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The Economic and Social Impact on Banking Merger: A Study on Indonesia State-Owned Islamic Bank Merger

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Abstract

This study examines the economic and social impacts of the 2021 merger of three state-owned Islamic banks in Indonesia—Bank Syariah Mandiri, Bank BRI Syariah, and Bank BNI Syariah—into Bank Syariah Indonesia (BSI). The merger aimed to enhance operational efficiency, competitiveness, and the overall financial stability of the Islamic banking sector in Indonesia, serving the growing needs of the Muslim population. The primary research question focuses on how the merger has affected both the financial performance of the banks involved and its broader social implications, particularly regarding financial inclusion and job displacement. The methodology involves a qualitative analysis based on financial reports, academic literature, and market data. The study explores key performance metrics such as capital adequacy, profitability, and operational efficiency, as well as the social effects of the merger on employees and communities. Results indicate that the merger improved efficiency and positioned BSI as a key player in the Islamic finance industry. However, challenges related to integrating different corporate cultures and maintaining Shariah compliance were identified. The study recommends enhancing cultural integration programs, improving operational efficiency, expanding financial inclusion efforts, and continuous performance monitoring to ensure long-term success.

Keywords

Economic, Social, Impact, Islamic Banks, State-Owned Bank.

Introduction

The Islamic banking industry has witnessed a significant transformation in recent years, with the emergence of mergers and acquisitions (M&A) as a strategic tool for growth and expansion. Islamic banks, which operate based on the principles of Shariah law, have been increasingly seeking to consolidate their operations to enhance their competitiveness and achieve greater economies of scale (Ullah and Abu Seman, 2018). This trend has been particularly evident in various regions, including the Middle East, Southeast Asia, and Africa, where Islamic banking has gained a strong foothold.

One of the most notable examples of an Islamic banking merger is the recent merger of three state-owned Islamic banks in Indonesia, namely Bank Syariah Mandiri, Bank BRISyariah, and Bank BNI Syariah, to form the largest Islamic bank in the country, Bank Syariah Indonesia (BSI) (Yusuf and Ichsan, 2021). This merger, which was completed in 2021, aimed to create a stronger and more resilient Islamic banking institution that could better serve the needs of the country's growing Muslim population and contribute to the overall development of the Indonesian economy.

The merger of Islamic banks is not limited to Indonesia, as similar consolidation efforts have been observed in other parts of the world. For instance, in the United Arab Emirates, the merger of the Abu Dhabi Islamic Bank and Al Hilal Bank in 2019 created the second-largest Islamic bank in the country (Indupurnahayu *et al*., 2022). In Malaysia, the merger of CIMB Islamic Bank, RHB Islamic Bank, and Bank Muamalat Malaysia in 2021 resulted in the formation of the country's largest Islamic bank (Nugroho *et al*., 2021).

The primary drivers behind the merger of Islamic banks are multifaceted and can be attributed to a range of factors. One of the key reasons is the need to enhance competitiveness and achieve greater economies of scale in an increasingly competitive and dynamic banking landscape (Goyal and Joshi, 2011). Larger Islamic banking institutions can leverage their size and resources to offer a broader range of products and services, improve operational efficiency, and better manage risks.

Another important factor is the desire to strengthen the resilience and stability of Islamic banking institutions, particularly in the face of economic challenges and uncertainties (Indupurnahayu *et al*., 2022). Mergers can help to diversify risk, improve access to capital markets, and enhance the overall financial soundness of the merged entity.

Furthermore, the merger of Islamic banks can also be driven by the need to expand geographical reach and tap into new markets (Tiwari, 2011). By combining their resources and expertise, Islamic banks can enhance their ability to penetrate new regions and serve a larger customer base, thereby increasing their market share and overall competitiveness.

In addition, regulatory changes and government initiatives have also played a role in encouraging the consolidation of Islamic banking institutions. In some countries, policymakers have actively promoted the merger of Islamic banks as a means of strengthening the industry and enhancing its contribution to the broader financial system (Verma and Rathore, 2018).

