

## State-Owned Islamic Banks Merger Impact on Capital Quality and Market Share of National Islamic Banking

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### Abstract

This study aims to analyze the impact of the merger of three state-owned Islamic banks on the capital quality and market share of national Islamic banking and identify the factors influencing them. The research employs a quantitative approach using monthly time series data from 2018 to 2023. Data analysis was conducted using a paired sample t-test, Wilcoxon Sign-Test and Vector Error Correction Model (VECM). The results show significant difference in the market share of national Islamic banking before and after the merger, though there was no significant difference in the average of CAR. VECM analysis reveals that NPF, ROE, BOPO, and FDR influence CAR and market share of Islamic banking in the long term, while FDR has a significant effect on CAR in the short term. The merger significantly affects CAR but not the market share of Islamic banking, whereas controlling shareholders (PSP) decisions significantly impact market share of Islamic banking.

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### 1. Introduction

Islamic banking industry in Indonesia has great potential and prospects for development, especially considering that Indonesia has the largest Muslim population in the world (Ali et al., 2019; Tho'in, 2019; Haryanto, 2020; Hasan & Putri, 2021; Junaidi et al., 2023). The resilience of this industry was clearly evident during the COVID-19 pandemic, when Islamic banking performed better than conventional banking. Research by Sayekti et al. (2020) shows that during this challenging time, Islamic banking maintained its performance, emphasizing the stronger resilience of Islamic banking in facing economic shock.

The Financial Services Authority (OJK) data shows encouraging growth in this sector. In December 2020, Islamic banking financing grew by 13.11% (year-on-year), far exceeding the contraction of conventional banking credit, which was -2.41%. Third-party funds (DPK) of Islamic

banking also experienced a higher increase, with a growth of 11.88% compared to 11.11% in conventional banking (Financial Services Authority, 2020). From a capital perspective, the Capital Adequacy Ratio (CAR) of Islamic banking was maintained at 20.41 percent, well above the threshold set by OJK (Financial Services Authority, 2020). However, the market share of Islamic banking in Indonesia remains relatively low, at only 6.51% in 2020 (Financial Services Authority, 2020). This indicates that the penetration of Islamic banking is still lagging behind conventional banking, despite its significant market potential. In this context, the Minister of State-Owned Enterprises announced on 12 October 2020 the plan to merge state-owned Islamic banks to enhance growth in this sector through capital strengthening and increased market penetration (Puspasingtyas, 2020). The merger process began with signing a Conditional Merger Agreement (CMA) by three state-owned Islamic banks: BRI Syariah,

BNI Syariah, and Bank Syariah Mandiri. The official approval from OJK on 27 January 2021 allowed this merger to establish PT Bank Syariah Indonesia, which began operating on 1 February 2021.

After the merger, the total assets of the three state-owned Islamic banks will reach IDR 239.12 trillion, placing the merged bank in the 7th position in Indonesian banking. The relationship between the amount of assets and market share is very close, because market share can be measured by total assets (Fathia & Rahmat, 2021; Amri & Desil, 2020). A higher assets is expected to enhance market concentration, efficiency, and market power in the Islamic banking industry, (Fathia & Rahmat, 2021, Sukendri & Putra, 2022). According to Belangkæhe & Engka (2014) the market power can be measured by market share.

Analyzing performance before and after the merger is crucial to measure the success of this merger. The performance of a bank is closely related to financial performance (Dendawijaya, 2009; Ekinci & Poyraz, 2019; Bætae et al., 2021; Guti rrez-Ponce & Wibowo, 2023; Mushafiq et al., 2023). The RGEC method, which includes risk, good corporate governance, earnings, and capital, can be used to measure the bank's financial performance. Based on the RGEC method, there are several financial ratios that will be used, including the Capital Adequacy Ratio (CAR) to measure the quality of capital, Non-Performing Financing (NPF) to measure the risk of credits, Return on Equity (ROE) and Operating Expenses and Operating Income (BOPO) which can measure the company's financial performance from the earnings side. And finally the Financing to Deposit Ratio (FDR) to measure the risk of liquidity (Abusharba et al., 2013; Polat & Kalaf, 2014; Aktas et al., 2015; Chiamonte et al. 2015; Apriliani & Chandra, 2018; Rahadian & Permana 2021; Yadav & Jang, 2021; Rismala et al., 2021; Uisugi & Uchino, 2021; Naoaj, 2023). The CAR (Capital Adequacy Ratio) serves as a key indicator in evaluating the health of the bank, where a higher CAR indicates the bank's ability to bear risks (Vania et al. 2014; Nazaf, 2014; Widya & Nugrahani, 2018; Apriliani & Chandra, 2018; Haryanto et al., 2019; Rismala et al., 2021).

