian economy for sure. This positive growth is indicated by:

1. As of December 2020, BSI's assets reached Rp239.56 trillion. Such assets make BSI the 7th largest bank in Indonesia in terms of assets.

2. In the period of February 2021, the share capitalization of BRIS (or now BSI) occupies the highest position in the Islamic bank group. BRIS (BSI) shares have recorded an increase of 24.4% since the opening of Islamic stock trading this year (Kurniasari, 2021)

From the various positive responses above, it opens up great opportunities for the sharia industry to develop its existence in the Indonesian economy. The existence of BSI is not a challenge for other Islamic financial institutions, but instead contributes positive values and developments for Islamic financial institutions in the future, including:

1. The existence of Bank Syariah Indonesia is able to improve the quality of national Islamic banking and opens opportunities not only for BSI but also for other banks to increase the competitiveness of Islamic banks at the global level.

2. Sharia banking in the sharia economy will also play a role in expanding its market share, besides creating various product innovations in sharia banking that will convert sharia product contracts more easily to the public.

3. Reducing and familiarizing the Muslim majority community to things that are anti-usury, gharar, maysir and others. So that you will get used to halal transactions with benefit schemes and mutual benefits between each other. (Mahargiyantie, 2021)

When viewed from the side of the Indonesian national economy, the Islamic economy which includes banking from time to time has begun to contribute results, BSI for example:

1) At the end of 2020, the distribution of Islamic commercial bank financing in Indonesia grew 9.5% on an annual basis. In contrast to the financing of the national banking industry, which was minus 2.41%.

2) In addition, the Director of BSI, said that BSI will commit to MSME actors in various cities and districts, to establish MSME centers and distribute financing to MSMEs assisted by the Ministry of Cooperatives and MSMEs. From here, BSI is oriented to provide the widest possible social benefits for the Indonesian economy.

3) Improving access to financial services at BSI and digital technology-based competencies in its products, with the hope of increasing public literacy on the existence of Islamic banking products whose principles are wiser and more beneficial for people in all circles (Achmad Sani Alhusain, 2021)

#### ***a. Effect of the merger of 3 BUMN Islamic Banks***

Efforts to merge (merger) Islamic banks can increase the capacity of Islamic banking which is often constrained by limited capital. The merger of three state-owned Islamic banks is also expected to be able to accumulate large assets, so that this merger will be able to make Islamic banks equal or even above conventional banks. So that it will increase the returns expected by the customer who owns the funds. Generally, the higher the BOOK of a bank, it will be assumed to be safer, so that the owner of the funds is willing to place their funds at a lower rate. Meanwhile, banks with small BUKUs, in general, provide more incentives for the owner of the funds to place their funds in the bank.

After the merger of Islamic banks, the problem of capital in Islamic banks has been resolved and Islamic banks will be able to expand more widely to meet and facilitate the needs of the community. The existence of large capital will also encourage Islamic banks to provide greater financing to the community. The merger of Islamic banks will also realize the efficiency of the strategic policy direction of Islamic banking in the future. In addition, the merger of Islamic banks will also make the inclusion of Islamic banking more focused according to their respective characteristics. If Islamic banking is more inclusive, Islamic financial literacy will also increase.

The impact of the merger (merger) of Islamic banks in addition to increasing assets is the movement of mutual support and cooperation between state-owned Islamic banks. The unification of state-owned Islamic banks will produce synergies, so that they are able to match and even exceed conventional banks. Increased assets will encourage Islamic banking to provide more financing to the public, so that economic growth will also increase. The existence of a merger will be able to improve the Indonesian economy after COVID-19. Expansion of Market Penetration if the network in Islamic banking expands, it will be able to create new innovations that can increase and can attract the attention of potential partners to become partners. The merger will make it easier to add value to build customer partnerships. For example, with a variety of business products such as wholesale, retail, to MSMEs. If the market penetration rate is high, then Islamic banking products will have their own advantages. From there, it will improve the quality of the results of the sharia banking merger, which of course can also increase the pace of the economy in Indonesia, especially in the midst of the COVID-19 pandemic disaster like this, because like MSMEs that have put full trust in conducting transactions in Islamic banking. The third is Financing Cost Efficiency, efficiency in sharia

