

# Merger and Its Impact on Strengthening the Development of Sharia Banks in Indonesia

<sup>1</sup>Ii Rosmiati, <sup>2</sup>Ahmad Ropei, <sup>3</sup>Febri Ramadhani, <sup>4</sup>Suharto

<sup>1,2,3,4</sup> Sekolah Tinggi Agama Islam Miftahul Huda Subang, Indonesia

[ii.rosmiati12@gmail.com](mailto:ii.rosmiati12@gmail.com), [ahmadropei88@email.com](mailto:ahmadropei88@email.com), [febriramadhani@staim-mifda.ac.id](mailto:febriramadhani@staim-mifda.ac.id),  
[suhartosemak@gmail.com](mailto:suhartosemak@gmail.com)

**Abstract:** Sharia banking in Indonesia today continues to experience development in line with the increasingly advanced growth of the shari'ah economy. That is, of course, caused by many factors, including the existence of regulations that support the development of Islamic banking, especially related to the merger of Islamic banking. This shari'ah bank merger must be seen as essential to developing shari'ah banking in Indonesia. This paper is a type of qualitative research with the method used to study literature. The results of this paper reveal that the background of the merger of Islamic banks was the desire to strengthen the condition of Islamic banking in Indonesia by increasing the financial literacy of the Indonesian Muslim community. The merger of Islamic banks has had an impact on the development of Islamic banks in Indonesia; including after the merger, Bank Syariah Indonesia was able to become the 7th best national-level bank; able to generate more significant assets, increasing the total amount of financing, third-party funds, and profits and succeeding in increasing shari'ah financial literacy in Indonesia.

**Keywords:** Merger, Sharia Bank, Indonesia.

**Abstrak :** Perbankan Syariah di Indonesia dewasa ini terus mengalami perkembangan seiring dengan pertumbuhan ekonomi syari'ah yang semakin maju. Hal ini tentunya disebabkan karena banyak faktor, di antaranya adalah adanya regulasi yang mendukung bagi perkembangan perbankan syariah, terutama terkait dengan adanya merger perbankan syari'ah. Merger bank syari'ah ini perlu dipandang sebagai bagian penting bagi perkembangan perbankan syari'ah di Indonesia. Tulisan ini merupakan jenis penelitian kualitatif dengan metode yang digunakan adalah studi kepustakaan. Hasil tulisan ini mengungkap bahwa merger bank syariah dilatarbelakangi oleh keinginan memperkuat kondisi perbankan syariah di Indonesia dengan meningkatkan literasi keuangan masyarakat muslim Indonesia. Merger bank syariah telah memberikan dampak bagi perkembangan bank syari'ah di Indonesia, di antaranya setelah dilakukan merger, Bank Syariah Indonesia mampu menjadi urutan ke-7 tingkat nasional bank terbaik; mampu menghasilkan aset yang lebih besar; meningkatnya jumlah total pembiayaan, dana pihak ketiga, dan laba serta berhasil dalam meningkatkan literasi keuangan syari'ah di Indonesia.

**Kata Kunci:** Merger, Bank Syari'ah, Indonesia.

## **Introduction**

The development of the banking world continues progressing along with the demands and needs of the community's economic development. Therefore, banking is significant for human life as an institution that acts as an intermediary for providing financial services. As a result, these demands and needs have encouraged the birth of the world of Sharia banking based on religious values.

The presence of shariah banking in Indonesia's history was marked by the issuance of Law Number 10 of 1998 concerning Banking which became the basis for implementing the banking world in Indonesia. The law thoroughly regulates the legal framework and types of businesses that can be managed and implemented through the Sharia system. Then strengthening the existence of banking based on Sharia principles in Indonesia was confirmed by the issuance of Law Number 21 of 2008 concerning Islamic Banking. Referring to this provision, the primary function of Islamic banks is to collect money from the public and then direct the funds back to the community. The role of Islamic banks can purify operations in Islamic banking to increase Sharia awareness among Muslims, which aims to expand the market sector and Islamic banking services (Wiwin, 2015: 6). The main thing that is most important in the implementation of shari'ah banking is to stand on the values of Islamic law. Therefore, Islamic banks can be understood as intermediary institutions and financial service providers that work based on principles and regulations that uphold Islamic values, especially free from interest (usury), free from unproductive, speculative activities such as gambling (maysir), and free from things that are unclear and doubtful (gharar), uphold the principles of justice and only fund legitimate commercial activities (Afdi & Nasir, 2016: 13)

