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IS THE MERGER EFFECTIVE FOR INDONESIAN ISLAMIC BANKS?

Risanda Alirastra Budiantoro[1*]
Mohammad Aulia Rachman[2]
Luthfi Ibnu Tsani[3]
Afifah Nur Millatina[4]
Fatimatuzzahro[5]
[1,2,3]Universitas Negeri Semarang, Indonesia
[4]Muhammadiyah University of Malang, Indonesia
[5]UIN Kiai Haji Ahmad Siddiq Jember, Indonesia
[*]*Corresponding Email: risanda.abe@mail.unnes.ac.id*

ABSTRACT - The low competitiveness of the Islamic banking sector has raised significant concerns within the government regarding the future viability of this financial industry in Indonesia. In response, a merger has been proposed as a strategic policy to strengthen and enhance the Islamic banking framework. This study seeks to assess the effectiveness of the merger strategy involving three state-owned Islamic banks—Bank Syariah Mandiri, BNI Syariah, and BRI Syariah—which have consolidated to form Bank Syariah Indonesia (BSI). The study employs a qualitative exploratory approach, utilizing analytical tools such as the Five Forces Model and SWOT analysis. The findings indicate that the merger strategy has been effective, as the management of the newly established entity has successfully implemented a range of initiatives to enhance the competitiveness of Islamic banking within the financial sector. These initiatives include product differentiation, innovation, a strong emphasis on service quality, institutional strengthening, and a focus on digital business development. The study concludes that the merger represents a positive step for the Indonesian Islamic banking sector. The strategies implemented by BSI may serve as a potential roadmap for other institutions aiming to enhance their competitive standing in the industry.
Keywords: SWOT analysis, competitiveness, Five Forces Model, merger, Islamic banking

ABSTRAK – Efektifkah Merger pada Perbankan Syariah di Indonesia? *Rendahnya daya saing sektor perbankan syariah menimbulkan kekhawatiran akan keberlangsungan industri keuangan ini di masa depan di Indonesia. Sebagai kebijakan strategis untuk memperkuat dan meningkatkan kerangka kerja perbankan syariah, pemerintah mengusulkan dilakukannya merger terhadap tiga bank syariah milik negara. Penelitian ini bertujuan untuk mengevaluasi efektivitas strategi merger Bank Syariah Mandiri, BNI Syariah, dan BRI Syariah menjadi Bank Syariah Indonesia (BSI). Penelitian ini menggunakan pendekatan kualitatif eksploratif dengan memanfaatkan Five Forces Model dan analisis SWOT sebagai alat analisis. Hasil penelitian menunjukkan efektivitas strategi merger dalam meningkatkan daya saing perbankan syariah. Manajemen BSI dinilai berhasil menerapkan serangkaian strategi pencapaian tujuan organisasi seperti melakukan diferensiasi produk, inovasi, orientasi pada kualitas layanan, penguatan kelembagaan, dan menseriusi pengembangan bisnis digital. Penelitian ini menyimpulkan bahwa strategi merger merupakan langkah positif bagi sektor perbankan syariah di Indonesia dalam meningkatkan daya saingnya di industri perbankan. Hasil ini dapat menjadi panduan potensial bagi lembaga keuangan syariah lain yang ingin menerapkan strategi serupa.*
Kata Kunci: *Analisis SWOT, daya saing, Five Forces Model, merger, perbankan syariah*

INTRODUCTION

Islamic banks have garnered significant attention in Indonesia, the country with the largest Muslim population globally. Despite holding a relatively small market share, the growth potential of Islamic banking presents both challenges and opportunities for Indonesia to become a business hub for the halal industry (Rizvi et al., 2020). According to the Global Islamic Economy Report, Indonesia ranks seventh in the Sharia financial industry, with total assets amounting to USD 139 billion. This figure lags considerably behind Malaysia, where total assets in the Sharia banking industry reach 817 trillion rupiahs, contributing only 7.26% to the total banking assets in Indonesia (Otoritas Jasa Keuangan, 2020a; Salaam Gateway, 2023).

Historically, the establishment of Bank Muamalat Indonesia (BMI) on March 21, 1992, as the first Islamic bank in the country, marked the beginning of public recognition and utilization of Islamic banking services and products (BMI, 2016). In the same year, the government enacted Law No. 7 of 1992 concerning Banking, later reinforced by Government Regulation No. 72 of 1992 on Banks Based on Profit Sharing Principles, signaling the implementation of a dual banking system in Indonesia. According to Nizar and Nasir (2020), the performance of Islamic banking from 1992 to 1998 did not exhibit significant progress due to the lack of optimal attention from Bank Indonesia, the nation's banking authority.

A more robust legal foundation for the Islamic banking system was established through the amendments to Law No. 10 of 1998. This regulation delineated the types of businesses that Islamic banks could operate and provided directives for conventional banks to open Islamic branches (Nofinawati, 2015). The Indonesian Ulema Council further contributed to the sector's development by issuing a fatwa prohibiting bank interest in 2004. Subsequently, Law No. 21 of 2008 concerning Islamic Banking facilitated institutional growth, increased business volume, and enhanced profitability within the Islamic banking sector (Marimin et al., 2017).

To build and strengthen institutions within the sizable Islamic banking industry and provide broader benefits to the community, the government has pursued strategic policies, including initiating a merger process. Alhusain (2021) notes that the government's primary consideration in promoting this merger is to fortify the Islamic finance industry in Indonesia, given that the penetration of

Islamic banking remains relatively low compared to conventional banks. As of February 1, 2021, a merger process involving state-owned Islamic banks has been underway. Three such banks—Bank Syariah Mandiri, BNI Syariah, and BRI Syariah—have consolidated to form PT Bank Syariah Indonesia Tbk. This merger aims to make Islamic banking more prominent, stronger, and more efficient in terms of assets and financing capabilities, thereby exerting a significant multiplier effect on the national economy.

The practice of mergers is not new. In the 1950s, a significant merger movement in the financial sector caused concern due to its unprecedented nature (Atikah et al., 2021). However, this does not imply that these mergers resulted from problems within the financial sector. Instead, mergers can enable financial institutions to achieve economies of scale, leading to operational cost savings, especially given the high investment in technology (Dionne, 2019; Kress, 2020). Consequently, mergers can be profitable for institutions if proper supervision is conducted.

