

Islamic Bank Spin-off in Indonesia: Pros and Cons

Syahdatul Maulida¹ & Aam Slamet Rusydiana²

¹Tazkia Islamic University College

²SMART Indonesia

This study aims to look at sentiment towards the development of sharia banking spin off practices in Indonesia. This research is a descriptive qualitative research using sentiment analysis method with the help of SentiStrength software. Of the 43 scientific publications indexed by the Dimension database, it was found that neutral sentiment dominated sentiment related to the spin off policy, namely by 51%, followed by positive sentiment with a percentage of 30%, and negative sentiment by 19%. Based on intertemporal analysis, sentiment developments fluctuate from year to year. The highest peak of sentiment occurred in 2018, namely 7 sentiments which were dominated by 3 positive sentiments.

Keywords: Spin off; Islamic Bank; Indonesia; Sentiment

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*Correspondence:

Syahdatul Maulida

1903.syahdatul049@student.tazkia.
ac.id

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2.1.

INTRODUCTION

The Islamic banking industry is experiencing rapid growth worldwide, including Indonesia. Recently, the Islamic banking industry in Indonesia has changed significantly. This cannot be separated from the support of the legislature. Birth of Law no. 21 of 2008 has contributed to a significant development factor in the Islamic banking industry in Indonesia. The law regulates spin off policies for sharia business units that meet the requirements. After the implementation of this law, several sharia business units carried out spin offs, both with pure spin off scenarios and conversions and acquisitions. Prior to 2008, there were only 3 sharia commercial banks, 26 sharia business units, and 114 sharia people's financing banks. But currently, in 2023, there are 13 Sharia Commercial Banks, 20 Sharia Business Units and 165 Sharia People's Financing Banks (BPRS) (OJK, 2023).

The spin off policy affects the market structure of the Islamic banking industry in Indonesia. The number of Islamic banks has increased thereby expanding competition and reducing the concentration of the Islamic banking industry in Indonesia (Al Arif, 2019). This policy also sparked a debate between competition and consolidation in the banking industry. On the one hand, pro-competition proponents argue that the more competitive an industry is, the more efficient its intermediary function will be. On the other hand, he argues that banking consolidation, which can increase bank market power, is an effective way to achieve overall financial stability (Trinugroho et al., 2021).

Siswanto (2014) argues that spin offs in the banking industry can bring opportunities such as improving financial performance, expansion, rearranging financial structures, and having independent management. Furthermore, spin off policies can strengthen the role of banking in financial intermediation and development, Islamic financial institutions must have greater flexibility in their operations. This policy is then expected to increase the market share of Islamic banks.

However, skeptics argue that although capital will increase after the spin off the newly spun off Islamic bank may not be able to achieve economies of scale at the same level as its parent bank (Garbois et al., 2012). According to Prasetyo et al. (2019), spin offs have several drawbacks, including the potential loss of joint revenue and the parent bank can also lose the benefits of diversification.

Some of the literature that discusses spin off policies in the Islamic banking industry in Indonesia

supports this policy to improve the performance of Islamic banks. Several studies have found differences in profitability before and after the enactment of Law No. 21 of 2008 (Hamid, 2015; Ramdani, 2015; Poerwokoesoemo, 2016). Al Arif (2015) found a decrease in efficiency after the implementation of the spin off policy. Nasuha (2012) in his research shows that there are differences in deposit funds before and after the spin off law applies.

This study aims to look at developments and sentiment towards spin off policies in Islamic banking by using a literature review with related themes. This study also identifies the pros and cons regarding the spin off policy of Islamic banking using the help of SentiStrength Software.

LITERATURE REVIEW

In general, the term spin off is defined as a corporate act that aims to separate subsidiaries as legal entities, then separate or divide by legal recognition of the distribution (Hilman, 2018). Spin off is a part of company restructuring, basically the parent company's actions in separating the business have the same motivation as the founding of a subsidiary company. This separation will have implications for the formation of a group of companies or the emergence of control of one company to another company (Sulistiowati, 2009).