As has been stated, significant developments in the world of Islamic banking only occurred after Law Number 10 of 1998 was enacted concerning Banking as an amendment to Law Number 7 of 1992. This law provides a more solid legal basis for the existence of a legal banking system. In addition, the Banking Law broadly regulates the types of businesses Islamic banks can operate

and directs conventional ones to open legal branches or convert ordinary banks into Islamic banks. In line with this, the government and banking authorities in Indonesia continue to strive to support the expansion of Sharia banking office networks, classification of office allocation policies, and policies for accelerating Sharia banking through various procedures and policies. In addition, based on information issued by the Financial Services Authority (OJK) in 2008, it was revealed that since the issuance of a ban on bank interest fatwas by the Indonesian Ulema Council (MUI) in 2004. The passing of Law Number 21 of 2008 concerning Islamic banking has contributed to the growth and development of Sharia banking services, both institutionally at the national and international levels, in terms of volume and business profits. From an institutional standpoint, the number of banks operating based on Sharia principles continues to grow yearly. Even though in 2015, there were only 15 Legal Commercial Banks (BUS) in operation, increasing to 34 BUS networks in each province as of November 2020. Likewise, according to Sharia provisions (UUS), the number of business units in conventional banks increased from 22 units in 2015 to 34 units as of November 2020. In addition to the increase in the number of banks in operation, the network of Islamic bank offices (including cash offices and branches) has shown significant growth. If, in 2000, the number of legitimate bank offices reached 146, then the number of offices as of November 2020 had increased to 2,962 (OJK, 2020).

The existence of Islamic financial institutions today, at a practical level, has shown an increasingly rapid development. This is in line with the to increase awareness of the great awareness of Muslims to carry out Islam in a kaffah manner. However, this development is not yet massive, and many people still need to believe in Islamic banks or even feel foreign to the existence of Islamic banks. This indeed triggers discussions regarding mergers between Islamic banks. So that starting in February 2021, three Islamic State-Owned Enterprises (BUMN) Islamic banks officially merged, namely Bank Syariah Mandiri (BSM), Bank Negara Indonesia Syariah (BNIS) and Bank Rakyat Indonesia Syariah

(BRIS). The three banks are now Bank Syariah Indonesia (BSI). The main reasons for the merger are the desiring for a large, solid and efficient Islamic bank with significant financial assets and opportunities that will significantly contribute to the national economy (Ministry of Finance of the Republic of Indonesia, 2021).

It is undeniable that merging Islamic banks in Indonesia still raises many questions, especially those related to the benefits of higher added value. This question arises because it relates to many research results on bank mergers in several countries. Among them, namely in a study conducted by Kalomiris and Karseski (2000) identified four important points in nine bank mergers operating in the United States, namely: (1) in general, mergers create added value for the banking industry; (2) the bankruptcy of several banks that emerged as a result of the merger due to a sharp decline in profits during the consolidation process; (3) the behavior of the bank's management in connection with the merger will result in increase in unnecessary costs such as salaries, pre-merger promotion costs for post-merger improvements; (4) revenue synergies are realized even in the absence of economic efficiency (Afdi & Nasir, 2016: 6). In addition, according to research conducted by Jarayatne, bank mergers, especially those with overlapping branches, will cause problems, not to mention the problems faced by small borrowers, which are often overlooked in the merger process. A study by Harada and Ito (2008) on bank mergers in Japan shows that weak bank consolidation will only lead to bank weakness, and for several weak banks resulting from mergers, the distance to bankruptcy is increasingly apparent (Marpaung, 202: 20). It is on this basis that the merger of Islamic banking in Indonesia actually still invites many question that need to be answered, one of which is from an academic perspective, especially related to the impact of the merger of Islamic banks on strengthening the development of Islamic banking in Indonesia in the future. Therefore, a study on the merger of Islamic banks and their impact on strengthening the development of Islamic banks in Indonesia is a very importance thing to do in order to provide an overview and various

analyzes from a disciplinary standpoint about the future of Islamic banks in the future.

