Restructuring Strategy: A Performance Review of Spin-off Islamic Banks in Indonesia

Zulfikar Bagus, Fahmi Medias, Veni Soraya Dewi, and Safitri Dwi Karunia

Abstract. The deadline of 2023 has almost passed for the obligation to conduct a spin-off for sharia business units in Indonesia to become a fully-fledged Islamic bank. However, a number of empirical findings highlight the urgency of evaluating this policy. Furthermore, many sharia business units are unable to meet the minimal standards. The paper aims to review prior studies on how spin-off decisions affect the financial performance of spin-off Islamic banks in Indonesia. Information was gathered from the Google Scholar and Mendeley databases using a literature review methodology. This study reveals that 18 publications have tracked 10 Islamic spin-off banks and 18 financial performance indicators. Following the spin-off, six Islamic banks, including BNI Syariah, BRI Syariah, BJB Syariah, Bank KB Bukopin Syariah, BTPN Syariah, Bank Aceh Syariah, BCA Syariah, Bank Syariah Mandiri, and Panin Duba Syariah Bank, experienced an improvement in their financial performance. Assets, third-party funds, financing, market share, CAR, NPF, ROA, z-score, and Maqasid Sharia Index were the main performance indicators that experienced a significant improvement after the spin-off.

1 Introduction

Indonesia has adopted a dual banking system since 1998 which juxtaposes conventional and Sharia systems. These 24 years of experience have changed the face of the financial system in Indonesia. Moreover, in 2008, Law 21/2008 on Sharia banking was passed. One of the important policies as an effort to encourage the development of Islamic banking in Indonesia is the obligation to spin-off [1,2]. This spin-off separates the sharia business unit from its parent conventional bank into fully-fledged Islamic banking. This spin-off also provides independence for Islamic bank managers to compete and fulfill sharia compliance aspects [3,4].

In its development, the spin-off policy received a positive response from bankers so that by 2022 15 fully-fledged Islamic banks have been operating. Meanwhile, when the policy emerged in 2008, there were only 5 fully-fledged Islamic banks in Indonesia [5]. In addition, several studies recommend evaluating the spin-off policy mandated by the Act. Some of the reasons that arise are the difficulty of sharia business units to meet the minimum spin-off requirements [2] and the inconsistency of findings from investigations on several financial
ratios [6–16]. Based on the above conditions, this study aims to review the empirical findings of previous studies on the impact of spin-off decisions on the financial performance of Islamic banks. This is an effort to review the effectiveness of the spin-off decision for Islamic banks.

2 Method

The research method used is library research or a literature review, which entails systematic identification and analysis of documents containing information relating to the research issue [17]. We used Mendeley and Google Scholar database, to search for articles and proceedings which is related with topic. The topic is the financial performance of Islamic bank in Indonesia after spin-off decision. Documents related to the subject will be displayed and analyzed further to learn more about the financial performance of Islamic bank in Indonesia after spin-off decision.

3 Result and Discussion

Based on an analysis of 18 publications on changes in the performance of Islamic banks in Indonesia after the spin-off decision, 18 financial performances were observed. The analysis also involved 10 spin-off Sharia banks in which BNI Syariah (BNIS) and BRI Syariah (BRIS) were the objects most observed by researchers. Table 1 is a summary of the list of individual Islamic banking financial performances observed before and after the spin-off.

3.1 Bank BNI Syariah

Bank BNI Syariah (BNIS) is a spin-off bank from BNI's sharia business unit which has been operating since 2000. Meanwhile, the transformation process into a full-fledged Islamic bank was carried out in 2010. The financial performance of BNIS has been observed by 11 researchers. BNIS' capital adequacy has increased after the spin-off [18], although many studies have revealed that there is no significant change [19–21]. In the aspect of efficiency, based on the ability to generate income from assets (TATR), it is revealed that BNIS is increasingly efficient [22]. This is confirmed by the results of an increasingly efficient DEA analysis [23,24], although some studies reveal that BRIS is more inefficient than before the spin-off [18,25,26]. Similar conditions were also found in the profitability ratios (NPM and ROA) [18,20,27], asset growth, third party funds, financing [19], market share [22], financing productivity [23], and productivity of social funds management [28]. Furthermore, several performance indicators did not change significantly after the spin-off, namely FDR, ROE, and NI [19,20]. As for business risk, the two studies found contradictory results. Pernamasari [18] revealed that the risk of non-performing financing was lower after the spin-off, while Nasuha [19] found BRIS to be more vulnerable with increasing non-performing financing. This fact is caused by the difference in the research time span where Pernamasari [18] uses a longer time span and it is suspected that the data shows a better change in performance.