Based on the study of Mondal et al. (2017); Yadav and Jang (2021) after the merger the CAR grew significantly. However, a different thing was found by Ganguli and Bushra (2017) who stated that the merger did not have a significant impact on strengthening capital. However, the pre-

vious researchs just measure the difference of CAR with different test that cannot measure the extent of the merger's impact on market share development, as it may be influenced by other factors such as financial ratios. Therefore, this research will explore the factors affecting CAR and to measure the impact of the merger.

Based on the empirical phenomena that have occurred, the strengthening of state-owned Islamic bank capital which is expected to improve after the merger also appears not to have been fully realized. This is based on the condition that up to now, based on the Banking Industry Profile Report published by the Financial Services Authority (2023), the CAR value of three state-owned Islamic banks is still below the CAR of national banks. In fact, it is still below the national Islamic banking CAR average. The average CAR of national banks was 22.97% in 2018 and will continue to increase to 27.755 in 2023. Meanwhile, when compared with the CAR of Islamic banking itself, the CAR three state-owned Islamic banks have lower development. In 2018 the average CAR of Islamic banking was at 20.39 percent which will continue to increase to 25.41 percent in 2023. Meanwhile, the average CAR of three state-owned Islamic banks actually decreased from 21.76% in 2018, decreasing to 21.04% in 2023.

The national Islamic banking market share in Indonesia is still far from the target set by Bank Indonesia, namely 20 percent in 2023. Even the 10 percent target set by the Financial Services Authority (OJK) in the Islamic Banking Roadmap of 10 percent has not been achieved, because until the market in December 2023 National Islamic banking market shares are still at 7.38 percent. Therefore, the government's steps in merging three state-owned Islamic banks need to be evaluated.

Based on this background, this research aims to analyze the impact of the merger of state-owned Islamic banks on the quality of capital and the national market share of Islamic banking. With a better understanding of the impact of this merger, it is hoped to provide valuable insights for policymakers, banking practitioners, and academics regarding the effectiveness of merger strategies in improving the performance and competitiveness of Islamic banking in Indonesia.

## 2. Hypothesis Development

According to the findings of Sujatmika & Suryaningrum (2014); Mondal et al. (2017); Yusgiantoro et al. (2020); Yadav & Jang (2021) show that

the merger process will encourage an increase in banking capital quality as measured by the Capital Adequacy Ratio (CAR). The increase in capital quality occurred because by carrying out the merger, it would increase efficiency from reducing costs which then led to an increase in profits. This increase in profits will then encourage an increase in retained earnings which ultimately increases capital (Vakilifard et al. 2014, Yasa et al., 2021). The increase in capital will cause an increase in CAR because CAR is the ratio between capital and Risk-Weighted Assets (RWA). With an increasing CAR, it is expected to encourage an increase in the market share of Islamic banking, especially since the three state-owned Islamic banks dominate a significant portion of the market share (Syarvina & Sugianto, 2023 and Aminah et al., 2019). This happens because increased capital due to business efficiency not only encourages an increase in CAR, but also encourages an increase in total assets, where capital is a component of assets.

H<sub>1</sub>: There is a significant difference between the average CAR of three state-owned Islamic banks and the average banking market share before and after the merger.

This research aims to analyze the impact of mergers on the capital quality and market share of national Islamic banking. Therefore, in this study, the output variable used is the Capital Adequacy Ratio (CAR) as an indicator of capital quality (Yadav & Jang 2021). The second output variable is the market share of national Islamic banking. Strengthening capital is closely related to the decisions of controlling shareholders, so the decisions of controlling shareholders are one of the input variables used in this study (Lacave & Urtiga, 2021).

In this study, the input variables use financial ratios based on the RGEC framework, namely Non-Performing Financing (NPF), Return on Equity (ROE), Operating Expense to Operating Income (BOPO), and Financing to Deposit Ratio (FDR). NPF is chosen because it is directly related to CAR, the higher the NPF, the more capital is used to cover losses, which decreases profits and CAR (Abusharba et al. 2013). Conversely, a decrease in NPF increases profits and ROE, thereby encouraging an increase in CAR through retained earnings (Vakilifard et al. 2014). Based on the research by Fathia & Rahmat (2021) the merger process of three state-owned Islamic banks also contributes to the input variables, as it can reduce market competition and enhance efficiency. Increased efficiency has the potential to lower BOPO

and open up financing expansion opportunities, as reflected in the increase of FDR. Based on the research by Naoaj (2023), Rahadian & Permana (2021), and Aktas et al. (2015) This increase in FDR has the potential to boost profits and, ultimately, CAR. With an increasing CAR, it is expected to encourage an increase in the market share of Islamic banking, especially since the three state-owned Islamic banks dominate a significant portion of the market share (Aminah et al., 2019 and Syarvina & Sugianto, 2023).