The merger of Indonesian State-Owned Islamic Banks (Syariah Mandiri, BRI Syariah, and BNI Syariah) presents a unique opportunity to delve into the intricate details of its economic and social impacts. This study goes beyond a surface-level analysis and aims to provide a comprehensive understanding of how this merger affects both the social and economic landscapes. By focusing on the challenges and opportunities that arise from such mergers, the researchers aim to uncover valuable insights that can inform decision-making processes within the institutions involved. Through the utilization of qualitative research methods and exploratory analysis of financial reports, the study seeks to offer insightful assessments and recommendations to effectively address the issues that may arise from the merger. By offering strategic solutions to current problems, the ultimate goal is to support the banks in navigating the complexities of the merger process and ultimately enhance their performance in the long run. By shedding light on the implications for the banking sector as a whole, this study aims to provide valuable insights that can guide the institutions involved in making informed decisions. The researcher aims to gain a deeper understanding of the challenges and opportunities that arise from such mergers, ultimately aiming to support the banks in enhancing their performance and maximizing their impact on both the social and economic landscapes. The study's findings and recommendations will provide a roadmap for the banks to effectively navigate the merger process and emerge stronger and more resilient in the long term.

Literature review

The merger of Islamic banks is part of a broader trend of consolidation in the banking and financial services industry, which has been observed globally. Mergers and acquisitions have become a common strategy for financial institutions to achieve various strategic objectives, such as enhancing market share, improving operational efficiency, and diversifying their product and service offerings (Lal, 2014).

In the conventional banking sector, M&A activities have been particularly prevalent, with numerous high-profile mergers and acquisitions taking place in recent years. For instance, the merger of BB&T and SunTrust Banks in the United States in 2019 created the sixth-largest bank in the country, while the acquisition of Wachovia by Wells Fargo in 2008 was one of the largest bank mergers in US history (DivyaPriya, 2012).

Similarly, in the Indian banking industry, several mergers and acquisitions have been undertaken, often with the aim of strengthening the overall banking sector and improving its competitiveness (Kumari, 2014). The merger of State Bank of India and its associate banks in 2017, as well as the merger of Bank of Baroda, Vijaya Bank, and Dena Bank in 2019, are notable examples of such consolidation efforts (Indrapriya, 2018).

The drivers behind these mergers and acquisitions in the conventional banking sector are largely similar to those observed in the Islamic banking industry, including the pursuit of economies of scale, enhanced market positioning, and improved risk management capabilities (Verma and Rathore, 2018). However, the specific considerations and regulatory frameworks governing Islamic banking mergers may differ, given the unique principles and requirements of Shariah-compliant finance.

The Islamic banking industry has experienced significant growth in recent years, with its assets reaching $2.88 trillion globally in 2020 (Adekoya, 2022). This growth can be attributed to the increasing demand for Shariah-compliant financial services, particularly in countries with large Muslim populations. Islamic banking offers a unique alternative to conventional banking, as it operates based on the principles of Islamic law, which prohibit the charging of interest and promote profit-and-loss sharing (Wajdi Dusuki, 2008).

The potential of the Islamic banking industry is further highlighted by its ability to cater to the unbanked and underbanked populations, particularly in developing countries. Islamic banking has been instrumental in promoting financial inclusion and providing access to financial services for individuals and small businesses that may have been excluded from the conventional banking system (Wajdi Dusuki, 2008). This has led to a growing interest in Islamic banking as a tool for economic development and poverty alleviation.

Moreover, the Islamic banking industry has demonstrated resilience during times of economic uncertainty, as its focus on asset-backed financing and risk-sharing mechanisms have helped it weather financial crises better than conventional banks (Rizvi *et al*., 2020). This has further strengthened the appeal of Islamic banking as a viable alternative to traditional banking models.

Despite its growth and potential, the Islamic banking industry faces several challenges, including the need for harmonization of regulatory frameworks, the development of a robust Shariah governance system, and the availability of skilled human resources (Adekoya, 2022). Addressing these challenges will be crucial for the continued expansion and success of the Islamic banking industry.