When mergers in the financial sector, particularly banking, become inevitable, questions arise regarding the added value generated. Calomiris and Karceski (2000) reveal that the merger of nine banks in the United States led to several outcomes: (1) the merger process generally created added value for banks; (2) some banks experienced failures due to drastic revenue decreases during consolidation; (3) certain demerger management behaviors generated unnecessary costs; and (4) revenue synergy could be achieved even without cost efficiency. Additionally, Harada and Ito (2008) found that merger cases in Japan resulted in weaker banks, with some experiencing a decline in their distance to default.

Previous studies on the merger of PT Bank Syariah Indonesia Tbk have significantly contributed to understanding the merger process and its implications. However, several gaps remain. Many studies have primarily focused on financial performance metrics, providing limited insights into other critical dimensions of the merger, thereby overlooking broader impacts on stakeholders beyond financial outcomes (Tyas & Rusydiana, 2021; Utami et al., 2022). Furthermore, existing research often relies heavily on quantitative data, neglecting qualitative methods that capture stakeholders' nuanced experiences and perceptions. This reliance may limit the understanding of complex socio-economic dynamics, organizational behavior, and cultural integration challenges associated with mergers (Arif et al., 2020; Isman et al., 2023; Ullah & Seman, 2018). Additionally, prior studies have predominantly focused on the immediate post-merger period, overlooking the evolving nature of mergers and their long-term implications for organizational dynamics and strategic outcomes. A short-term perspective may hinder the identification of enduring challenges or opportunities arising from the merger (Nugroho, 2023; Yusuf & Ichsan, 2021). More research is needed to explore the socio-economic and regulatory context surrounding the PT Bank Syariah Indonesia Tbk merger, including its implications for the broader Islamic finance industry in Indonesia and its alignment with national development goals and regulatory frameworks (Rosmiati et al., 2023).

The urgency of this research lies in the merger of PT Bank Syariah Indonesia Tbk, which holds significant importance for the bank itself and the broader Islamic finance industry in Indonesia and beyond. This merger has the potential to drive growth, innovation, and sustainability while advancing the principles of Sharia-compliant banking. Examining how this merger reshapes the dynamics of Indonesia's Islamic finance industry offers a novel perspective. By delving into changes in market concentration, competitive dynamics, and PT Bank Syariah Indonesia Tbk's positioning within the sector, this study aims to uncover valuable insights into the industry's evolution post-merger. Addressing these research areas allows scholars to contribute nuanced insights into the implications of the merger for Islamic banking and broader socio-economic development in Indonesia. Therefore, investigating the merger of Bank Syariah Indonesia (BSI) significantly enhances our understanding of Islamic banking dynamics and the broader financial landscape in Indonesia by examining the merger's motivations, processes, and outcomes.

Previous studies on the effectiveness of bank mergers provide mixed results. Sufian and Majid (2007) demonstrated that mergers led to higher average overall efficiency for the Singapore banking group post-merger. In contrast, analysis by Yusgiantoro et al. (2020) indicated that bank mergers and acquisitions significantly impact performance but do not substantially affect cost efficiency and intermediation capabilities. Similarly, research by Ekadjada et al. (2021) showed no significant differences in bank performance, credit levels, operational efficiency, or capital levels before and after mergers. Beccalli and Frantz (2009) found that merger operations were associated with slight decreases in return on equity, cash flow returns, and profit efficiency; however, they also led to increased cost efficiency, benefiting the bank's customers.

Given this background, the present study seeks to assess the effectiveness of the merger process undertaken by Islamic banking institutions in Indonesia. This assessment is crucial as the merger of these three state-owned Islamic commercial banks addresses the long-standing need for Islamic commercial banks with substantial capital. This initiative aligns with the national Islamic banking vision to become one of the ten largest Islamic banks based on global market capitalization within the next five years (PT Bank Syariah Indonesia, 2021). Accordingly, this research aims to address the following questions: (1) What are the opportunities and challenges Islamic banks face in the merger process? (2) What is the condition of Islamic banking in the COVID-19 era? (3) How effective is the merger of Islamic banks in Indonesia?

LITERATURE REVIEW

Business Merger Concept

Companies can achieve growth and expansion through two primary avenues (Nizar & Nasir, 2020): internal and external. Internal expansion involves organic growth within the company, such as establishing new branches or expanding existing operations. External expansion, on the other hand, involves collaborations with other entities, with mergers being a prime example.

One significant method of external expansion is the merger process. According to Brealey et al. (2011), a merger is the consolidation of business entities into one by acquiring all assets and liabilities of the merging company. In practice, the acquiring company typically gains at least 50 percent ownership of the shares, while the acquired company ceases to operate independently. Shareholders of the acquired company are compensated with cash or shares in the new entity (Mariana & Ibrahim, 2022).

To illustrate, consider a merger between Company A and Company B. If Company B's shareholders agree to exchange each of their shares for two shares of Company A, upon completion of the merger, Company B's shares will dissolve, leaving only Company A shares in existence (see Figure 1).

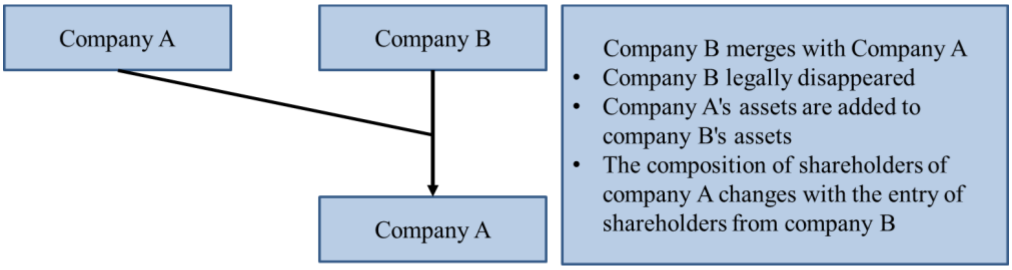

Figure 1. Company Merger Scheme
(Source: Mailinda et al., 2018)

In the merger process, a strategy is implemented by two or more companies, where one company takes over another. Several considerations can lead to a merger, including:

Table 1. Company Motives for Merging

Motive	Information
Business diversification	Companies seek rapid growth in size, stock market presence, and business diversification rather than building new business units from scratch.
Economies of scale	Companies aim to achieve economies of scale through operational efficiency, resulting in cost advantages as the average cost per unit decreases with increased total output.
Increased income	Companies desire higher income through improved marketing activities, strategic benefits, and enhanced competitiveness.
Liquidity	Companies aim to enhance liquidity, as larger companies find it easier to access the stock market and obtain shares.
Managerial and technological skills	Companies seek to improve managerial skills and technological capabilities to increase efficiency in management.