H<sub>2</sub>: Financial ratios based on the RGEC method (NPF, ROE, BOPO, and FDR), Controlling Shareholder and the merger process have a significant influence on the CAR of three state-owned Islamic banks and the national Islamic banking market share.

### 3. Data and Methods

The type of data used in this research is secondary data. The secondary data utilized in this study consists of time series data from 2018 to 2023. The data used in this research is monthly data. Monthly data is selected to meet the minimum historical data requirement available for time series data analysis, as stated by Soejoeti (1987) and Basuki (2016), which states that time series data analysis requires a minimum of 50 data points. Selecting monthly data will provide a unit of observation that meets the minimum data requirement for analysis. The secondary data in this research consists of financial ratios and controlling shareholder's decision regarding capital injection sourced from the financial statements published by each state-owned Islamic bank and also The Financial Services Authority. The financial ratio variables used include CAR, NPF, ROE, BOPO, and FDR. In addition, this study uses data on the market share of national Islamic banking sourced from reports by the Financial Services Authority. After obtaining data, the first focus of this research is to test whether there are significant differences in bank capital quality measured by CAR and market share before and after the merger. The difference test uses the paired sample t-test and Wilcoxon Sign-Test tests method. Subsequently, as an advanced analysis, the Vector Error Correction Model (VECM) method is used to analyze the determinants affecting capital quality and the market share of national Islamic banking, as well as to test the effectiveness of the merger on both. Mathematically, the implementation of the model in this study are as follows:

Capital Adequacy Ratio Model :

$$\begin{pmatrix} \Delta CAR_t \\ \Delta NPF_t \\ \Delta ROE_t \\ \Delta BOPO_t \\ \Delta FDR_t \end{pmatrix} = \begin{bmatrix} \alpha_{10} \\ \alpha_{20} \\ \alpha_{30} \\ \alpha_{40} \\ \alpha_{50} \end{bmatrix} + \begin{bmatrix} \alpha_{11} & \dots & \alpha_{15} \\ \vdots & \ddots & \vdots \\ \alpha_{51} & \dots & \alpha_{55} \end{bmatrix} \begin{pmatrix} \Delta CAR_{t-1} \\ \Delta NPF_{t-1} \\ \Delta ROE_{t-1} \\ \Delta BOPO_{t-1} \\ \Delta FDR_{t-1} \end{pmatrix} + \begin{bmatrix} \theta_{1t} \\ \theta_{2t} \\ \theta_{3t} \\ \theta_{4t} \\ \theta_{5t} \end{bmatrix} + MERG + PSP$$

National Islamic Banking Market Share Model :

$$\begin{pmatrix} \Delta MSPS_t \\ \Delta CAR_t \\ \Delta NPF_t \\ \Delta ROE_t \\ \Delta BOPO_t \\ \Delta FDR_t \end{pmatrix} = \begin{bmatrix} \alpha_{10} \\ \alpha_{20} \\ \alpha_{30} \\ \alpha_{40} \\ \alpha_{50} \end{bmatrix} + \begin{bmatrix} \alpha_{11} & \dots & \alpha_{16} \\ \vdots & \ddots & \vdots \\ \alpha_{61} & \dots & \alpha_{66} \end{bmatrix} \begin{pmatrix} \Delta MSPS_{t-1} \\ \Delta CAR_{t-1} \\ \Delta NPF_{t-1} \\ \Delta ROE_{t-1} \\ \Delta BOPO_{t-1} \\ \Delta FDR_{t-1} \end{pmatrix} + \begin{bmatrix} \theta_{1t} \\ \theta_{2t} \\ \theta_{3t} \\ \theta_{4t} \\ \theta_{5t} \\ \theta_{6t} \end{bmatrix} + MERG + PSP$$

Where: CAR= Capital Adequacy Ratio of three state-owned islamic banks; NPF= Non Performing Financing of three state- owned islamic banks; ROE= Return on Equity of three state-owned islamic banks; BOPO= Operating Expense to Operating Income of three state-owned islamic banks; FDR= Financing to Deposit Ratio of three state-owned islamic banks; MERG= Merger of Three State-Owned islamic Banks (Dummy); PSP=Controlling shareholders Decisions (Dummy)

4. Result

Difference Test Results

The difference test is conducted to determine whether there is a difference between two groups before and after the treatment. In this case, the tested groups are the quality of capital measured by the Capital Adequacy Ratio (CAR) and the market share of national Islamic banking. Meanwhile, the treatment referred to in this study is the merger event of three state-owned Islamic banks. According to the normality test presented in the previous subsection, two tests were conducted: the Paired Sample t-test and the Wilcoxon Sign-Test. The results of the difference tests conducted in this research can be seen in Table 1.