Mergers and acquisitions (M&A) have become an increasingly common strategy in the Islamic banking industry, as banks seek to enhance their competitiveness, expand their market share, and achieve economies of scale (Tyas and Rusydiana, 2021). The effectiveness of Islamic banking mergers has been a topic of growing interest among researchers and industry practitioners.

One of the key benefits of Islamic banking mergers is the potential to improve operational efficiency. By combining resources and streamlining operations, merged banks can achieve cost savings and enhance their overall performance (Astricia *et al*., 2020). This can be particularly advantageous in a highly competitive market, where cost-efficiency is a critical factor for success.

Moreover, Islamic banking mergers can also lead to the diversification of product offerings and the expansion of customer bases, as the merged entity can leverage the strengths and capabilities of the individual banks (Wijayanti *et al*., 2022). This can help Islamic banks better meet the evolving needs of their customers and remain competitive in the market.

However, the effectiveness of Islamic banking mergers is not without its challenges. Integrating different organizational cultures, IT systems, and Shariah governance frameworks can be a complex and time-consuming process, which can potentially hinder the realization of expected synergies (Rizal *et al*., 2021). Additionally, the regulatory and legal environment in which Islamic banks operate can also pose challenges, as the harmonization of regulatory frameworks across different jurisdictions can be a significant hurdle.

To address these challenges, Islamic banks must adopt a strategic and well-planned approach to mergers and acquisitions. This includes conducting thorough due diligence, aligning organizational cultures, and ensuring the effective integration of Shariah governance frameworks (Rizal *et al*., 2021). By doing so, Islamic banks can maximize the potential benefits of mergers and enhance their overall competitiveness in the market.

The economic rationale behind banking mergers, including those in the Islamic banking industry, is multifaceted and driven by various factors. One of the primary reasons for banking mergers is the pursuit of economies of scale and scope (Abdou and Ghosh, 2011). By combining resources and operations, banks can achieve cost savings through the elimination of redundant functions, the consolidation of back-office operations, and the sharing of infrastructure and technology.

Another key economic driver for banking mergers is the diversification of revenue streams and risk management (Abdou and Ghosh, 2011). By merging with other banks, financial institutions can expand their customer base, product offerings, and geographic reach, thereby reducing their exposure to idiosyncratic risks and enhancing their overall resilience to economic shocks.

In the context of the Islamic banking industry, the economic rationale for mergers is further amplified by the need to address the challenges of scale and market share. Many Islamic banks, particularly in developing countries, operate in relatively small and fragmented markets, which can limit their ability to achieve the necessary scale to compete effectively with larger conventional banks (Rizal *et al*., 2021). Mergers can help Islamic banks overcome these challenges by creating larger, more efficient, and more diversified entities that can better serve their customers and respond to market demands.

Moreover, the economic benefits of Islamic banking mergers can extend beyond the individual institutions involved. By strengthening the overall Islamic banking sector, successful mergers can contribute to the development of a more robust and resilient financial system, which can have positive spillover effects on the broader economy (Asrar *et al*., 2022). This is particularly relevant in countries where Islamic banking plays a significant role in the financial landscape.

However, it is important to note that the economic benefits of banking mergers are not guaranteed, and the success of a merger is largely dependent on the effective integration of the merging entities, the alignment of strategic objectives, and the ability to realize the expected synergies (Astricia *et al*., 2020). Careful planning, execution, and post-merger integration are crucial to ensure that the economic rationale behind a banking merger is fully realized.

Methods

The methodology employed in this study utilized a combination of qualitative analysis and an extensive literature review to provide a comprehensive understanding of the subject matter. The researchers employed a comprehensive methodology by utilizing information from a diverse range of sources, mainly from official banking reports of Syariah Mandiri, BNI Syariah, and BRI Syariah at the end of 2020. In addition to these official reports, the researchers also included academic literature, financial reports, and statistical data to ensure a well-rounded and thorough analysis. By incorporating information from various sources, the researchers were able to gain a more holistic view of the topic and provide a comprehensive analysis for their study. This multi-faceted approach allowed for a more in-depth exploration of the subject matter and helped to ensure the accuracy and reliability of the findings presented in the study.