(Sources: Kress, 2020)

Islamic Banking Practice

Islamic banking is defined as a financial service institution that collects funds from the public and distributes them in the form of financing or loans, as well as other economic activities, based on applicable sharia principles (Sari et al., 2024). Understanding Islamic banks comprehensively can be approached in three ways (see Table 2).

According to the Otoritas Jasa Keuangan (2020), the philosophical basis for the presence of Islamic banking is to meet the demand for financial services that comply with Sharia principles, avoiding the practices of usury, maysir, and *gharar*. This encompasses both material and spiritual aspects and the fulfillment of basic human needs (*maslahat*).

Table 2. Definition of Islamic Bank

Category	Explanation
Regulation/ Legislation	Based on Law No. 21 of 2008 concerning Islamic Banking, an Islamic bank is a business entity that collects public funds in savings and distributes them to the community to improve the people's standard of living.
Services Offered to Consumers	Based on the products offered to consumers, banks are institutions that accept money deposits, distribute them to the public, and provide other services.
Economic Function	Based on the economic function, Islamic banking is a financial service institution that accepts money deposits and distributes them to businesses for economic activities and other services.

(Source: Macey & Miller, 1997)

This has implications for Islamic banking corporate governance, which differs from conventional banking. While conventional banking emphasizes maximizing profits, Islamic banking focuses on adhering to Sharia principles (Hasan & Dridi, 2011). However, Islamic banking is still required to increase profits, expand markets (Alam et al., 2021), implement business principles that contribute to national development (Otoritas Jasa Keuangan, 2020b), and increase capital for MSMEs (Huda, 2012). Thus, Islamic banking continues to evolve to enhance competitiveness and contribute more significantly to the economy and development in Indonesia. It applies the fundamental essence of maqasid sharia in providing financial services and intermediation based on applicable sharia principles.

METHODOLOGY

Research Approach

This study employs an exploratory qualitative approach to comprehensively identify the problems, opportunities, and challenges associated with the merger process of Islamic banking in Indonesia. This approach aims to enhance the competitiveness of Islamic banks in the global market and act as a catalyst for Islamic economic growth in Indonesia.

Data Types and Sources

This study employs a variety of secondary data sources to comprehensively assess the effectiveness of the Islamic banking merger in Indonesia. These sources include official reports and documents from the involved banks and regulatory bodies, academic literature on Islamic banking, mergers and acquisitions, and economic growth, industry publications offering insights into banking sector trends, and media coverage providing public and stakeholder perspectives. This diverse data collection ensures a robust analysis of the merger's impact.

Research Focus

The primary focus of this study is to evaluate the effectiveness of the merger steps taken by Islamic banking institutions in Indonesia. The aim is to determine whether these steps successfully increase the competitiveness of Islamic banks in the global market and serve as catalysts for Islamic economic growth. This program is seen as a concrete solution implemented by the government to create modern, universal Islamic banks that provide benefits for all (*rahmatan lil alamin*).

Research Analysis

The study utilizes the Five Forces Model and SWOT analysis as the primary analytical tools. Porter's Five Forces Model is used to assess the competitive landscape of the Islamic banking sector post-merger and the strategic positioning of the merged bank within it. Additionally, a SWOT analysis identifies the internal strengths and weaknesses, as well as external opportunities and threats, that influence the merged bank's ability to achieve its objectives. These analytical tools provide a comprehensive evaluation of the merger's effectiveness and offer strategic insights for enhancing competitiveness and supporting economic growth, aligning with established research practices in the banking sector (Ibrahim, 2023). Data analysis involves identifying themes within the qualitative data, triangulating information from various sources to ensure reliability, and interpreting findings to answer the research questions and assess the merger's overall effectiveness.

RESULT AND DISCUSSION

Challenges and Opportunities of the Islamic Banking Merger Process

Efforts to strengthen Islamic banks in the national economy align with the Indonesian Banking Development Roadmap, 2020-2025. This is evidenced by the existence of an Indonesian Islamic financial and economic ecosystem design, which outlines the vision of creating highly competitive Islamic banking capable of contributing to both the national economy and social development (see Figure 1). The harmonization of the Islamic economic and financial ecosystem, from both the demand and supply sides, will depend on various supporting tools, including: (1) human resources, (2) research and development, (3) regulation, (4) branding, (5) digital technology, and (6) consumer protection (Otoritas Jasa Keuangan, 2020c). The expectation is that these elements will increase the competitiveness of Islamic banks in the global market and position them as catalysts for Islamic economic growth in Indonesia (Alhusain, 2021).

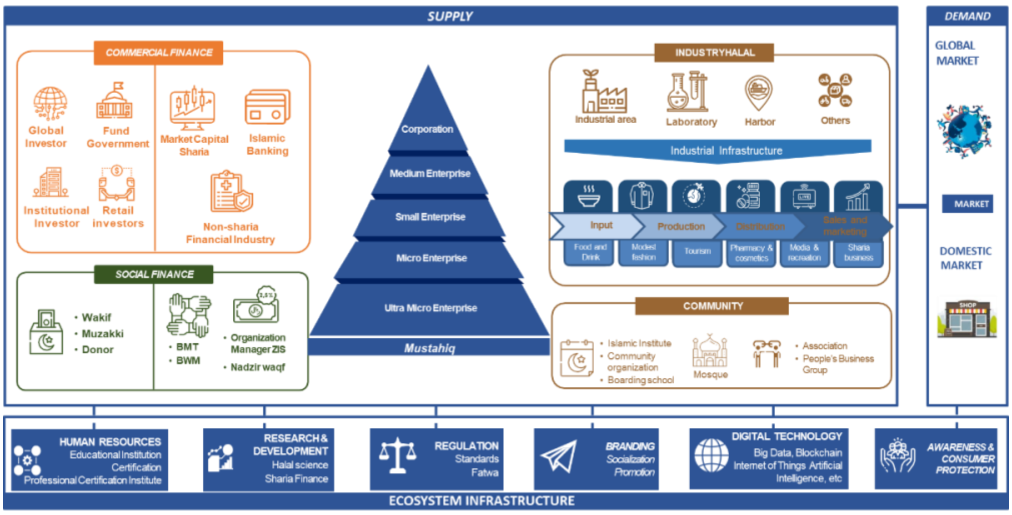

Figure 1. Design of Indonesia's Islamic Economic and Financial Ecosystem
(Source: Wirdayanti, 2020, modified)

Islamic banking plays a significant role in the Islamic finance ecosystem as an intermediary financial institution. In practice, Islamic banking operates under a unique model that optimizes the distribution of wealth within society through its intermediation functions, including the distribution of taxes, zakat, and benevolent funds (see Figure 2). Through this intermediation function, Islamic banks can create a multiplier effect on the economic distribution within communities.

