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Merger And Sharia Banking Market Concentration in Indonesia

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Abstract

Business competition is encountering significant challenges, as demonstrated by the growth in performance and the evolving nature of banks. This research aims to determine the impact of corporate merger actions and changes in the concentration of the Sharia banking market in Indonesia after the merger. The theory used is mergers and company concentration. The research method used is qualitative research from a theoretical perspective, journals, direct quotations on mergers, and contextual books. The results show that merger has a positive influence. The rate concentration of Indonesia Sharia market is 79.62%, which indicates that Sharia banking in Indonesia by the big 4 banks. Bank-Syariah-Indonesia, Bank-Muamalat-Indonesia, Bank-Aceh-Syariah, and Bank-Kepri-Syariah. Based on the calculation of total assets, there is a tight Oligopoly market condition where competition between companies is very tight and intense. The research results show that in Indonesia's Sharia industrial market, only a few companies dominate the market, and they significantly influence product prices and quality. There are high barriers to market entry due to high costs and complex technology.

Keywords: *Merger, Market Concentration, Concentration Ratio, Islamic Banking, Sharia*

INTRODUCTION

The banking sector in Indonesia is experiencing very tight Competition, which requires strategic development, endurance, and power to be competitive. The Competition happens between Conventional, Commercial Bank, Sharia Commercial Bank, Rural Bank, and Sharia Rural Bank. The data in Table 1.1 will show the performance comparison percentage for the third quarter of 2022 and the third quarter of 2023 for each bank:

Table 1.1 Performance of the banking industry in Indonesia

Performance	Assets	Party Funds Third	Credit / Financing	Capital Adequacy Ratio	Return on Assets
Conventional Commercial Bank	6.92%	6.56%	8.66%	27.43%	2.76%
Sharia Commercial Bank	11.31%	6.04%	14.81%	25.14%	2.04%
Rural Bank	8.35%	9.57%	9.45%	30.94%	1.34%
Sharia Rural Bank	15.79%	13.02%	18.15%	28.12%	2.18%

Source : Financial Services Authority , 2024

The Sharia commercial banks stands out due to the significant proportion of asset growth they have experienced. The Sharia banking market is challenging in terms of stability and performance. The company aims to achieve its business objectives by engaging in a merger process with a corporate action. Changing the Structure of Ownership and Company Size: Mergers enable small Islamic banks to become larger and more robust, allowing them to compete more effectively with conventional banks. When the company acquires or merges with another, it alters the business landscape.

Sharia banks engaging in mergers can expand access to a broader range of products and services, thereby overcoming high operational costs and capital expenditures (Fatwa, 2019). Consolidation can reduce third-party fundraising (DPK) costs, operational expenses, and capital outlays. The current trend of mergers among Shariah banks suggests a strategic move to consolidate their market presence, enhance competitive capabilities, and capitalize on emerging market opportunities. Market concentration can affect customers and competitors, and the bank may fail. A merger can proceed if these risks are mitigated, enhancing efficiency and competitive strength.

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Mergers have positively impacted the banking ecosystem in Indonesia. Indrawati (2001) notes that from 1971 to 1996, there were 74 bank mergers in Indonesia. In particular, 58 smaller banks were consolidated into 31 larger banks via internal and external acquisitions. The remaining 16 banks underwent pure mergers or consolidations, resulting in six new entities (Swansarindo, Bank-Darmala, Bank-Utama, Tamara, Panin, and Universal). During this period, the merger strategy was deemed successful due to three factors: (1) increased integration of regional and global economic systems; (2) multinational companies' expansion into various countries; (3) advancements in information and telecommunications technology that streamline the transfer of information and capital. Research has concluded that consolidating three Sharia banks into PT Bank Syariah Indonesia Tbk represents a significant development in Indonesia's Islamic banking sector and could address capital resolution issues, allowing Sharia Bank to expand further and better serve the public's needs.

Research by Agus Prihartono (2018) on strategic merger national economic development and law, indicates that not all mergers result in a performance bank. Achieving synergy through bank mergers is challenging, it requires attention to several factors, including finding partners that are complementary, synergistic, and adhere to regulatory legislation.

Research indicates that banking mergers in Indonesia have had adverse effects. Ulfa (2021) notes that several banks, including Century Bank, underwent mergers and subsequently failed. Century Bank, merged post-1999 crisis, was deemed a failure in 2008, posing systemic risks, leading to government intervention via the Savings Guarantee Agency. Another failure was Bank SUMMA, which collapsed due to management errors and risky credit practices, resulting in insolvency and inability to liquidate commercial papers and other debt securities valued at IDR 70 billion. In 1992, Bank Summa had credit congestion of IDR 1.2 trillion and debts of IDR 500 billion, leading to its closure by Bank Indonesia on December 14, 1992. Given the varying outcomes of studies on merger impacts, further research is crucial to address the gaps in corporate banking actions, specifically mergers and the resulting shifts in market concentration within Indonesia's Sharia Banking sector.