3.2 BRI Syariah

BRI Syariah (BRIS) is a spin-off bank from BRI's sharia business unit which started operating on a sharia basis in 2008. Currently, BRIS has been merged with BNIS and BSM into a state-owned company called Bank Syariah Indonesia (BSI). The financial performance of BRIS has been observed by 10 researchers. Most showed a decline in performance, but
market share, financing growth, and financing productivity at BRIS increased after the spin-off [19,22,23]. On the profitability side, there are two different conditions, the increase in performance was found in the ability to generate net income (NPM) and the ability to benefit from managed assets (ROA) [18,29], while the ability to earn profits from capital (ROE) decreased [30].

Furthermore, after the spin-off, BRIS is increasingly inefficient, both from the CIR, TATR, and DEA analysis results [18,22,23,25,26,29]. However, there is one finding that reveals that BRIS is getting more efficient. This is caused by the use of different input and output components in the DEA analysis [24]. The decline in performance after the spin-off also occurred in the liquidity ratio as measured by FDR and an increase in the risk of non-performing financing [18,29]. This is in line with the decline in asset growth and third party funds [19]. The capital adequacy ratio and net income (NI) did not change significantly [18,19,21,29].

**Table 1. Financial Performance of Individual Islamic Banking Before-After Spin-off**

<table>
<thead>
<tr>
<th>Islamic Bank</th>
<th>BNIS</th>
<th>BRIS</th>
<th>BJBS</th>
<th>BKBBS</th>
<th>BTPNS</th>
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<th>BCAS</th>
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3.3 Bank Jabar dan Banten Syariah

Bank Jabar and Banten Syariah (BJBS) is a spin-off bank from UUS BPD Jabar and Banten which started operating as a full-fledged Islamic bank in 2010. The financial performance of BJBS has been observed by 9 researchers. Several studies show inconsistent results based on the observed performance indicators. In terms of assets, there was a significant increase after the spin-off due to a relatively large increase in capital in several periods. This is also supported by a significant increase in third party funds and financing [19]. Thus, the market share of BJBS also increased significantly [22]. Apart from that, in terms of capital adequacy, BJBS also showed a significant increase after the spin-off [18]. However, several performance indicators experienced a significant decline. Starting from the profitability aspect as measured by ROA and NPM [22], business risk aspect as measured by NPF [18,19], and inefficiency as measured by CIR, TATR, and DEA [18,22,23,25,26]. Not much different, the management of financial funds and social funds BJBS analyzed with the Malmquist Productivity Index (MPI) also experienced a decrease in productivity [23,28]. On the other hand, some researchers revealed contradictory results, that BJBS is more efficient after spin-off decision [22,24,31].

3.4 Bank KB Bukopin Syariah

Bank KB Bukopin Syariah (BKBBS) is a conversion from Bank Persyarikatan Indonesia, which started operating in Shariah way in 2008. The financial performance of BKBBS has been observed by 8 researchers. Based on the studies that have been carried out, the majority of financial performance indicators show improved performance after conversion. Assets, financing, and third party funds are some of the performances that have improved performance [19]. This increase also pushed the market share, ROA, and CAR of BKBBS to be bigger [18,22,29]. However, in terms of the ability to generate income from assets, it is experiencing inefficiency (TATR) [22]. As for several other performances, it was revealed that there were differences in results caused by differences in the observation period. First, some studies reveal that BKBBS is more efficient after conversion [25,29], whereas other studies reveal more inefficient [18,22,24,26]. Second, the risk of non-performing financing improved after the spin-off [18,29], while other studies revealed the risk was even greater [19]. Last but not least, some performances that did not experience significant changes include the liquidity ratio (FDR) and profitability ratio (NPM, ROE, and NI).