Table 1. Difference Test Results

Variables	Mean	t/z Value	Prob.
AR			
BSM-BSI	Before	16.42	6.671 0.000
	Before	20.36	
BRIS-BSI	Before	25.34	7.323 0.000
	after	20.36	
BNIS-BSI	Before	19.46	-2.419 0.018
	Before	20.36	
BSBUMN-BSI	Before	20.41	0.142 0.887
	after	20.36	
Market Share			
	Before	6.06	-12.627 0.000
	after	6.91	

The average CAR before the merger is 16.42% (BSM), 25.34% (BRIS), and 19.46% (BNIS), with a cumulative average of 20.41%. After the merger, the CAR of Bank Syariah Indonesia (BSI)

becomes 20.35%. Before the merger, the average market share was 6.03%, increasing to 6.91% after the merger. The Paired Sample t-Test and Wilcoxon Sign-Test on the Capital Adequacy Ratio (CAR) and national Islamic banking market share before and after the merger of three state-owned Islamic banks show varied results. Partially, the CAR of BSM, BRIS, and BNIS significantly differs from the CAR of BSI after the merger (probability < 0.05). However, the average CAR of the three banks before the merger does not significantly differ from the CAR of BSI after the merger (probability 0.88). There is also a significant difference in the market share of national Islamic banking before and after the merger (probability < 0.05).

Table 2. Results of the Stationarity Test

Variabel	Level		First Differencing	
	t-ADF	Mac Kinnon Critical Values	t-ADF	Mac Kinnon Critical Values
CAR	-3.380*	-2.906	-2.984*	-2.906
NPF	-0.600	-2.904	-3.571*	-2.904
ROE	-1.195	-2.906	-3.471*	-2.906
BOPO	-0.337	-2.906	-5.075*	-2.908
FDR	-3.237*	-2.904	-5.597*	-2.908
M_share	-0.407	-2.904	-3.556*	-2.904
MERG	-0.985	-2.904	-8.246*	-2.904
PSP	-8.566*	-2.904	-9.798*	-2.905

Note: The asterisk (\*) indicates that the variable is stationary at the 5 percent significance level

Results of Pre-Estimation Test

Stationarity Test Results

Stationary data is a fundamental assumption in time series data analysis to ensure that the resulting regression equations are not biased. In this study, the stationarity test is based on the ADF or Augmented Dickey-Fuller test. If the absolute value of the ADF t-statistics is greater than the absolute value of the MacKinnon Critical Values, then the data can be considered stationary. Based on the results of the stationarity test presented in table 2, at the level, only the variables Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), and the decisions of the Controlling Shareholders (PSP) are stationary. In contrast, other variables are not stationary at the level. Then, at the first differentiation level, all variables are stationary. Since all variables are stationary at the first differentiation level, the analysis can proceed to the next stage.

### Optimal Lag Test Results

The optimum lag test measures the duration of a variable's reaction to another variable. In addition, the optimum lag test also addresses the issue of autocorrelation. The lag test is conducted by examining the values of Likelihood Ratio (LR), Final Prediction Error (FPE), Akaike Information Criterion (AIC), Schwarz Criterion (SC), and Hannan-Quinn Criterion (HQ). If the test criteria refer to one of the lags, then that lag is selected for the subsequent analysis stage. The results of the op-

timum lag test in this study can be seen in table 3. The asterisk (\*) in table 3 indicates the lag candidates for each test criterion. In this study, the lag candidate is chosen based on the test criterion with the most asterisks, namely the lag candidate based on the Likelihood Ratio (LR), Final Prediction Error (FPE), and Akaike Information Criterion (AIC). Thus, the optimum lag selected for both models, namely the Capital Adequacy Ratio (CAR) model and the National Islamic Banking Market Share (M\_Share) model, both use an optimum lag of 4.