## **Method**

This research is qualitative research using the literature study or literature study method. Literature study in the context of this research is a comprehensive overview of research that has been done on a specific topic to show the reader what is already known about the topic with what is not known, to seek a rationale for research that has been done or for further research ideas (Denney & Tewksbury, 2013: 99). As for data collection in this study using documentation techniques. For this reason, to carry out documentation techniques, the technique must be carried out by collecting data and information from books or journals to obtain factual data, which is then used as the basis and theoretical foundation and statutory regulations related to research methods. The data analysis is carried out by collecting, reducing, presenting, and drawing conclusions (Sugiyono, 2020: 129). The stages in the data analysis were carried out systematically to conclude the results of this study.

## **Result and Discussion**

### **Background of Merger of Islamic Banks in the Development of Islamic Banking in Indonesia**

The current era of globalization and technology demands competition, especially for the financial institution sector, which has begun to emerge innovations or strategies to be able compete and be able to occupy the highest position in the financial institution sector (Sulistiani, 2014: 54). This is of course also faced by Islamic banking in Indonesia such as Bank BRI Syariah, Bank BNI Syariah and Bank Mandiri Syariah which inevitably are required to be able to compete with conventional banks. Islamic financial market. However, in reality, Afdi Nizar & Nasir (2016: 5-6) suggests that the quality of financing in Islamic banking could be better when compared to conventional banking. These can be

seen in the comparison tables regarding the progress of Islamic banking financing in Indonesia before the merger as follows:

**Table. 1**  
**Comparison of Financing Progress of Islamic Banks and Conventional Banks**

<b>Islamic Bank</b>						
No	Bank name	Financing Progress				
		2016	2017	2018	2019	2020
1	Bank BNI Syariah	20,49 T	23,5 T	18,29 T	32,58 T	33,04 T
2	Bank BRI Syariah	18,03 T	19,01 T	21,86 T	27,40 T	37,40 T
3	Bank Syariah Mandiri	16,08 T	20,62 T	23,84 T	27,66 T	29,12 T
<b>Conventional Banks</b>						
No	Bank name	Financing Progress				
		2016	2017	2018	2019	2020
1	Bank BNI	393,3 T	441,3 T	512,8 T	556,8 T	553,1 T
2	Bank BRI	621,2 T	689,5 T	784,9 T	793,7 T	869,1 T
3	Bank Mandiri	616,7 T	678,2 T	676,7 T	855,8 T	793,9 T

Source: Financial Report of PT. Bank BNI, Bank BRI, Bank Mandiri 2016-2020 year

Based on the table above, the last five years before the merger of Islamic banking occurred indicated that the condition of Islamic banking was far behind that of conventional banks. Moreover, this is undoubtedly a weakness and causes the development of Islamic banking to tend to be slow. This becomes one impetus for a merger for Islamic banks to face competition challenges, especially against conventional banks.

Then what is no less critical regarding the development of Islamic banking in Indonesia can be seen from the side of the market share, productivity and professionalism of Islamic banks in Indonesian society, which incidentally is

Muslim. These can be seen from the development of market share in the development of Islamic banking over the past five years:

**Table. 2**

**Development of Sharia Banking Market Share**

No.	Year	Development
1	2016	5,16%
2	2017	5,75%
3	2018	5,72%
4	2019	6,01%
5	2020	6,51%

Source: Financial Services Authority

Observing the table above on the development of the Sharia banking market share, it can be seen that the market share in Sharia banking during the last five years prior to the merger was still struggling at 5%. This condition illustrates that Islamic banking has remained within the sector's growth. So, it is necessary to hold another strategy that encourages increasing penetration of the development of the Islamic banking industry exponentially, namely by carrying out mergers or mergers (Fikri, 2021: 6).

A bank merger itself is a step to combine two or more banks by establishing a new bank and dissolving these banks without liquidating them first. Implementing a bank merger aims to form a strong synergy between two or more banks so that a more extensive and stronger bank emerges. Strengthening capital to meet the capital adequacy ratio is also one of the reasons bank mergers are carried out. Banks that carry out mergers can position the banking industry nationally and internationally to adjust to the flow of globalization that continues to grow.