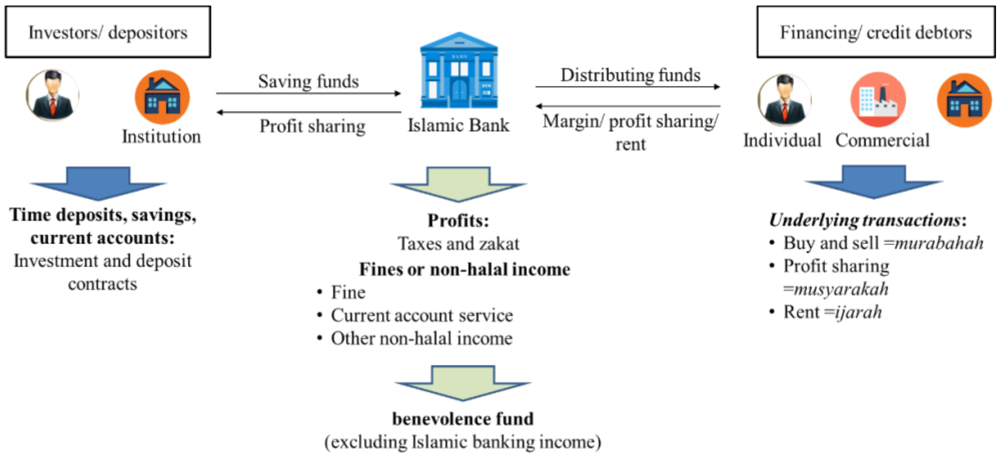

Figure 2. Financial Intermediation Mechanism in Islamic Banking
(Source: Suhendra & Ronaldo, 2017, modified)

According to the Otoritas Jasa Keuangan (2020c), the transformation of Islamic banking should have a tangible impact on its socio-economic role as well as on its competitive advantage. One key transformation strategy undertaken by Islamic banks is the merger process, which aims to strengthen Islamic financial institutions. Ultimately, this transformation is expected to enhance Indonesia's participation in the global Islamic economy and finance (Alhusain, 2021). The merger process has led to the creation of a new identity for Islamic banking in Indonesia, as outlined in Table 3.

Table 3. Transformation of Islamic Banking

Old Identity of Islamic Banking	**New Identity of Islamic Banking**
No significant business model or product differentiation	Unique business models and product offerings
Low literacy and inclusion index	Optimizing the Islamic economy and financial ecosystem
Suboptimal quantity and quality of human resources	Integration of commercial and social finance functions
Insufficient IT infrastructure	Improvement in qualified human resources and up-to-date IT systems

(Source: Otoritas Jasa Keuangan, 2020a)

One of the considerations behind the merger is that Islamic banking in Indonesia lags behind both conventional banking and Islamic banking in other countries. Even though the COVID-19 pandemic has weakened the global economy, including Indonesia's, Islamic banking has demonstrated resilience and positive growth. To optimize the merger process, it is necessary to evaluate both the opportunities and challenges that currently exist (see Table 4).

Table 4. Opportunities and Challenges of the Merger Process for Islamic Banking in Indonesia

Opportunity	Challenge
Improved efficiency and consolidation processes that enhance competitiveness	Requires adaptation to cultural and value differences
Increased capital to access larger transactions and financing	Harmonization of governance across merged Islamic banks is necessary
Greater opportunity for Islamic banks to participate in national development projects	Product and service alignment during the customer migration process
Emergence of large-scale Islamic banks competing in national and global markets	Development of competitive products and services across retail, SME, and corporate sectors, including digital banking
Increased Islamic financial literacy and inclusion	Transition from Book Bank III to Book Bank IV with increased total capital
Meeting the financing needs of the halal industry, transactional banking, and trade finance	Creating a supportive ecosystem for Islamic economic and financial institutions

(Source: Gunardi, 2021, modified)

Given the challenges that Islamic banking will face in the future, appropriate strategies must be formulated. According to Kristiyana (2021), to maintain a positive and resilient trend in Islamic banking, the following measures are essential: (1) strengthening the identity of Islamic banking, (2) synergizing the sharia ecosystem, and (3) enhancing licensing, regulation, and supervision. Gunardi (2021) adds that PT Bank Syariah Indonesia Tbk, formed by the merger, will implement three key strategies:

Table 5. Strategy of Islamic Banking in Responding to Future Challenges

Strategy	Information
Growing the MSME segment within an integrated ecosystem and value chain	• Catering to the specific needs of MSME clients within Islamic banking • Carrying out government mandates related to micro-segmentation • Building MSME centers across provinces and cities • Integrating MSME ecosystems and value chains • Providing training and assistance for MSMEs (offline and online)

Strategy	Information
Serving the retail segment with sharia-compliant services	• Delivering the best banking experience, including digital banking, service quality, and product development (e.g., payroll services, consumer finance, and pawn gold) • Developing a sharia ecosystem (e.g., hajj, umrah, zakat, infaq, waqf, community organizations, education, and health)
Developing the wholesale segment with innovative products and global outreach	• Medium-scale financing syndication and partnerships with other BUS (Sharia Commercial Banks) • Innovating wholesale products based on sharia contracts • Facilitating foreign investors in accessing Indonesia's infrastructure and investment opportunities

(Source: Gunardi, 2021)

The success of the merger process depends on the commitment of the stakeholders involved. According to Otoritas Jasa Keuangan (2020b), four factors contribute to the successful implementation of the merger: (1) leadership and change management, (2) the quality and quantity of human resources, (3) information technology infrastructure, and (4) the synergy and collaboration among all stakeholders (see Table 6). These factors are crucial for increasing the competitiveness of Islamic banks in the global market and positioning them as catalysts for Islamic economic growth in Indonesia.