Table 3. Results of the Optimal Lag Test

Capital Adequacy Ratio Model (CAR)						
Lag	LogL	LR	FPE	AIC	SC	HQ
0	-484.12	NA	2.549	15.124	15.622	15.321
1	-101.275	672.879	5.01E-05	4.281	5.608	4.805
2	-5.893	153.189	6.05E-06	2.148	4.304*	3.000*
3	5.743	16.926	9.49E-06	2.553	5.539	3.733
4	50.407	58.198*	5.67e-06*	1.957*	5.772	3.464
National Islamic Banking Market Share Model (M_Share)						
Lag	LogL	LR	FPE	AIC	SC	HQ
0	-408.119	NA	0.016	12.912	13.509	13.148
1	100.687	878.848	9.89E-09	-1.414	0.376	-0.706
2	221.941	187.391	7.76E-10	-3.998	-1.012*	-2.818*
3	237.880	21.735	1.56E-09	-3.390	0.789	-1.738
4	319.151	96.046*	4.67e-10*	-4.762*	0.612	-2.638

Note: An asterisk (\*) indicates the selected lag candidate according to the test criteria

Table 5. Cointegration Test Results

Capital Adequacy Ratio Model				
Trace Test				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.461	78.610	69.818	0.008
At most 1	0.229	38.321	47.856	0.288
At most 2	0.189	21.367	29.797	0.335
At most 3	0.100	7.710	15.494	0.496
At most 4	0.012	0.824	3.841	0.364
National Islamic Banking Market Share Model				
Trace Test				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.674	177.101	103.847	0.000
At most 1 *	0.514	104.094	76.972	0.000
At most 2 *	0.401	57.079	54.079	0.026
At most 3	0.220	23.702	35.192	0.482
At most 4	0.086	7.484	20.261	0.864
At most 5	0.024	1.588	9.164	0.857

Note: An asterisk (\*) indicates the rank of cointegration.

### Cointegration Test Results

Cointegration indicates the presence of an error correction model (ECM) for long-term relationships. The cointegration test using the Johansen Cointegration Test is conducted by comparing the trace statistic value and the cri-

tical value (5%). The asterisk (\*) in Table 4 indicates the rank of cointegration. The results of the test in table 4 show that the Capital Adequacy Ratio (CAR) model and the Market Share of National Islamic Banking (M\_Share) have a cointegration relationship. The CAR model has at least one coin-

tegration rank, while M\_Share has at least three cointegration ranks. Therefore, the analysis can proceed with the Vector Error Correction Model (VECM).

### Estimation Results of the Vector Error Correction Model (VECM)

After the cointegration test, the Vector Error Correction Model (VECM) estimation is performed at a five percent significance level. A variable is considered significant if the t-statistic

> 1.99 and the ECT is negative and significant. According to Table 6 the estimation results indicate that the CAR and M\_Share models are valid, with ECT values of -0.197 and -0.151, respectively. The significant variables affecting CAR and M\_Share in the long term are NPF, ROE, BOPO, and FDR. In the short term, FDR is significant to CAR. The merger significantly affects CAR but not M\_Share. The decision of the PSP significantly affects M\_Share. See table 6 for details.

Table 6. Significant Factors Affecting CAR and M\_Share Based on VECM Estimation Results

Model Capital Adequacy Ratio		
Variable	Long-Term Effects	
	Coefficients	t-Statistic
NPF	-1.199534	[ 4.40073]
ROE	-0.146360	[ 2.72544]
BOPO	0.138385	[-2.88265]
FDR	0.057943	[-3.86814]
Short-Term Effects		
Variabel	Coefficient	t-Statistic
CointEq1	-0.197434	[-3.18256]
D(FDR(-4))	-0.200748	[-2.73725]
MERG	1.197813	[ 2.97628]
National Islamic Banking Market Share Model		
Variable	Long-Term Effects	
	Coefficient	t-Statistic
NPF	-0.029153	[ 5.29342]
ROE	-0.006473	[ 4.14917]
BOPO	-0.013783	[ 13.5068]
FDR	-0.001045	[ 2.42550]
Short-Term Effects		
Variable	Coefficient	t-Statistic
CointEq1	-0.151808	[-2.28443]
PSP	0.021797	[ 2.04178]

## 5. Discussion

### Difference Between The Average of Three State-Owned Islamic Banks CAR and Market Share Of National Islamic Banking Before and After The Merger.