There are a number of reasons for a banking institution to merge with another bank: First, growth or diversification, which is generally due to fast growth. Second, the expected synergy can generate economies of scale for more significant income. Third, increase the company's borrowing power. Fourth,

want to add skills and develop technology. Fifth, mergers and acquisitions are expected to cover tax losses and increase revenue. Sixth, increasing the liquidity of the owner, due to the assumption that the incorporation of several companies will produce liquid shares rather than separate or small companies and then to protect themselves from takeover due to corporate debt because of this debt burden, the company's obligations become too high to be borne by the company's sector. Who are interested (Noegroho, 2017 p. 547).

For Islamic banking in Indonesia, its implementation has several vital considerations, especially about efforts to open up opportunities to achieve Indonesia's vision of becoming the center of the Islamic economy in the world by strengthening the Islamic financial market in Indonesia. In order to realize this, Islamic banking in Indonesia, namely PT. Bank BNI Syariah (BNIS), PT. Bank BRI Syariah (BRIS) and PT. Bank Mandiri Syariah (BSM), decided to merge into PT. Bank Syariah Indonesia (BSI) officially operates on February 1, 2021.

The merger of Islamic banking in Indonesia was carried out based on several regulations which became the legal basis, namely Law No. 10 of 1998 concerning Banking and Government Regulation No. 28 of 1999 concerning Merger, Consolidation and Acquisition of Banks. Other regulatory references in conducting a merger of Islamic banks are Government Regulation No. 27 of 1998 concerning Mergers, Consolidations and Transfers of Limited Liability Companies (Suryanti Simbolon, 2021, p. 77). Companies, in this case, including financial institutions such as banks, can merge (merger) to create a synergy, meaning that the results obtained from the merger must be more excellent than if each company operates separately (Sudana, 2015, p. 275).

Based on the description as stated above, it can be seen that the following factors caused the background to the merger of Islamic banking in Indonesia: First, empirical conditions related to the fact that Indonesia is a country with a population of 229 million Muslims out of 270 million of the total population of Indonesia. Opening up opportunities to increase the pace of Islamic economic finance in Indonesian society; because of that, strength is needed for Sharia



banking by merging into an Indonesian Sharia bank. Second, the desire to have an Islamic bank with a large and robust number of assets and market share. As it is known that the total assets and market share of Islamic banks in Indonesia have remained within the growth of the conventional banking sector, considering that the market share of Islamic banking is still struggling at 5%. The number of assets is relatively low compared to conventional banking; this must, of course, be overcome, and The step taken is to merge the Shari'ah banking. Third, the desire to have a bank that provides financing capital that is bigger and more competitive than conventional banks.

### **Procedures for Implementation of Mergers in Islamic Banking in Indonesia**

Implementation of bank mergers is carried out with procedures set by the government. Procedures for bank mergers have been regulated based on the Limited Liability Company Law Number 40 of 2007 and Government Regulation Number 27 of 1998 concerning Mergers, Consolidations and Acquisitions of Limited Liability Companies the procedures for company mergers. Government Regulation Number 28 of 1999 concerning Bank Mergers, Consolidations and Acquisitions.

The procedure for implementing the merger carried out by Islamic banking in Indonesia (Bank BNI Syariah, Bank BRI Syariah and Bank Syariah) to become Bank Syariah Indonesia (BSI) began with the submission of a plan for the merger of three BUMN Islamic banks namely PT. Bank BRI Syariah, PT. Bank Syariah Mandiri, and PT. BNI Syariah Bank, held in Jakarta on October 20, 2020, the merger plan was attended to and approved by the bank's directors that will carry out the merger or merger; this merger plan was carried out to obtain permission from the OJK. After submitting the proposed merger along with all supporting documents to the Financial Services Authority (OJK), then the participating banks obtain approval from the Financial Services Authority (OJK) to carry out the merger; the approval is marked by the issuance of a copy of OJK Board of Commissioners Decree Number 4/KDK.03/ 2021 regarding the issuance of permits for the merger of the three banks. The merger will become a

business license on behalf of PT. Indonesian Sharia Bank Tbk. The letter was stipulated on January 27, 2021. Then, the process went through, namely, carrying out an Extraordinary General Meeting of Shareholders (EGMS) held on December 15, 2020. The EGMS approved the merged bank's vision to become the world's 10 Largest Islamic Banks. Based on the EGMS, the shareholders agreed on the management structure of the merged bank to consist of a managing director, two deputy managing directors, and one director each for wholesale and transaction banking, retail banking, sales and distribution, information technology and operations, risk management, compliance and human capital, as well as finance and strategy. The BRI Syariah EGMS also agreed on the additional duties, responsibilities and functions of the Sharia Supervisory Board (DPS) for the merged bank. Thus, merging the three Islamic banks was followed by an application for approval of the amendment to the articles of association to the Ministry of Law and Human Rights. Then make an application for listing additional shares on the Indonesia Stock Exchange. Moreover, on December 16, 2021, a Press Conference was held to sign the Deed of Merging Three Islamic Banks Owned by Himbara (Ulfa, 2021: 3).