The approach outlined in the content above involves the use of qualitative research methods and exploratory analysis of financial reports. By utilizing these methods, the study aims to provide in-depth assessments and recommendations to effectively tackle any challenges that may arise from a merger. This approach allows for a more thorough understanding of the potential issues and provides valuable insights for companies looking to navigate the complexities of merging with another entity. Through this comprehensive analysis, organizations can make more informed decisions and better prepare for the changes and adjustments that come with a merger.

By utilizing a combination of qualitative analysis methods and closely examining the data that was collected, the researchers were able to unearth significant and insightful findings that add to the current understanding within this

particular field of study. This approach allowed for a deeper exploration of the subject matter and provided new insights that contribute to the existing body of knowledge. The rigorous analysis process helped to uncover key patterns, trends, and relationships within the data, shedding light on important aspects that may have been previously overlooked. Overall, this research methodology proved to be effective in generating valuable insights and furthering the understanding of the topic at hand

Analysis/Discussion

Islamic Banking Performance Overview Before Merger

The following data shows a mixed performance across the Islamic banking sector prior to the merger. While some banks demonstrated strong capital positions and profitability, others faced challenges in managing non-performing assets and operational efficiency. The merger likely aimed to consolidate resources, enhance risk management, and streamline operations to improve overall financial health and competitiveness. Banks with high CARs (Capital Adequacy

Classification	BSM	BRIS	BNIS	BMI	BAS	BTPNS	Mega Syariah	Panin Dubai Syariah	NTB Syariah	BCA Syariah	BJB Syariah	Syariah Bukopin	Victoria Syariah
Capital Adequacy Ratio (CAR)	16.9	19	21.4	15.2	18.6	49.4	24.2	31.4	31.6	45.3	24.1	22.2	24.6
Non-Performing Financing (NPF) Gross	2.5	3.2	3.4	4.8	1.5	1.9	3.4	1.3	5.3	0.5	1.7	7.5	4.73
Non-Performing Financing (NPF) Nett	0.7	1.8	1.4	4	0.04	0.02	2.5	0.8	2.9	0.01	1.4	5	3
Return on Asset (ROA)	1.7	0.8	1.3	0	1.7	7.2	1.7	0.1	1.7	1.1	0.4	0.04	0.2
Return on Equity (ROE)	15	5	10	0.3	15.7	16.1	9.8	0	9.5	3.1	0.5	0.02	-0.1
Net Income	6.1	5.9	6.4	1.9	6.9	24.8	5	1.2	4.4	4.6	5.1	1.9	1.9
Operation Efficacious Ration (BOPO)	81.8	91	84.1	99.5	81.5	72.4	85.5	99.4	81.4	86.3	95.4	97.7	96.9
Financing to Deposits Ratio (LDR)	74	81	68.9	69.8	70.8	97.4	63.9	111.7	86.5	81.3	86.6	196.7	74.1

Ratios) and profitability, like BTPN Syariah, were well-positioned, while weaker players, like Muamalat and Bukopin, would benefit from the stability and support of a merger to address their financial vulnerabilities.

Table 1: Analysis of Islamic Banking Performance Before Merging 2021 (in%)

Table 1 presents an in-depth analysis of key financial indicators for Islamic banks prior to their 2021 merger. This analysis assesses critical performance metrics such as Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Return on Assets (ROA), Return on Equity (ROE), and other operational ratios for various Islamic banks. These indicators provide insight into the financial health, risk management, and operational efficiency of these banks leading up to the merger.