According to Elfring & Fross (1997) there are two types of spin offs: first, from the perspective of the parent company, where the parent company for some reason is unable to take advantage of the opportunities that come. Second, with regard to organizational units as different individuals, the second type is the most widely used type, where the subsidiary is not the same as the parent company. This second type is contained in the spin off policy of the Islamic banking unit from the conventional bank which is the parent.

Many companies carry out spin offs as an effort to increase company competitiveness and create value for shareholders by focusing on their main business (Beeson & Hyden, 2022). This is also in accordance with the opinion of Hamid (2014) that spin off decisions made by Islamic banking units can provide value for the parent company and also for shareholders. Because the parent company can focus on its main business, while the subsidiary company can focus on developing. The results of his research also reveal that the spin off policy pursued by Islamic banking is appropriate. However, there are several policies that are still needed by the Islamic banking industry. The results of his research also

support research related to spin offs which show a positive influence on company development.

Sharia bank spin off was first practiced in Indonesia (Pambuko et al., 2019), and studies have been carried out regarding the spin off policy. Some researchers have found that Islamic banks are less efficient after spin off decisions (Al Arif et al., 2018; Hilman, 2018). Spin offs also do not have a significant impact on asset growth, profitability and financing (Al Arif, 2015; Al Arif et al., 2017). Pambuko (2019) in his research also revealed that the spin off decision did not have a significant effect on the productivity of Islamic banks. However, spin offs can speed up deposit funds (Al Arif, 2014, 2018).

This research contributes to a better level of knowledge and understanding of the development of Islamic banking spin off policy studies in Indonesia. Seeing the extent to which the sentiments contained in scientific publications regarding the practices and decisions of sharia banking spin offs in Indonesia. This research is also the only one that examines the positive and negative issues of Islamic bank spin-offs.

METHODOLOGY

This study uses a qualitative sentiment analysis research method using secondary data sourced from various scientific publications during the period 2010 to 2023 with the theme "spin off Islamic banks". The sampling technique used in this research is purposive sampling method, which aims to fulfill certain information in accordance with the desired research

objectives. Data was collected by searching journals indexed in the Dimensions database by typing the keyword "spin off Islamic bank". After that, articles or scientific journals that are relevant to the research theme will be selected based on the publication data that has been collected. There are 43 scientific publications on the research theme "spin off Islamic banks". As for seeing the author's sentiment using the SentiStrenght software.

SentiStrenght is an algorithm for opinion mining that uses a dictionary or lexicon-based approach that works by detecting every word or phrase from an abstract text by checking terms that contain sentiments and then the resulting output is the weight of the words or phrases that were successfully detected. Sentiment class consists of high positive, positive, neutral, negative and high negative sentiments. Each sentiment class has a different score interval, high positive has a score of 3-5, positive has a score of 1-2, neutral has a score of 0, negative has a score of -1 to -2 and high negative has a score of -3 to -5. The sentiment score is then calculated by adding up the sentiment score of each sentence delivered by the researcher in the SentiStrenght software. Good (positive) sentiment is the opinion of researchers who are positive and tend to be optimistic in responding to the theme raised. While bad sentiment (negative) is the opinion of researchers who are negative and tend to express criticism in studying themes. Some examples of research on the topic of Islamic economics using sentiment analysis, for example, can be found in the studies of Rusydiana & Marlina (2020), Hakim et al., (2022) and Rusydiana (2018).