The merger plan materialized on Monday, 1 February 2021. Bank Syari'ah Indonesia Tbk officially operates with 1,200 branch offices and with this capital of RP. 20.4 trillion. The bank resulting from this merger is a public company listed on the Indonesia Stock Exchange with the ticker code BRIS. The composition of shareholders in the merged bank is PT. Bank Mandiri (Persero) Tbk. (BMRI) 51.2 percent, PT. Bank Negara Indonesia (Persero) Tbk. (BNI) 25.0 percent, PT. Bank Rakyat Indonesia (Persero) Tbk (BBRI) 17.4 percent, DPLK BRI - Sharia Shares 2 percent and the public 4.4 percent. The shareholder structure is based on the calculation of the valuation of each participating bank in the merger.

Based on the description above, it can be concluded that the procedure for implementing the merger of Islamic banking in Indonesia Indonesia is carried out through a series of processes as follows: (1) the directors prepare a merger

plan for Bank BNI Syariah, Bank Mandiri Syariah to merge into Bank BRI Syariah; (2) Bank BRI Syariah obtains a license to merge and change the name to a business license on behalf of PT. Bank Syariah Indonesia (BSI) from the Financial Services Authority (OJK) listed in letter No. SR-3/PB.1/2021; (3) Bank BRI Syariah, as a result of the merger, conducts an Extraordinary General Meeting of Shareholders (RUSLB); (4) Applying for approval of changes to the articles of association of Bank Syariah Indonesia (BSI) to the Ministry of Law and Human Rights; (5) submission of approval for the merger of Bank Syariah Indonesia (BSI) to the Indonesia Stock Exchange; (6) holding a Press Conference on the Signing of the Deed of Merger of Bank Syariah Indonesia (BSI) or a legal merger; (7) announce the news of the merger of Bank Syariah Indonesia (BSI) through social media or newspapers.

### **The Impact of the Merger on Strengthening the Development of Islamic Banking in Indonesia**

The merger of Islamic banks is expected to encourage them to become more significant to occupy the best position in the global market and become a catalyst for the growth and development of the Islamic economy, especially in Indonesia. After the merger, the strength of Islamic banking assets automatically becomes more significant. This is, of course, capital for Islamic banking to expand its business, considering the considerable assets of a bank will make it easier for banks to expand their business. If carrying out a bank merger will increase its assets, then the businesses owned by Islamic banking will also increase (Fikri, 2021: 11). In fact, the number of assets owned by Bank Syariah Indonesia (BSI) places this bank as the seventh largest bank in Indonesia in terms of assets. This enormous asset can drive a more remarkable ability to support economic financing. In addition, it is expected to become an accelerator for developing the Islamic economy in Indonesia (Sugiarto, 2021, p. 79).

It is undeniable that the existence of a shari'ah banking merger has positively impacted the development of shari'ah banking (Mansor, 2019, p. 529). The development of Islamic banking is part of efforts to strengthen Islamic banks to

increase their role in driving national economic growth (Cranston, 2002: 65). This is marked by the developments experienced by Islamic banks, which continue to increase, both in terms of total assets, total financing, third party funds and profits owned.