The Capital Adequacy Ratio (CAR) is a key metric used to evaluate the financial health and stability of banks, as it reflects their ability to absorb potential financial risks and remain solvent. In general, a higher CAR indicates a stronger capital position and a lower risk of insolvency. Among the banks evaluated, most demonstrated strong capital positions, with notable high CARs exhibited by institutions such as BTPN Syariah (49.4%) and BCA Syariah (45.3%). These banks are well-equipped to withstand financial shocks and maintain their operations even in challenging economic conditions. On the other hand, Muamalat reported the lowest CAR at 15.2%, which suggests a potential vulnerability to financial shocks. This indicates that Muamalat may need to take steps to strengthen its capital base and improve its resilience to adverse market conditions. One standout figure in the evaluation is Aladin, which reported an exceptionally high CAR of 329.1%. This indicates that Aladin has a very robust capital base, far exceeding the minimum requirements set by regulatory authorities. With such a strong financial position, Aladin is well-positioned to weather any potential financial storms and continue to thrive in the competitive banking industry.

Non-performing financing (NPF) ratios are key indicators of a financial institution's asset quality and the likelihood of default on loans. These ratios, specifically NPF Gross and NPF Nett, provide insight into how well a bank is managing its credit risk and ensuring the health of its loan portfolio. In the case of Syariah Bukopin and NTB Syariah, their higher NPF Gross ratios of 7.5% and 5.3% respectively highlight potential challenges in credit management. This could indicate issues with loan underwriting standards, borrower creditworthiness assessment, or ineffective collection practices. On the other hand, banks like BCA Syariah and BTPN Syariah have impressively low NPF ratios of 0.5% and 0.02% respectively. This demonstrates their strong risk control measures and proactive approach to managing credit risk. These banks have likely implemented robust credit policies, monitoring mechanisms, and collection strategies to ensure the quality of their loan portfolio remains high.

When analysing the financial performance of Islamic banks, it is crucial to consider key ratios that assess both profitability and efficiency. In this regard, BTPN Syariah emerges as a standout performer with a ROA of 7.2% and ROE of 16.1%. These impressive figures indicate that the bank is not only profitable but also effectively manages its assets to generate returns for its shareholders. On the other hand, Muamalat paints a contrasting picture with its ROA and ROE hovering around 0%, suggesting that the bank may be facing some financial distress. This is a cause for concern as profitability is a key indicator of a bank's health and sustainability in the long run. In comparison, banks like BNI Syariah and Mega Syariah demonstrate moderate profitability, with ROA figures of 1.3% and 1.7% respectively. While these numbers are not as high as BTPN Syariah's, they still indicate a decent level of performance in terms of generating returns from their assets. However, it is the smaller banks such as Syariah Bukopin that seem to be struggling the most, with minimal ROA and ROE figures.

The BOPO ratio measures how efficiently banks are managing their operations relative to income. Lower ratios are favourable, indicating higher operational efficiency. Aladin (56.2%) and BTPN Syariah (72.4%) demonstrated high efficiency, while banks like Muamalat (99.5%) and Panin Dubai Syariah (99.4%) had high BOPO ratios, suggesting inefficiencies and high operational costs.

FDR, or Financing to Deposit Ratio, is a key metric used to evaluate how efficiently a bank is using its deposits to fund its lending activities. It gives insight into whether a bank is relying too heavily on borrowed funds to finance its operations, which can be risky. In the case of Panin Dubai Syariah and Bukopin, their FDR ratios of 111.7% and 196.7%, respectively, indicate that they may be over-leveraged. This means that they are relying heavily on borrowed funds rather than customer deposits to fund their lending activities. While this can allow for rapid growth, it also exposes the bank to greater risk in case of market downturns or financial instability. On the other hand, banks like BCA Syariah and BNI Syariah, with FDR ratios of 81.3% and 68.9%, respectively, have more balanced ratios. This suggests that they are using a more conservative approach to funding their lending activities, relying more on customer deposits rather than borrowed funds. While this may result in slower growth compared to over-leveraged banks, it also helps to mitigate risk and ensure stability in the long run.

Pre-Performance of Merged-Bank

The following data shows list of performances across the state-owned Islamic banks prior to the merger.