THEORETICAL OVERVIEW

Merger regulations are outlined in Article 1 number (1) of Government-Regulation No-57-2010, which pertains to the Merger/Consolidation acquiring company shares and business entities can lead to monopolistic practices and unfair business competition. It is crucial to assess such activities to ensure they align with regulations that promote fair market competition and prevent monopoly. A merger is a legal consolidation where one or more business entities join with another, transferring all assets and liabilities to the surviving entity by law and consequently dissolving the legal existence of the merging entity.

Market concentration within an industry is frequently gauged by the concentration ratio, which can be represented by the total assets of a company. The behavior of markets, particularly when they form oligopolies, is frequently hypothesized to involve collusion, suggesting that a company's performance may improve if there is collusion within the banking industry. This concept posits that higher bank market concentration tends to foster collusion, leading to monopolistic benefits (Goldberg & Rai, 1996). When several companies in an industry concentrate the market, it can reduce competition, potentially increasing profits through oligopoly or collusion (Pillof & Rhoades, 2002).

RESEARCH METHOD

Research Types: This study is categorized as qualitative, typically encompassing various assumptions. It starts with a perspective, applies a theoretical framework, and conducts a thorough exploration of the meanings that individuals or groups attribute to social issues. Research Approach: A literature review systematically examines research on a specific topic. It educates the reader about the known and unknown aspects of the field and seeks justifications from existing research or proposes new research avenues. Literature Sources: Information can be gathered from credible theoretical perspective, journals, direct quotations on mergers, and contextual books. Methods is process involves a series of steps such as data collection from libraries, reading and note-taking, and the arrangement of written materials (Creswell, 2007).

The concentration ratio of companies is used in this study to evaluate the state of the Sharia banking sector in Indonesia, focusing on a sample of Sharia commercial banks and excluding Sharia business units. The CRN value provides insight into the dominance of the largest N companies in the industry. The formula for calculating the company concentration ratio is as follows:

$$CR_N = S_1+S_2+S_3+S_4+..+S_N..$$

explanation:

CR_N :	Overview of the role of the **N** largest companies in the industry.
S_i :	Tottal assets of Shariah banking

Concentration largest firms (CR4) is significant for assessing industry performance because this ratio is commonly used in measurements. It reflects the market share distribution among all companies within the industry, including both the largest firms and those beyond the top tier. Therefore, the measurement of industry concentration through CR4 is considered more objective (Gwin, 2000).

RESULTS AND DISCUSSION

Literature indicates that the merger of Syariah banks creates a positively fortification and growth banks in Indonesia. This merger has endowed Islamic banking with a new identity characterized by soundness, efficiency, integrity, empowerment, competitiveness, and societal benefit (Community Welfare). The positive outcomes reinforce the Islamic bank merger in terms of business logic, customer engagement, and social contribution. Mergers in Sharia banking bolster the industry's structure and resilience, thereby aiding the national economy and benefiting society.

The corporate maneuver of merging Shariah banks in Indonesia, which took place on February 1, 2021, involved the amalgamation Bank Syariah Mandiri, BRI Syariah and Bank Negara Indonesia Syariah, to become Bank Syariah Indonesia. The merger has strengthened the infrastructure, hastened characteristic developments, and enhanced the economic contributions of Shariah banking. The performance of Bank-Syariah-Indonesia has demonstrated positive outcomes following its merger. In the first-year post-merger, it reported a clean profit of IDR 3.03 trillion, marking a 38.42% annual increase. In 2022, the bank continued its positive trajectory with a profit of IDR 4.26 trillion. The merger has notably bolstered Bank-Syariah-Indonesia's competitive. Merger Sharia significantly influenced the market concentration in Indonesia's banking industry. Prior into Bank-Syariah-Indonesia, the-total assets as June 2020 were IDR 114.40 trillion for Bank-Syariah-Mandiri, IDR 50.76 trillion for BNI-Syariah, and IDR 31.08 trillion for BRI-Syariah.

Research aligning with Linda-Kusumawati Wardana's 2022 study indicates that Sharia banking mergers positively impact, contrasting with Agus-Prihartono PS's 2018 and Ulfa A.'s 2021 studies, which suggested negative effects. The N-firm concentration ratio is a significant indicator in Indonesia's Sharia banking sector, representing the market share of the largest firms and their impact on the industry's overall performance. Performance is gauged through sales, assets, or market power metrics. In this context, the study employs total asset size to evaluate the Islamic banking sector in Indonesia. To calculate the concentration ratio for N firms, one sums the market shares of these firms. The classification criteria are detailed in Table 4.1. Classification of CR4:

Cr4 value (%)	The-Category	Interpretation-related-market-structure
CR4=0	Minimum.	Competition-perfect.
0<CR4<40	Low.	Competition-effective-or-monopolistic-competition.
40≤CR4<60	Intermediate-to-lower.	Monopolistic-competition-or-loose-oligopoly.
60≤CR4< 90	Intermediate-to-the top.	Oligopoly-strict-or-Dominant-company-with competitive-fringe.
CR4≥90	Tall.	Dominant-company-with-competitive-fringe or monopoly-effective (near-monopoly).
CR4=1	Maximum.	Perfect monopoly.