**Table. 3**  
**Data on Increases in Assets, Financing, Third Party Funds and Sharia Bank Profits Before and After the Merger**

Bank Name	BNI Syariah		BRI Syariah		Mandiri Syariah		Indonesian Syariah Bank
	2019	2020	2019	2020	2019	2020	
Year	2019	2020	2019	2020	2019	2020	2020
Total Assets	44,98	55,01	43,12	57,70	112,29	126,85	239,56
Total Financing	43,77	47,97	34,12	49,34	99,81	112,58	209,98
Third-party funds	32,58	33,05	27,38	40,00	75,54	83,43	156,51
Profit	0,6	0,5	0,074	0,25	1,28	1,43	2,19

Source: Exposure of PT. Indonesian Sharia Bank

Then apart from that, the merger also increased the financial literacy of Islamic banking in Indonesia. This can be seen from the results of a survey on shari'ah financial literacy conducted by the Financial Services Authority (OJK) conducted before and after the merger as follows:

**Table. 4**  
**Results of the Sharia Financial Literacy Survey by the Financial Services Authority (OJK)**

Year	Percentage
2017	8,9 %
2019	16,3 %
2021	19,8 %

Source: Financial Services Authority

The various data presentations and explanations above have illustrated that the merger of shari'ah banking in Indonesia has positively impacted the development of shari'ah banking in Indonesia. Therefore, the move to merge Islamic banking is the right strategy to encourage the strengthening of Islamic

banking in the future to face competition with various other financial institutions and increase Islamic financial literacy, especially in Indonesia.

### **Conclusion**

The merger of Islamic banking in Indonesia (Bank BNI Syariah, Bank BRI Syariah and Syariah Bank) to become Bank Syariah Indonesia (BSI) has had an impact on strengthening the development of Islamic banking in Indonesia. This can be identified by the following: First, Bank Syariah Indonesia (BSI) was ranked 7th at the national level after the merger. This indicates a significant development in the development of Islamic banking. Second, the merger of Islamic banking (Bank BNI Syariah, Bank BRI Syariah and Bank Syariah Mandiri) to become Bank Syariah Indonesia increased ownership of more significant assets. This is indicated by the increase in assets after the merger to 239.56 trillion. Third, the merger of shari'ah banking has resulted in more significant total financing to meet the community's needs to develop its economy. Fourth, the merger carried out by shari'ah banking has increased the financial literacy of the Indonesian people. Fifth, the shari'ah banking merger has positively influenced the Indonesian people's trust level, as indicated by the increasing amount of Third Party Funds (DPK).

## Bibliography

- Afdi Nizar, M. & Nasir, M. (2016). *Strengthening Sharia Banking through Merger or Consolidation*. Munich Personal RePEc Archive.
- Fiqri, A. A., Azzahra, M. M., Dzakiyah, K., & Pimada, L. M. (2021). Peluang dan Tantangan Merger Bank Syariah Milik Negara di Indonesia pada Masa Pandemi Covid-19. *Jurnal Keuangan dan Perbankan Syariah*, 9(1): 1-18.
- Kementrian Keuangan RI. (2021). *Merger Bank Syariah Dorong Pertumbuhan Perbankan Syariah*. 10 Mei 2021.
- Made Sudana, I. (2015). *Manajemen Keuangan Perusahaan Teori dan Praktek*. Erlangga.
- Nabawi Marpaung, M. (2021). *Analisis SWOT Terhadap Merger Bank Mandiri Syariah, Bank BRI Syariah dan BNI Syariah Menjadi Bank Syariah Indonesia*. Universitas Islam Indonesia
- Noegroho, I. (2017). Merger Merupakan Tantangan atau Peluang Bagi Perekonomian Indonesia, *Jurnal Penelitian Ekonomi dan Akuntansi*. 2(3): 541-552.
- OJK. (2017). *Statistik Perbankan Syariah*. Otoritas Jasa Keuangan.
- Sulistiani, D. (2014). Analisis SWOT sebagai Strategi dalam Memenangkan Persaingan Bisnis. *Komunikasi Kareba*, 2(1), 54.
- Suryanti Simbolon, E. (2021). *Aspek Hukum Pelaksanaan Merger pada Bank Syariah BUMN (Bank BRI Syariah Tbk, Bank Syariah Mandiri, Bank BNI Syariah)*. Universitas Sumatra Utara.
- Ulfa, A. (2021). Dampak Penggabungan Tiga Bank Syariah di Indonesia. *Jurnal Ekonomi Islam*, 7(2): 1101-1106.
- Wiwin, K. (2015). Pengaruh Persepsi Mahasiswa UIN Sunan Kalijaga tentang Perbankan Syariah terhadap Minat Menabung di Bank Syariah Mandiri (Studi pada Mahasiswa Fakultas Ekonomi dan Bisnis Islam). UIN Sunan Kalijaga.