banking mergers will certainly occur because it can create new entities that are more agile and competitive in carrying out their operations. With the merger, Islamic Banking is able to overcome high expenses such as operational costs, capital expenditure, and costs such as fundraising which can later be reduced. The existence of a national economic stimulus policy stated in POJK Number 11/POJK.03/2020 (Financial Services Authority, 2020) proves that the government is trying to stabilize the financial sector due to the COVID-19 pandemic. This policy will provide direction to banking institutions to carry out mergers, consolidations, takeovers, and/or integrations aimed at maintaining financial system stability in a pandemic. (Fikri, J., 2017) This can be a reference for mergers in Islamic banking. If the merger has been carried out, it will strengthen the Islamic financial system which will automatically be more efficient in financing partners.

Another impact of the merger is an increase in economic activity in the Islamic capital market. The existence of this merger policy will make BRI Syariah a survivor entity because BRI Syariah is the only Islamic bank that has been listed in the Islamic capital market, which after the information regarding this merger, public interest in buying its shares is even higher. However, investors also need to first analyze whether the act of buying shares in the capital market is a spontaneous act of following the trend or whether it is a calculated action. Because after the merger and BRI Syariah becomes a survivor entity, the value of the shares will be delusional because the ownership is no longer owned by one bank, but three banks at once adjusted to the percentage of assets owned. So that the Merger will produce strong Islamic bank capital, be included in the top 10 national banking ratings, and compete with other national banks. Strong capital will attract long-term resources that banks need for business expansion. The merged bank will be more operationally efficient, have a wider network, have a variety of products to serve the corporate, commercial, consumer and MSME segments. The global market potential in the Islamic economic sector: halal food, Islamic finance, travel, Muslim clothing, pharmaceuticals and cosmetics, media and recreation, promises an opportunity to drive the national economy during the Covid-19 pandemic. (Anis Fatimah, 2021)

With the merger of these three state-owned Islamic banks, it turns out that it will also cause many negative effects considering that the merger was carried out in the midst of the ongoing COVID-19 pandemic, including the risk of financing by the banks themselves considering that COVID-19 made the economy in Indonesia, especially for MSME owners and large companies were shaken. Therefore, Islamic banking must be careful in deciding to provide financing to partners by being more selective in choosing prospective partners whose businesses are able to survive in the midst of the COVID-19 pandemic so that financing problems do not occur in the future. In addition to financing risk, operational risk is also a challenge for sharia banking participants in the merger given the government's policies to deal with the COVID-19 pandemic, such as the Large-Scale Social Restrictions (PSBB) which has resulted in the public (including partners from sharia banking) requiring them to spend more time activities at home such as Work From Home (WFH) self-quarantine, etc., so this can also affect Islamic banking, which must continue to serve its partners, even if not face-to-face or offline.

#### ***b. The Influence of the Merger of Islamic Banks on the State's Economic Stability***

Since the pandemic hit the country of Indonesia, the pace of national economic growth has been hampered, state revenues have declined, but state spending and financing have increased, so that one of the government's efforts to save the country's economy begins by

providing a number of policies that are able to have an impact on increasing the economy for state revenues issued. in Perpu No.1/2020. Thus, the merger of 3 Islamic banks which are now known as Bank Syariah Indonesia (BSI) is one of the positive breakthroughs to increase the country's economic income. OJK as an institution that has a supervisory system as regulated in the Financial Services Authority Law, has the authority to issue special rules related to sharia-based bank mergers, so that economic activities can run as they should.

Overall, it is difficult to assess the impact of mergers and acquisitions on consumers, not only because this aspect is not usually considered in popular or scientific analyses, but also because it is often difficult to disentangle the direct impact of mergers from the influence of other factors such as increased global competition or technological change. . Looking at the impact of the merger on product supply, choice, and product costs, it is said that in general, the number of products on the market has increased significantly in recent years, offering more choices at lower prices, as most of the new entrants in the market are trying to compete. on the basis of price. (Ika Atikah, Maimunah, 2021)

They can do this because new information and communication technologies allow them to save costs by operating with fewer branches or without traditional branch networks. The new products and providers are also perceived to offer clients more time flexibility, as they no longer have to rely on branch opening hours to run their business. Traditional providers have responded to this trend to meet consumer needs, but also to cut operational costs by closing branches.