The difference test indicates that the CAR of BSM and BNIS experienced positive and significant changes. This shows that BSM and BNIS CAR experienced a significant increase. The increase in CAR can be caused by additional capital. The increase in capital will be able to encourage an increase in CAR. The findings of this study are consistent with consistent with previous research by Monal et al. (2017); and Yadav & Jang (2021). However, the CAR of BRIS experienced a negative and significant change after the merger, contrary to earlier findings. The objective of the merger of the three state-owned Islamic banks is to

strengthen capital (Puspaningtyas, 2020). A comparison of the cumulative Capital Adequacy Ratio (CAR) before the merger (CAR BSBUMN) with that after the merger (CAR BSI) shows no average difference, in line with the study by Ganguli & Bushra (2017). Although the difference test indicates no difference, it does not measure the impact of the merger on CAR. Therefore, further analysis is needed using the Vector Error Correction Model (VECM) to assess the influence of the merger. Based on the paired sample t-test, the development of the market share of national Islamic banking before and after the merger shows a significant average difference. Before the merger, the average market share was lower than the average of market share after the merger, indicating a significant positive difference. However, this difference cannot measure the extent of the merger's impact on market share development, as

it may be influenced by other factors such as financial ratios.

**The Influence of Financial ratios based on the RGEC method (NPF, ROE, BOPO, and FDR), Controlling Shareholder and the merger process on the CAR.**

Based on the estimation of the Vector Error Correction Model (VECM), Non-Performing Financing (NPF) has a negative and significant effect on the Capital Adequacy Ratio (CAR). An increase in NPF decreases CAR, consistent with the research by Abusharba et al. (2013), but contradicts to Polat & Kalaf (2014); Rahadian & Permana (2021); Naoaj (2023). High NPF reduces bank capital, thereby negatively impacting CAR. Additionally, Return on Equity (ROE) also has a negative and significant effect on CAR. This finding differs from the research by Rahadian & Permana (2021) but aligns with Kurniawan et al. (2017) and Jaya (2017). In banking, capital is used to absorb losses, so higher capital growth compared to net income can lower ROE. The negative direction of the ROE coefficient can occur because within the research time span, there were periods where there was a decline in ROE. In the period before the merger, the ROE value of PT Bank BRI Syariah (BRIS) experienced a decline, especially in the period between 2018 and 2019. During this period there was also policy in the form of initiating a public offering (IPO) which succeeded in raising fresh funds amounting to 1.3 trillion rupiah., which is of course very closely related to ROE because ROE is the total net profit against the entity's equity (capital), according to Dendawijaya (2009) and Hantono (2015). So when there is equity (capital) growth that is higher than profit growth, this will encourage a decrease in ROE. This is in line with the empirical phenomenon that occurred, namely that there was a decline in ROE of 92 basis points from 2.49% in December 2018 to 1.57% in December 2019 when there was capital growth of 1.3 trillion Rupiah sourced from IPO acquisition funds in 2018 which was much greater than the acquisition. Net profit in 2019 amounted to 74 billion Rupiah. After the merger, although PT Bank BRI Syariah raised significant funds amount through a rights issue. After the rights issue policy was implemented, there was a slowdown in PT Bank Syariah Indonesia (BSI) ROE growth from initially growing by 313 from 13.71 in December 2021 to 16.84 percent in December 2022 to 4 basis points from 16.84% in December 2022 to 16.88% in December 2023. This

slowdown is due to the 2023 profit of 5.76 trillion Rupiah not being much different from the rights issue proceeds of 4.9 trillion.

The results of the Vector Error Correction Model (VECM) estimation show that the Operational Expense to Operational Income ratio (BOPO) has a significant effect on capital quality measured by the Capital Adequacy Ratio (CAR), assuming other variables remain constant. This finding is consistent with the research by Imsar et al. (2022), Chatarine (2014), and Fatimah (2014). However, it contradicts the findings of Septiano & Pratama (2023), who found a significant negative relationship between BOPO and CAR, as well as Naoaj (2023), who did not find a significant effect. BOPO, the ratio of operational expenses to banking operational income, serves as a mediating variable for the distribution of bank financing. The higher the financing provided, the higher the operational costs incurred, which can increase bank profits through customer rewards. This increase in profit will encourage increased capital through retained earnings, ultimately enhancing CAR.