RESULT AND ANALYSIS

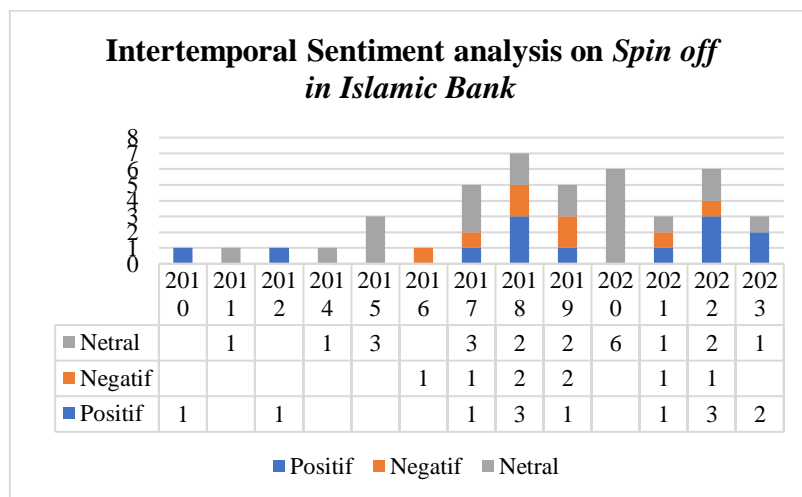


Figure 1: Intertemporal Analysis of Spin off Islamic Bank Sentiment

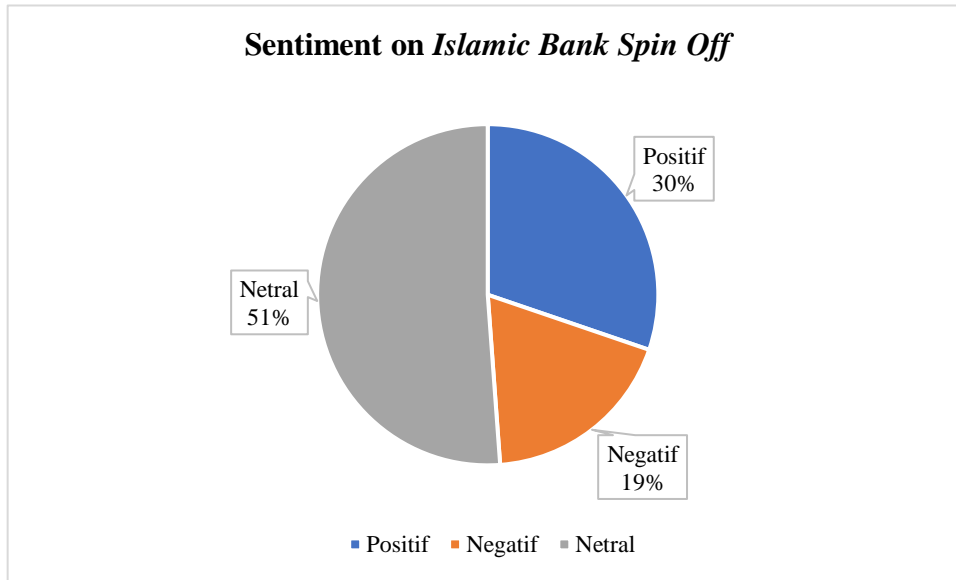


Figure 2: Sentiment Analysis on Sharia Bank Spin off

Based on the picture above, the sentiment for the Spin off Islamic Bank is dominated by neutral sentiment with a percentage of 51% and half of the overall sentiment. Then positive sentiment occupied the next position with a percentage of 30%. The last is negative sentiment with a percentage of 19%. This indicates that

the expression of sentences in scientific publications related to Spin off Islamic Bank tends to be neutral.

However, the development of Spin off Islamic Banks still has its pros and cons. The following is a summary of the negative and positive issues related to the Spin off Islamic Bank theme.

Positive	Negative
Improving the performance of Islamic banks.	Doing a spin off does not mean that the performance of Islamic banks will increase.
Islamic financial inclusion increases along with the increasing number of Islamic banks.	Increasing competition.
Increase financial stability.	Reducing the concentration of Islamic banks.
Improve financing offers and services.	The assets of the sharia business unit are still relatively small.