Table 6. Synergy of Islamic Banking Stakeholders

Stakeholder	Information	Key Actors
Government	Supporting the development of the Islamic banking industry and ecosystem through policy	Ministry of Finance, Ministry of SOEs
Regulators	Collaborating to increase Islamic financial literacy and inclusion through joint programs	Bank Indonesia, Financial Services Authority, National Sharia Finance Committee, National Sharia Council - Indonesian Ulema Council
Islamic Community Organizations	Promoting Islamic financial literacy and inclusion through outreach and education	Muhammadiyah, Nahdatul Ulama
Associations	Developing Islamic banking products and services through active research, forums, and discussions	Sharia Economic Community, Indonesian Islamic Bank Association, Government Bank Association
Public	Increasing trust in Islamic banking transactions and improving financial literacy and inclusion	General public, customers

(Source: Gunardi, 2021, modified)

From a sharia compliance perspective, the impact of the merger on sharia adherence is minimal. According to Mardini et al. (2022), the Maqasid Sharia Index of Islamic banking before and after the merger remains the same.

Additionally, the Sharia Supervisory Board of Bank Syariah Indonesia consists of members from the former boards of BNI Syariah, Bank Syariah Mandiri, and BRI Syariah, ensuring continuity in the application of sharia principles and compliance.

Current Condition of Islamic Banking

On December 31, 2019, the world witnessed the onset of what came to be known as Wuhan Pneumonia, later identified as Coronavirus Disease 2019 (COVID-19). The rapid spread of this pandemic, with its ability to transmit swiftly among humans and cause a high mortality rate, led the World Health Organization (WHO) to declare it a "public health emergency of international concern." In Indonesia, the first COVID-19 case was reported on March 14, 2020, and the number of cases has surged significantly since then (see Figure 3).

Figure 3. Overview of the COVID-19 Pandemic in Indonesia
(Source: Worldometer, 2021, processed)

The COVID-19 pandemic impact has extended far beyond health concerns, affecting the global economy and social structures. Measures such as lockdowns and large-scale social restrictions implemented by various countries to curb the virus's spread have severely weakened macroeconomic conditions globally, including in Indonesia. According to data from Noor & Ahmad

(2012), more than 42 countries reported economic recessions, with economic growth declining sharply (see Table 7). This is regarded as one of the worst economic crises in history (OJK, 2021).

Table 7. Pandemic Effects on Economic Growth Conditions, 2020-2021

Country	**GDP growth (% yoy)**				
	I/2020	**II/2020**	**III/2020**	**IV/2020**	**I/2021**
Indonesia	2.97	(5.32)	(3.49)	0.06	5.60
Thailand	(2.00)	(12,20)	(7.80)	(5.60)	4.50
South Africa	(0.20)	(17,10)	(10.81)	(8.98)	3.50
Japan	(1.80)	(9.90)	(5.90)	5.00	2.50
Malaysia	0.70	(17,10)	(2.70)	(1.00)	6.00
United States of America	0.30	(9.00)	(2.90)	(3.40)	3.70
China	(6.80)	3.20	4.90	6.00	8.00
Eurozone	(3,10)	(15.00)	(4.30)	(5.40)	5.40
German	(2.30)	(11.70)	(4,20)	(4.00)	4.60
English	(1.70)	(21.70)	(21.50)	(7,20)	6.05
France	(5.70)	(19,00)	(4.30)	(6,10)	6.80
South Korea	1.40	(2.90)	(1.30)	(1.55)	3.15
Hong Kong	(9,10)	(9.00)	(3.40)	(3.95)	4.20
Singapore	(0.30)	(12.60)	(7,00)	(3.60)	5.50
Philippines	(0.70)	(16.50)	(11.50)	(4,20)	7.35
Mexico	(1.40)	(18.90)	(8.60)	(8.03)	3.45
India	3.10	(23.90)	(23.50)	(4,28)	(8.60)

(Sources: IMF, 2020; OECD, 2020; Pusat Kajian Anggaran Badan Keahlian – Sekretariat Jenderal Dewan Perwakilan Rakyat Republik Indonesia, 2021)

The weakening economy has significantly impacted the real sector (The World Bank, 2021). The household sector faces income loss and declining purchasing power, while the micro, small, and medium-sized enterprises (MSMEs) struggle with marketing difficulties and production halts (International Monetary Fund, 2020). Corporations have experienced business disruptions, resulting in layoffs and terminations of employment. A survey conducted by LIPI Population Center, the Ministry of Manpower's Research and Development Center, and the Demographic Institute of the University of Indonesia highlights the effects of the pandemic on various groups (see Table 8).

Table 8. Survey of the Effects of the Covid-19 Pandemic on the Real Sector

Entrepreneur Group	**Group of self-employed and freelance workers**	**Labor group or employees**
Business activities • Experienced a decrease in income by 57.10 percent	Unemployment and poverty • As a result of the cessation of business operations, the unemployment rate	Implementation of WFH

Entrepreneur Group	Group of self-employed and freelance workers	Labor group or employees
• 39.4 percent of business operational activities stopped • Lay off company employees by 49.6 percent	increased by 25 million people and poverty increased by 17.5 million people	• The majority of companies do WFH by 63.8 percent
Business activities • The majority stopped and caused a decrease in operating income • Business continuity that lasts less than three months is 41 percent • Business continuity that lasts between 3-6 or 6-12 months is 35 percent	Free Worker • Casual workers experienced a decrease in the number of orders by 38 percent • Casual workers have difficulty getting a job because there are no job vacancies by 55 percent • Casual workers without income by 35 percent • Casual workers experience a 28 percent decrease in income • Free workers will be unemployed by 15 million people	Layoffs and workers' income • The number of workers laid off is 15.6 percent • The industries with the most layoffs: o Construction (29.3 percent) o Trade, restaurants and accommodation (28.9 percent) o Electricity, drinking water and gas (28.6 percent) o Processing (22.2 percent)
Employee Salary Payment • 28 percent of companies don't pay their employees' salaries • 37 percent of companies reduce their salary payments • 35 percent of companies pay their employees' salaries according to the provisions	Independent Business • Independent entrepreneurs experienced 40 percent cessation of operations • Independent entrepreneurs experienced a 52 percent decrease in operations • Independent entrepreneurs without income by 35 percent • Independent entrepreneurs experienced a 28 percent decrease in income • Independent entrepreneurs will be unemployed by 10 million people	

(Source: Badan Kebijakan Fiskal, 2021; Pusat Kependudukan LIPI et al., 2020)

The stress on the real sector has spillover effects on the banking sector, both conventional and Islamic, increasing credit/financing risks as debtors' ability to repay loans weakens. This exerts pressure on bank capital and liquidity (OJK, 2020a). Despite these challenges, Islamic banking has shown resilience, with indicators of asset growth, third-party funds, and financing remaining positive (Gunardi, 2021).