Strengthening the merger of state-owned Islamic banks into PT. Bank Syariah Indonesia, Tbk is the right step to take in the midst of a pandemic, so that state finances remain stable and the 3 Islamic banks joined in the merger get profits and dividends, although they are still in a transitional period since their inauguration on February 1, 2021/19 Jumadil Akhir 1442 H is history BSM, BNI Syariah, BRI Syariah become one entity, namely Bank Syariah Indonesia (BSI). The merger of the three Islamic banks provides a more complete service, wider reach, and has a better capital capacity. Supported by synergies with parent companies (Mandiri, BNI, BRI) and the government's commitment through the Ministry of SOEs, Bank Syariah Indonesia is encouraged to be able to compete at the global level.

## **Conclusion**

From the explanation above, it can be concluded that BSI, which is the result of the merger of three state-owned banks (BRI Syariah, BNI Syariah, Bank Syariah Mandiri), has shown positive values in developments in early 2021. This is evidenced by the increase in the value of disbursement of financing when compared to national banks, which experienced a slight decrease in the level of disbursement of financing.

Strengthening the merger of state-owned Islamic banks (BNI Syariah, BSM, BRI Syariah) to become Bank Syariah Indonesia begins with an agreement that is set forth in a written agreement for the merger of Islamic commercial banks as regulated in several applicable legal regulations. The merger of Islamic commercial banks in the midst of a pandemic, is the right step to maintain the country's economic stability as stated in Perpu No.1/2020 and POJK No.18/POJK.03/2020. The impact of the merger of Islamic commercial banks, of course, has a positive impact, Indonesian Islamic banks are able to compete globally by promoting more complete services, wider reach, and better capital. For the state, it is certainly a good thing that

the Ministry of SOEs can do, by initiating the merger of 3 sharia-based state-owned subsidiaries (BNI Syariah, BSM, BRI Syariah) to merge into PT. Bank Syariah Indonesia, Tbk.

Another positive thing that has become a commitment is to increase the literacy of sharia products and industries in the wider community, which is expected to be able to penetrate the wider market sector and even globally. In addition, BSI is also committed to providing the widest possible social benefits to the national small economy sector, not only to fellow sharia industries. And it is hoped that in the future BSI can compete both from various product innovations and technological advances offered to customers.

The great influence of the merger of Islamic commercial banks, of course, has a positive impact, Indonesian Islamic banks are able to compete globally by prioritizing more complete services, wider reach, and better capital. For the state, it is certainly a good thing that the Ministry of SOEs can do, by initiating the merger of 3 sharia-based state-owned subsidiaries (BNI Syariah, BSM, BRI Syariah) to merge into PT. Bank Syariah Indonesia, Tbk.

The unification of state-owned Islamic banks will produce synergies, so that they are able to match and even exceed conventional banks. Increased assets will encourage Islamic banking to provide more financing to the public, so that economic growth will also increase. The existence of a merger (merger) will be able to improve the Indonesian economy after COVID-19 not only has a positive influence but now that post-COVID-19 can also have a negative impact on Islamic Banking where there is a risk of financing by the banks themselves considering COVID-19 has made the economy in Indonesia, especially for the owners of MSMEs and large companies were shaken. Therefore, Islamic banking must be careful in deciding to provide financing to partners by being more selective in choosing prospective partners whose businesses are able to survive in the midst of the COVID-19 pandemic so that financing problems do not occur in the future. In addition to financing risk, operational risk is also a challenge for merged sharia banks considering the government's policies to deal with the COVID-19 pandemic.

With the merger of the three state-owned Islamic banks, it will have some good effects, including increasing assets in Islamic banking, especially for merger participants because it is automatic when a company is merged, its assets will also be accumulated. In addition, with this policy, it will expand market penetration because if there is a merger in Islamic banking, new innovations can increase and can attract the attention of potential partners to become partners. Furthermore, Islamic banking is increasingly cost efficient in financing because with a 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.

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