The results of the Vector Error Correction Model (VECM) estimation show that the Financing to Deposit Ratio (FDR) has a significant effect on the Capital Adequacy Ratio (CAR) both in the short term and long term. In the short term, FDR has a negative and significant effect on CAR, assuming other variables remain constant. This negative effect contradicts the findings of several previous studies by Aktas et al. (2015); Rahadian & Permana (2021); and Naoaj (2023) but can be explained. The significant negative coefficient between FDR and CAR indicates that an increase in FDR reflects higher financing disbursed by banks. The higher the financing disbursed, the larger the Risk-Weighted Assets (RWA), which is the denominator in the CAR calculation. If the increase in RWA is not matched by balanced capital growth, CAR will decrease (Sudarmawanti & Pramono, 2015). This negative relationship indicates that RWA grows faster than capital growth, as financing disbursement is generally based on long-term contracts. Conversely, in the long term, there is a positive and significant relationship between FDR and CAR, indicating that capital growth from financing disbursement profits will occur over time.

The estimation of the Vector Error Correction Model (VECM) for the merger dummy variable shows a positive and significant coefficient, assuming other variables do not change (*ceteris paribus*). This finding is consistent with the re-

sults of studies by Yadav and Jang (2021) and Mondal et al. (2017), but contradicts the findings of Ganguli and Bushra (2017). The merger has a positive and significant impact on the Capital Adequacy Ratio (CAR) because the merger reduces competition among state-owned Islamic banks (BUS), thereby increasing the availability of low-cost funds. According to the National Islamic Financial Committee (2019), this availability of low-cost funds encourages banks to provide financing to customers with good quality and performance (prime customers). Prime customers typically have a strong bargaining position in determining the yield or compensation rate between customers and banks. If banks can increase the composition of prime customers, the risk of financing disbursement will decrease. This reduction in risk will lower the Risk-Weighted Assets (RWA), and if RWA decreases, CAR will increase because CAR is the ratio of capital to RWA. The dummy variable for the decision of the controlling shareholders (PSP) analyzed using the Vector Error Correction Model (VECM) shows a positive coefficient, but there is no significant evidence of an improvement in capital quality measured by the Capital Adequacy Ratio (CAR). This occurs because the funds from the initial public offering (IPO) of PT Bank BRI Syariah and the funds from the rights issue of PT Bank Syariah Indonesia are largely used for financing expansion. This expansion can increase the Financing to Deposit Ratio (FDR), which significantly affects CAR. Thus, PSP does not directly affect CAR, but rather through other variables related to the amount of financing disbursed, namely FDR.

#### **The Influence of Financial ratios based on the RGEC method (NPF, ROE, BOPO, and FDR), Controlling Shareholder and the merger process on The Market Share of National Islamic Banking**

The results of the Vector Error Correction Model (VECM) estimation show that Non-Performing Financing (NPF) from three state-owned Islamic banks (BSI) has a negative and significant effect on the national Islamic banking market share. These findings are in line with research by Aminah et al. (2019) and Syarvina & Sugianto (2023) but contradict to Septiyanti & Alam (2023). An increase in NPF reduces market share because capital is used to cover the risk of losses. This decreased capital will certainly reduce the assets owned by a bank because capital is a component of assets. If the asset value decreases, then market

share will also decrease because market share is measured using total assets.

Based on the VECM result Return on Equity (ROE) also negatively affects market share. The decline in ROE occurred before the merger, and after the merger, the growth of ROE for PT Bank Syariah Indonesia (BSI) slowed. As previously explained, the slowdown in ROE occurred because in the period before the merger there was capital growth due to the IPO which was much higher than net profit, then in the period after the merger, the slowdown in ROE was caused because the proceeds from the rights issue were not much related to net profit.

The Operational Expense to Operational Income ratio (BOPO) has a positive significant effect. The lower the BOPO, the more efficient the operational costs and the higher the market share. Based on the efficiency theory put forward by Fathia and Rahmat (2021), efficiency is closely related to market share, whereas efficiency increases, market share will increase. Based on the same theory, if a bank becomes more efficient in its operations then this will encourage an increase in customer deposits which ultimately increases third party funds (DPK) which is the main source for banks in distributing financing, because customers will of course save their money in banks that have good operational performance. Efficiency will also encourage the availability of cheap funds because banks can charge lower rates of return on financing services due to increased efficiency. This lower level of return on financing services will encourage an increase in customers with good quality and performance or what are usually called prime customers (Primary Customers) who generally require financing sources with large funds at low costs. An increase in customer deposits accompanied by an increase in prime customers using financing services will certainly increase the bank's total assets which will ultimately increase market share (National Islamic Finance Committee, 2019).