According to Miftah (2020), Islamic banking in Indonesia lags behind its global counterparts. Among 100 Islamic banks worldwide, Saudi Arabia has the largest Islamic bank, and Malaysia dominates in terms of the number of Islamic banks and assets. To catch up, Indonesia’s Islamic banking sector must transform, one step being the merger of several Islamic banks. The benefits of such mergers include improved financial performance, enhanced customer trust, diversification of services, stronger risk management, capital support, better technology, and increased capacity to fund larger projects and invest in human resources.

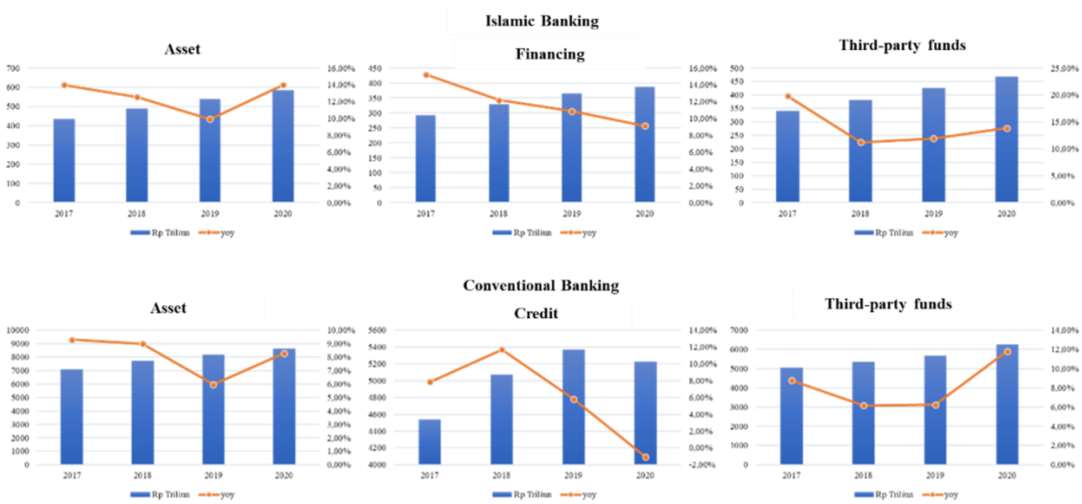

Figure 4. Condition of Assets, Third-Party Funds, and Credit/Financing for Islamic and Conventional Banks
(Source: Kristiyana, 2021 processed)

The merger of three state-owned Islamic banks Bank Syariah Mandiri, BNI Syariah, and BRI Syariah into Bank Syariah Indonesia was designed to create a modern, universal Islamic bank *(rahmatan lil alamin)* that can serve as new energy for Indonesia's economy (BSI, 2021). The merger process was carried out systematically (see Figure 5).

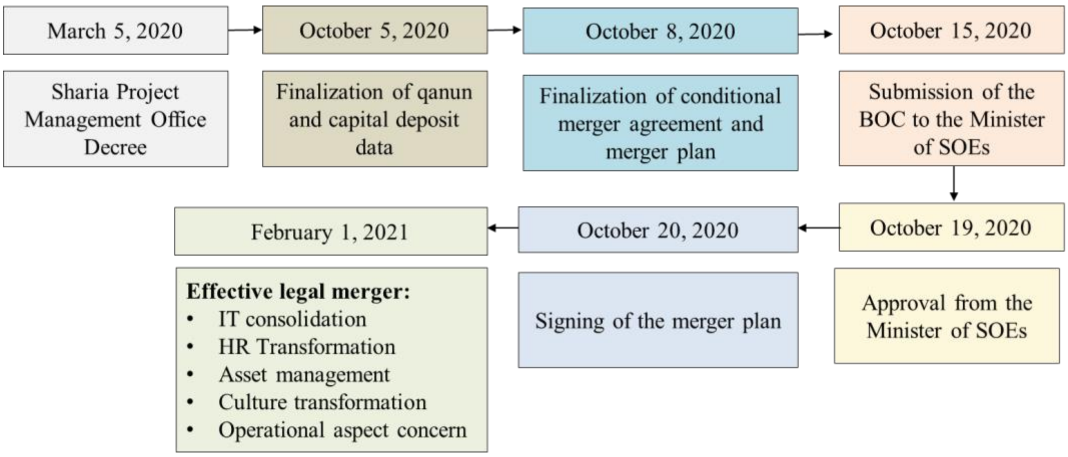

Figure 5. Timeline of the Islamic Banking Merger Process
(Source: Gunardi, 2021, modified)

The establishment of PT Bank Syariah Indonesia Tbk, uniting the strengths of the three state-owned banks, aims to provide more comprehensive services, a wider reach, and stronger capital (BSI, 2021). The bank's position in both the national and global banking sectors reflects this ambition.

Table 9. Performance of Three State-Owned Islamic Banks and Merger Results

	BRIsyariah		mandiri syariah		BNI Syariah		BSI
Number of ATM	539 ATM		1.044 ATM		202 ATM		1.785 ATM
Number of branch offices	71 branch offices 232 sub-branch offices		68 branch offices 222 sub-branch offices		129 branch offices 398 sub-branch offices		1.120 branch offices
Number of employees	5.790 employees		5.692 employees		8.612 employees		20.094 employees
Number of customers	3,9 million customers		3 million customers		8 million customers		> 14,9million customers
(In Trillion Rupiah)	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**December 2020**
Total assets	43,12	57,70	112,29	126,85	44,98	55,01	239,56
Financing	34,12	49,34	99,81	112,58	43,77	47,97	209,98
Third-party funds	27,38	40,00	75,54	83,43	32,68	33,05	156,51
Profit	0,074	0,25	1,28	14,3	0,6	0,5	2,19

(Source: Kristiyana, 2021 processed)

To analyze the performance of the three state-owned Islamic banks and the results of their merger into Bank Syariah Indonesia, it is essential to examine key financial indicators, market share, and strategic outcomes. The performance of each state-owned Islamic bank can be assessed as follows: *First*, Bank BRI Syariah, part of the larger Bank Rakyat Indonesia group, derives significant advantages from its extensive branch network and customer base. Performance metrics include profitability, asset growth, rural market penetration, and synergies with its parent company. Factors influencing its performance encompass alignment with Bank Rakyat Indonesia's strategic objectives, operational efficiency, and risk management practices (Prasetyo, Abdala, & Nafi, 2023).