3.5 Bank Tabungan Pensiunan Nasional Syariah

Bank Tabungan Pensiunan Nasional Syariah (BTPNS) is a spin-off bank from BTPN's sharia business unit which started operating as a full-fledged Islamic bank in 2014. Even in 2018, BTPNS has improved the Bank's Standard Governance by conducting an Initial Public Offering (IPO). in 2018. The financial performance of BTPNS has been observed by 3 researchers. In general, BTPNS experienced improved performance after the spin-off decision. The aspect of capital adequacy as measured by CAR has increased significantly [18,32]. The same thing happened to the liquidity ratio (FDR) and profitability (ROA) [32]. However, the business risk of BTPNS after the spin-off is getting higher [18,32]. The study of Nawasiah and Alkaf [21] revealed that there was no significant change in aspects of capital adequacy and risk of non-performing financing.
3.6 Bank Aceh Syariah

Bank Aceh Syariah (BAS) is a convertible bank from Bank Aceh in 2016 along with the issuance of Aceh Qanun Number 5/2016 concerning the Establishment of Bank Aceh Syariah. The financial performance of BAS after conversion has been observed by 2 researchers [33,34]. Based on business risk, BAS was able to improve its performance where the ratio of Non-Performing Financing (NPF) decreased [33] and z-score increased [34]. However, in terms of profitability as measured by Return on Assets (ROA), Return on Equity (ROE), and Net Operating Margin (NOM) showed a decline after conversion. The performance as measured by the Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), and Cost to Income ratio (CIR) did not show a significant difference [33].

3.7 Bank BCA Syariah

Bank BCA Syariah (BCAS) is the result of the conversion from the acquisition of PT. Bank Central Asia Tbk (BCA) in 2009 against PT Bank Utama Internasional Bank (Bank UIB) which started operations in 2010. BCAS' financial performance has been observed by 2 researchers. Several financial performances experienced significant changes, namely from the liquidity aspect as measured by the Financing to Deposit Ratio (FDR) which decreased and the efficiency aspect increased as measured by the Cost to Income ratio (CIR) [29]. It also includes an improved business risk ratio after becoming a full-fledged Islamic bank as measured by Non-Performing Financing (NPF) [21,29]. Meanwhile, in terms of capital (CAR) and profitability (ROA), there was no significant change even though the trend was positive.

3.8 Bank Syariah Mandiri

Bank Syariah Mandiri (BSM) is a conversion from Bank Susila Bakti which began operating with sharia principles in 1999. Currently, BSM has been merged with BNIS and BRIS into a BUMN called Bank Syariah Indonesia (BSI). In its development, BSM's financial performance before and after conversion was only observed by 1 researcher [21]. The research explained that BSM's capital increased significantly, while business risk (NPF) did not change significantly after conversion.

3.9 Panin Dubai Syariah Bank

Panin Dubai Syariah Bank (PDSB) is a spin-off bank from Panin Bank UUS which has been operating since 2009. The financial performance of PDSB has only been observed by 1 researcher [35]. The research explains that PDSB is more efficient after the spin-off as measured by Data Envelopment Analysis (DEA). In line with that, the Maqasid Sharia Index (MSI) measurement also shows a better level of sharia compliance after the spin-off.

3.10 Bank Victoria Syariah

Bank Victoria Syariah (BVS) is a conversion from Bank Swaguna which was acquired by Bank Victoria in 2007. BVS started operations to become a full-fledged Islamic bank in April 2010. The financial performance of BVS after conversion was only observed by 1 researcher [19]. The research explains that financial risk increases after conversion which is indicated by an increase in the NPF ratio. This condition was supported by a significant increase in the amount of financing and third-party funds, and a significant decrease in assets. In terms of
capital (CAR), profitability (ROA, ROE, and NI), and liquidity (FDR) there was no significant change after the conversion decision.

4 Conclusion

The paper aims to review prior studies on how spin-off decisions affect the financial performance of spin-off Islamic banks in Indonesia. Following the spin-off, six Islamic banks, including BNI Syariah, BRI Syariah, BJB Syariah, Bank KB Bukopin Syariah, BTPN Syariah, Bank Aceh Syariah, BCA Syariah, Bank Syariah Mandiri, and Panin Dubai Syariah Bank, experienced an improvement in their financial performance. Assets, third party funds, financing, market share, CAR, NPF, ROA, z-score, and Maqasid Sharia Index were the main performance indicators that experienced a significant improvement after the spin-off. Analysis on the stability of Islamic banks against potential crises and bankruptcy are future research opportunities. Additionally, it is important to pay more attention to and conduct a more thorough analysis of Sharia compliance, one of which includes assessing the Maqasid Sharia Index (MSI).

References

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