The Financing to Deposit Ratio (FDR) has a negative and significant effect on market share. This finding is in contrast to the findings of Fathin & Hadi (2018) who found a significant and positive relationship between FDR and market share. However, these findings are in line with research by Fuadah & Hakimi (2020); Yuliana et al. (2021); and Syarvina & Sugianto (2023), who found similar results, namely a negative and significant effect of FDR on market share. This negative and significant influence of FDR shows that



there is low effectiveness in the distribution of financing by banks because a positive relationship between FDR and market share will only be achieved if the distribution of financing is carried out effectively (Saputra, 2023). According to Midania & Septiano (2023), low effectiveness in the distribution of financing by banks will lead to low customer preferences to become customers of a bank, because customers will certainly switch to banks that have high effectiveness in distributing their financing. FDR also has a close relationship with a bank's liquidity, where a high FDR will cause the bank's liquidity to be lower. The concept of liquidity in banking is a measurement of the bank's ability to fulfill its obligations when they are billed. The bank's obligation to customers is to guarantee the availability of cash funds when depositing customers want to withdraw their deposits, while most of the depositing customers' money is with customers who use financing services. So banking liquidity must always be maintained because it is closely related to customer trust. If customer distrust is high, it will also cause customers to switch to other banks. The transfer of customers to other banks (conventional banks) will certainly reduce the national islamic banking market share.

The next Vector Error Correction Model (VECM) analysis is related to the impact of dummy variables which consist of two variables, namely mergers and controlling shareholder decisions (PSP) which are implemented with corporate actions to increase capital in influencing the national islamic banking market share. Based on the results of the VECM analysis, there was not enough evidence to say that the merger variable had a significant impact on the rate of development of the national islamic banking market share. This can happen because the merger process carried out was a merger of three state-owned islamic banks, so that in essence it did not increase islamic banking assets because without the merger, the assets of the three state-owned islamic banks would have accumulated in national islamic banking assets. Based on a study by the National islamic Finance Committee (2019), the addition of new assets will be significant if a conversion is carried out from a conventional commercial bank to a islamic commercial bank because if it only relies on organic growth from existing islamic banks, this will not be able to accelerate the growth of the national islamic banking market share. The conversion of commercial banks into islamic banks has been proven to accelerate the national islamic

banking market share, such as the conversion of BPD Aceh in 2016 which was able to encourage market share growth out of stagnant growth which could not exceed 5 percent and the conversion of BPD NTB in 2018 which also pushed up the share. national islamic banking market to 5.78%. The National islamic Finance Committee (2019) has proposed candidates for state-owned conventional commercial banks to be converted into state-owned islamic commercial banks, namely Bank Tabungan Negara (BTN) and Bank Negara Indonesia (BNI). If the two state-owned commercial banks are converted into islamic commercial banks, then the assets of the two banks will automatically be converted into islamic banking assets and will be more significant in increasing the share of the national islamic banking market. Seeing these conditions, it is necessary to intervene in order to accelerate the growth of the national islamic banking market share with the main focus being to encourage significant growth in islamic bank assets. Apart from conversion, asset increase interventions can be driven by corporate actions to strengthen capital. Based on the results of the VECM analysis carried out, additional capital as measured using the controlling shareholder decision variable (PSP) in carrying out corporate actions is proven to have a positive and significant impact in influencing the national islamic banking market share, where additional capital will encourage additional assets because capital is a component of asset.

## 6. Conclusion and Suggestion

### Conclusion

Based on the results of the study, it can be concluded that the merger of the three state-owned Islamic banks has varying impacts on the capital quality and market share of national Islamic banking. Partially, there is no significant difference in the average of CAR and there is a significant difference in the average of market share of national Islamic banking. VECM analysis reveals that the merger has a positive and significant impact on CAR, while its effect on market share is not significant. The factors that significantly influence CAR and market share in the long term include Non-Performing Financing (NPF), Return on Equity (ROE), BOPO, and Financing to Deposit Ratio (FDR). FDR also significantly affects CAR in the short term, while decisions by controlling shareholders (PSP) have a significant impact on market share. So that the policymakers, especially the

government, it is recommended to carry out policy intervention in the form of injecting capital into PT Bank Syariah Indonesia as a Islamic bank as a result of the merger because it has been proven to significantly increase the National Islamic Banking Market Share.

### Suggestion

In this study, the financial ratio variables used were still limited and were carried out over a relatively short period that only evaluating three years before and after the merger. In future research, it is recommended that other financial ratio variables be added and improved –research period so that the merger process can be evaluated over a longer period. And as the development of this study, academics are advised to conduct further research regarding the effectiveness of financing distribution carried out by PT Bank Syariah Indonesia as an Islamic bank as a result of the merger because the financing-to-deposit ratio (FDR) has a negative and significant influence on the national Islamic banking market share which shows the distribution of financing not yet effective.

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