Second, Bank Syariah Mandiri, one of Indonesia's leading Islamic banks, can be evaluated through metrics such as assets under management, profitability ratios (ROA, ROE), and its market share across various Islamic banking segments. The quality of its loan portfolio, efficiency ratios, and innovations in Sharia-compliant products are among the key factors influencing its performance (Ramadhanayanti et al., 2022). *Third*, BNI Syariah, a subsidiary of Bank Negara Indonesia, operates in accordance with Islamic principles, offering a range of Sharia-compliant banking products and services (Kholili, 2023). The merger outcomes are displayed in Table 10.

Table 10. Merger Outcomes for Bank Syariah Indonesia

Outcome	Description
Market Positioning	The merger has strengthened the combined entity's market position, enhancing its competitiveness against other Islamic and conventional banks. - Changes in market share, customer base, and competitive positioning are notable post-merger. - Post-merger marketing and branding strategies have improved the bank's visibility.
Synergy Realization	Integration of operations, systems, and human resources post-merger has influenced the realization of synergies and cost efficiencies. Financial performance metrics, such as profitability, asset quality, and capital adequacy, are key indicators of the merger’s success. - The merger achieved anticipated synergies, including cost savings and improved economies of scale. - Key financial metrics show improvements post-merger compared to pre-merger performance.
Product and Service Offerings	The merged entity has expanded its product and service offerings, leveraging the strengths of the merging banks to serve a broader customer base. - The operational integration process has largely succeeded, but any challenges or disruptions encountered during the integration must be addressed to maintain operational efficiency.
Customer Experience	Post-merger, customer satisfaction and retention rates are critical for maintaining market share and building trust in the merged entity. - Customer feedback is vital in identifying areas for improvement in products, services, and customer support.
Regulatory Compliance	Ensuring compliance with Shariah principles and regulatory requirements remains essential for the merged entity. - Risk management practices and internal controls have been evaluated to mitigate risks associated with the merger.

According to The Asian Banker (2021), BSI has a strong national positioning following the merger, although there is still potential for further optimization on a global scale. Data from the Otoritas Jasa Keuangan (2020c) confirms that the national Islamic banking market share has grown to 6.18 percent. In terms of total assets, BSI ranks highest among national Islamic banks and seventh among national banks overall, while globally, it holds the 19th position. Islamic banks, which operate on the principles of fairness, risk-sharing, and avoiding interest-based transactions, face the same economic pressures as conventional banks. However, their structure, which emphasizes asset-based financing, ethical investments, and socially responsible banking, gives them unique resilience during crises (World Bank, 2021).

Five Forces Model of the Islamic Banking Merger

The competitive landscape of Islamic banking can be analyzed using Porter's Five Forces Model (Porter, 1979), which provides a framework for developing strategies that shape the structure of the banking industry at both national and global levels. This approach enables Islamic banks to position themselves effectively in an increasingly competitive environment (Kodrat, 2019). By integrating Porter's Five Forces with a SWOT analysis, a comprehensive assessment of the merged entity's opportunities, challenges, and competitive dynamics emerges. This analysis serves as a guide for strategic decision-making, risk management, and resource allocation to maximize the benefits of the merger and support long-term growth in the Islamic banking sector.

Table 11. Five Forces Model of the Islamic Banking Merger

Indicator	Definition	Information
New Entrants	The threat of entry of new entrants into an industry. The presence of new entrants with new capacities and the desire to seize market share (Hussain, Khatoon, & Sarwar, 2019). There are six primary sources of barriers to entry into an industry: 1. economies of scale, 2. product differentiation, 3. capital requirement, 4. cost of switching suppliers, 5. access to distribution channels, and 6. unfavorable costs, regardless of scale.	Moderate. The relatively high initial capital required for establishing a new bank influences this, with IDR 1 billion for Islamic banks (PBI No. 11/3/PBI/2009 concerning Islamic Commercial Banks) and IDR 3 billion for conventional banks (PBI No. 11/1/PBI/2009 concerning Commercial Banks). Additionally, the provision of infrastructure (HR, technology) that supports banking operations is one of the obstacles to the arrival of new entrants.
Bargaining Power of Customers	The strength of each buyer is an essential aspect of the industry (Rachdi & Mokni, 2014). There are four situations that favor buyers in having market bargaining power: 1. centralized buyer group, 2. products purchased from the industry are a significant part of the cost, 3. quality of purchased product, 4. complete information.	Moderate. In general, customers of Islamic banking comprise only a few segments, most of which are permanent employees of the private sector and state civil servants who carry out consumptive financing by paying off salary deductions, in contrast to productive financing in the corporate sector with relatively high bargaining power. Therefore, Islamic banking needs to prepare various kinds of bargaining power for all existing customers.
Bargaining Power of Suppliers	The bargaining power of each supplier will threaten companies that have been getting input from suppliers (Syamlan, Wahyuni, & Sudiharto, 2023). The company's dependence on suppliers is increasing over time. This is done by increasing or decreasing the quality of the product to be purchased. Several factors give suppliers power: 1. the supplier does not face other substitutes for the product sold, 2. the industry is not the critical customer, 3. the supplier's product is an essential input, 4. differentiated supplier group products.	High. Suppliers are the providers of various sources of funds and services, especially the owners of funds (third-party funds or non-third-party funds). In particular, industrial and large corporate customers generally ask for a special rate to be willing to place their funds in Islamic banks, which will cause the fund structure in Islamic banks to become less than ideal and will have an impact on the high cost of funds. Therefore, a portfolio of increased funding will increase the bargaining power of suppliers.
Substitutes	All firms in the existing industry compete in a broad sense by producing substitute products. This substitute product limits the potential profit of the industry by setting a ceiling price that companies in	High. One of the threats is substitute products from Islamic financial institutions that can offer lower fees or easier, simpler processes, and it can be an easy switching process that can severely threaten Islamic banking. Institutions that