Source: Gwin (2000)

The N value represents the-largest company in-the-industry. The-concentration-ratio, which varies between zero and one, can be expressed as a percentage. A value near zero suggests a market share where the largest companies are growing, and the smaller ones are diminishing. Concentration ratio nearing one indicates that the largest companies are increasing their market share significantly. The-concentration-ratio-of-the-four bigest companies in industry (CR4) commonly used measure of market concentration. The general performance of CR4 is linked to market structure characteristics. An industry with a minimum concentration ratio (zero) is categorized as having a competitive market structure. Industry with a maximum concentration ratio (one) is classified as having a competitive market structure without a perfect monopoly (Gwin, 2001). The results of the Islamic banking structure calculation can be observed in Table 4.2 below.

Table 4.2 Total-Assets-of-Islamic-Banking-in-Indonesia

No	Bank name	Total assets as of December 2023	
		(Billion Rp.)	%
1	PT Bank Syariah Indonesia, Tbk . (BSI)	353.62	58.84447699
2	PT Bank Muamalat Indonesia, Tbk .	66.19	11.01441076
3	PT Bank Aceh Syariah	30.47	5.070389723
4	Riau Islands Syariah Bank	28.23	4.697640363
5	National Sharia Pension Savings Bank	21.43	3.566079808
6	PT Bank Panin Dubai Syariah, Tbk .	17.34	2.885479416
7	PT BPD West Nusa Tenggara Syariah	15.74	2.619229873
8	PT Bank Mega Syariah	14.57	2.424534895
9	PT BCA Syariah	14.5	2.412886478
10	PT Bank Jabar Banten Syariah	13.65	2.271441408
11	Sharia Nano Bank	8.54	1.421106932
12	PT Bank Syariah Bukopin	7.77	1.29297434
13	PT Bank Aladin Syariah	7.03	1.169833927
14	PT Bank Victoria Syariah	1.86	0.309515093
Total		**600.94**	**100**

The calculation structure of Islamic banking in Indonesia by the following:

$$Cr4\ (2023) = S1+S2+S3+S4 = 58.84\%+11.01\%+5.07\%+4.69\% = 79.62\%$$

The statistic of 79.62% reflects the dominance of the four leading Sharia banks in Indonesia's Islamic banking sector: Bank-Syariah-Indonesia, Bank Muamalat Indonesia, Bank Aceh Syariah, and Bank Kepri Syariah. The total assets calculation reveals that there is fierce competition among companies in an oligopolistic market setting. Studies indicate that in Indonesia's Sharia industrial market, only a few companies hold a dominant position, impacting product prices and quality, along with presenting significant entry barriers due to high costs and complex technology.

Market concentration in Sharia banking influences corporate strategies across the industry, often marked by the presence of a dominant firm alongside a competitive periphery. This structure describes a scenario where a large, dominant company holds a substantial market share and can sway market prices and output, while smaller companies (the competitive fringe) operate in proximity to the dominant entity. Bank-Syariah-Indonesia, as a dominant company, possesses economies of scale, advanced technology, or superior resource access, which prevents smaller companies from exerting any significant influence on market prices. Entry barriers are notable in this market, often high, posing challenges for new entrants to compete with established dominance.

CONCLUSION

The impact of mergers is positive for the asset development of Sharia banks that engage in such activities, and positively affects the overall performance of Sharia banks. Additionally, there has been a shift in the market concentration of Sharia banking in Indonesia. Sharia banks that have successfully merged are poised to bolster transaction growth and enhance financing. Mergers have bolstered capital robustness and operational efficacy in Sharia banking. The Indonesian Sharia banking sector is currently dominated by the CR4, with total asset analysis revealing a highly competitive oligopoly market characterized by intense competition among firms.

SUGGESTIONS AND LIMITATIONS

This study suggests that Sharia Banking should pursue mergers to expand and fortify core business. Enhancing capacity and capabilities can solidify its structure and resilience, hasten growth, and enrich its features, thereby boosting the contribution of Sharia banking to the Indonesian economy.

This research only examines the impact of Islamic banking mergers in Indonesia and offers a snapshot of the competitive landscape and market concentration in the Islamic banking industry. Future research, enriched with factors such as management changes, information-technology infrastructure, and internal regulations, could provide a more comprehensive understanding of merger opportunities in Indonesian Islamic banking. Such in-depth studies could offer a broader perspective on mergers, employing varied approaches and methodologies.

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