In Law no. 21 of 2008 stipulates a spin off policy for Sharia Business Units if they meet the requirements, namely 50% of the parent bank's assets or 15 years after the deed was established. After the enactment of this law, there are several sharia business units that have carried out spin offs, either by establishing new companies or by using existing companies. The purpose of the spin off policy is to improve the performance of Islamic banks. However, in the study of Al Arif et al. (2020) showed results contrary to the objectives of the spin off policy, that the increase in the number of spin off banks did not always increase the performance of Islamic banks (measured by efficiency). The results of this study are also in line with previous research, that there was a decrease in efficiency in Islamic banks after

the implementation of the spin off policy (Novarini, 2009; Pramuka, 2011; Al Arif, 2015; Hosen & Rahmawati, 2016), so it can be concluded that the policy needs to be re-evaluation (Haribowo, 2017; Al Arif, 2017).

According to the Structure Performance (SP) hypothesis, bank profitability depends on market structure and the level of competition in the market (Gillbert, 1984; Goldberg & Rai, 1996; Samad, 2008). A decrease in the level of competition and an increase in market concentration will cause companies to earn higher profits (Lloyd-Williams et al., 1994; Bhatti & Hussain, 2010; Mirzaei et al., 2013). The practice of spin off in the Islamic banking industry has implications for increasing the number of Islamic banks, but on the other

hand it has an impact on reducing market concentration and increasing competition among Islamic banks themselves. So if it is concluded based on the hypothesis above, the performance of Islamic banks will decrease along with the increasing competition of Islamic banks after the spin off.

Fu & Heffeman (2009) revealed that policies should be directed at increasing the market share of the most efficient banks. Policies that encourage competition between banks, if implemented properly, have the potential to increase financial stability and financial health (Ajide & Ajileye, 2015; Rahim, 2016; Rashid et al., 2017; Schaeck et al., 2009). In a competitive environment, every bank is required to analyze market structure and competitive conditions (Hamza & Kachtouli, 2014). However, the policy of increasing competition by small firms has a negative impact on their performance (Scott & Dunkelberg, 2010). If you look at the assets owned by sharia business units, almost all of them have small assets (Haribowo, 2017). Smaller assets than parent banks make banks less capitalized, which will ultimately affect bank performance. Because banks with larger capitalization tend to be more profitable (Sufian & Habibullah, 2012).

US regulators often use the concentration ratio as a pre-screening tool to assess market competitiveness in merger reviews (Scott & Dunkelberg, 2010). In this approach the assumption is implied that high concentration leads to reduced competition and impacts on reduced supply, availability and credit services (Bain, 1951; Hannan, 1991). The spin off policy for sharia business units can boost the share of the national sharia banking market (Haribowo, 2017), because it can increase the availability of financing services, so that sharia finance can be inclusive and massive.

According to Kiswono (2012), there are several strategies that can be carried out regarding spin off policies in Islamic banks. First, spin off a pure sharia business unit to become a full sharia bank. Second, joining (merging) with other banks. Third, make acquisitions of conventional banks, then convert the banks that have been acquired as Islamic banks. Fourth, converting the parent conventional bank into an Islamic bank. Another work by Rizqullah (2013) found that the sharia business unit spin off method by forming a new committee/corporation is the most appropriate alternative in establishing an Islamic bank. The next alternative strategic choice is to spin off by using an already formed corporation/committee.

CONCLUSION

Based on the research results, it can be concluded that during the observation period (2010-2023), out of 43 scientific publications indexed by the Dimension database, neutral sentiment dominated sentiment related to sharia banking spin-off policies, namely by 51%, followed by positive sentiment with a percentage of 30%, and negative sentiment 19%. Based on intertemporal analysis, sentiment has fluctuated from year to year. The highest peak of sentiment occurred in 2018, namely 7 sentiments which were dominated by 3 positive sentiments.

There are several things that underlie positive sentiment regarding the spin-off policy of Islamic banks in Indonesia, namely: Improving the performance of Islamic banks, Islamic financial inclusion has increased along with the increasing number of Islamic banks, Improving financial stability, and Increasing financing offers and services. Meanwhile, several things underlie negative sentiment regarding the spin-off policy of Islamic banks in Indonesia, namely: Conducting spin-offs does not mean that the performance of Islamic banks will increase, Increasing competition, Reducing the concentration of Islamic banks and Islamic business unit assets are still relatively small.

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