Indicator	Definition	Information
	the industry can provide (Mehjabeen, 2018; Komite Nasional Keuangan Syariah, 2019). The more attractive the alternative prices offered by substitute products, the tighter the restrictions on industry profits. The focus is on: 1. products that tend to have a better price or performance than industrial products, 2. products produced by the industry generate high profits for the company.	have the potential to become substitutes for Islamic banking include conventional state-owned banks, BPR or BPRS services, savings and loan cooperatives, multi-finance consumer financing institutions, and technology-based financial services that take advantage of network and service advantages.
Existing Competitors	Rivalry among existing competitors takes the form of a race for a position using various tactics (Ghozali, Kamri, & Khafid, 2022). Five factors lead to rivalry among existing competitors: 1. number of competitors, 2. differentiation, 3. capacity addition, 4. diverse competitors, 5. exit barriers.	Very high. Competition conditions in the Islamic banking industry are relatively tight because the leading players from BUS, UUS, and BPRS compete strictly in business related to the existing Islamic banking market share. Large capitalization and a vast network of sharia offices or services are indicators of sharia banking competition.

The analysis shows that Islamic banking faces moderate to high levels of competition and market threats. To strengthen their strategic position, Islamic banks should adopt the following approaches (Kementerian Perencanaan Pembangunan Nasional, 2019):

1. Product differentiation and innovation: Enhance the existing customer base by diversifying products that highlight unique Sharia principles to reach untapped segments.
2. Service quality orientation: Expand network and services to prioritize customer convenience and satisfaction.
3. Institutional strengthening: Improve capital adequacy and governance in line with corporate governance standards.
4. Business development focus: Support dynamic customer needs through modern information technology and competent human resources.

SWOT Analysis of the Islamic Banking Merger

In addition to Porter's Five Forces, a SWOT analysis provides a comprehensive evaluation of the merger's impact on Islamic banking by identifying its strengths, weaknesses, opportunities, and threats.

Table 12. SWOT Analysis on the Merger of Islamic Banks

Strengths	Weaknesses
- Strong funding from loyal Muslim and non-Muslim customers who trust the Sharia system	- High-cost, short-term deposits dominate funding, limiting long-term financing capabilities
- Significant hajj deposit funds and support from BPKH	- Human resources are insufficient, especially in risk management and financing analysis

Strengths	Weaknesses
- Clear regulatory framework from government authorities and Sharia councils	- Spin-off policy requires substantial investment in capital and business expansion
- Strong performance metrics such as ROA, ROE, BOPO, and NPF	- Limited capital and regulatory constraints hinder optimal financing allocation
- Efficient use of the Islamic banking network to reduce operational costs and increase profits	
Opportunities	**Threats**
- Halal industry and MSME development	- Strong presence of conventional banks and financial institutions competing for large-scale customers
- Large unbanked population represents untapped potential	- Shortage of skilled human resources knowledgeable in Islamic banking principles
- Government support for the development of the Sharia economy	- Difficulty in raising capital and low economies of scale
- Increasing demand for digital banking services to enhance customer experience	- Technological gaps compared to other financial institutions and limited banking literacy in the market
- Potential for attracting foreign investment, particularly from Middle Eastern countries	

Islamic banking development can be approached through various strategies, ranging from maintaining the status quo to pursuing more aggressive growth plans through full regulatory intervention. Financial inclusion programs are crucial for the success of PT Bank Syariah Indonesia in expanding its market share and attracting customers to Sharia banking services. One recommended tactic is adopting a top-down approach to increase market share by 10-15%, targeting both Islamic and conventional banking customers (Miftah, 2020). This strategy not only aims to boost the market share of Islamic banking but also strengthens the broader banking system.

The findings demonstrate that the merger has been successful in enhancing the competitiveness of Islamic banking in Indonesia. Several factors contributed to this success. Firstly, strategic integration and management played a crucial role, as effective leadership facilitated the smooth integration of operations, resources, and organizational cultures. This is in line with strategic management theories, which emphasize the importance of organizational capabilities in mergers (Cartwright & Cooper, 1995). Secondly, BSI focused on product differentiation and innovation, attracting new market segments and enhancing customer satisfaction. This approach is consistent with Porter's Competitive Advantage theory, which highlights differentiation as a key factor in achieving superior performance (Porter, 1979). Thirdly, the bank emphasized enhanced service quality and digital transformation, improving both customer experience and operational efficiency. This supports the findings of Alam et al. (2021), who highlight the critical role of technological integration in Islamic banking.

In addition, the merger led to institutional strengthening, with improved capital adequacy and governance structures that enhanced the bank's stability and adherence to Sharia principles. This is consistent with the unique governance requirements of Islamic banks, as discussed by Hasan and Dridi (2011). Finally, the study highlighted the resilience of Islamic banking in Indonesia during the COVID-19 pandemic, as the sector demonstrated positive growth in assets, third-party funds, and financing. This highlights the inherent strengths of Islamic banking principles in mitigating economic shocks (Noor & Ahmad, 2012).

CONCLUSION

The merger of Bank Syariah Mandiri, BNI Syariah, and BRI Syariah into Bank Syariah Indonesia (BSI) marks a significant milestone in strengthening Indonesian Islamic banking sector. This study aimed to evaluate the effectiveness of the merger by addressing three key areas: the opportunities and challenges faced during the merger process, the condition of Islamic banking during the COVID-19 pandemic, and the overall effectiveness of the merger. The findings demonstrate that the merger has successfully enhanced competitiveness through strategic integration, product differentiation, service quality improvements, and digital transformation. Additionally, BSI has emerged as a more resilient and stable institution, effectively navigating the challenges posed by the COVID-19 pandemic. This success can be attributed to strong leadership, adherence to Sharia principles, and a supportive regulatory environment.

The implications of this merger extend beyond BSI, offering a valuable model for future consolidations within the Islamic banking sector, both domestically and internationally. By prioritizing stakeholder engagement, human capital development, technological advancement, and Sharia compliance, BSI has laid the groundwork for sustainable growth and increased financial inclusion. While the initial success is evident, continued monitoring of BSI's long-term financial performance, customer satisfaction, and risk management strategies will be crucial. Further research exploring comparative analyses and the impact of digital transformation will provide valuable insights for refining strategies and ensuring the ongoing growth and resilience of Indonesian Islamic banking sector. Ultimately, the success serves as a testament to the potential of Islamic finance to contribute to national development goals while upholding ethical and social values.

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