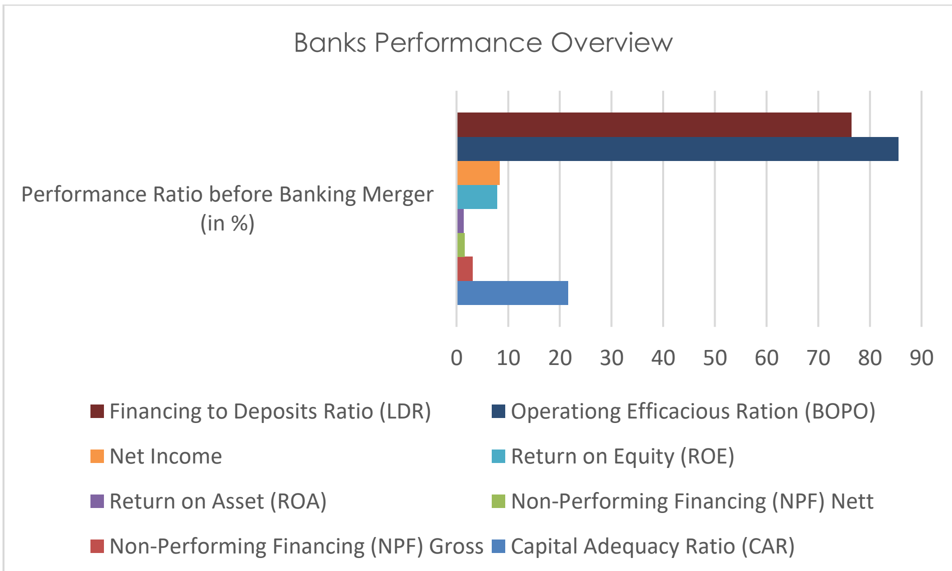

Figure 1: State-Owned Islamic Banks before Merging

The figure 1 shows a detailed and thorough analysis of Shariah-compliant commercial banks in the period leading up to a significant banking merger. It goes beyond just presenting numbers and figures, providing a holistic view of the financial landscape these banks operate in. By shedding light on their operational performance and the challenges they face, the chart gives us a glimpse into the complex world of Islamic banking. Shariah banks operate under a unique set of principles that set them apart from traditional banks. The prohibition of interest and speculative investments means that they must rely on alternative financial structures like asset-backed transactions and risk-sharing models. While this approach has its advantages and strengths, it also poses certain challenges, especially when Shariah-compliant banks find themselves in competition with conventional banks. In essence, the chart serves as a valuable resource for anyone looking to gain a deeper understanding of the intricacies of Islamic banking. It not only informs us about the financial health of these banks but also offers insights into the broader implications of their operations. With the impending banking merger looming, the information presented in the chart becomes even more relevant and significant, providing a snapshot of the state of Shariah-compliant commercial banks at a crucial moment in their history.

Shariah-compliant banks have been gaining popularity among a growing population that values ethical banking practices. This trend is particularly evident in regions with a large Muslim demographic, where individuals prioritize aligning their financial decisions with Islamic Principles. By adhering to these guidelines, Shariah-compliant banks are able to differentiate themselves in the market and attract a loyal customer base. One of the key strengths of Shariah-compliant banks is their ability to offer financial products and services that are in accordance with Islamic law. This includes avoiding interest-based transactions and investing in permissible assets, such as those related to real estate, commodities, and ethical businesses. As a result, customers who are seeking to uphold their beliefs and values can trust that their money is being managed in a way that aligns with their religious principles. Furthermore, by positioning themselves as ethical and socially responsible institutions, Shariah-compliant banks are able to appeal to a broader audience beyond just the Muslim community. This includes individuals who prioritize sustainability, transparency, and fair treatment of customers. As a result, Shariah-compliant banks are able to tap into a growing market segment that values integrity and trustworthiness in their financial partners.

By implementing risk-sharing mechanisms such as profit-and-loss sharing and asset-backed financing, financial institutions are able to reduce speculative risks and enhance their relationships with clients. This approach not only helps to mitigate potential losses for both parties, but also promotes a sense of mutual responsibility and accountability in their business dealings. Profit-and-loss sharing, in particular, encourages a more collaborative approach to investment and financing, as both parties have a stake in the success of the venture. This shared risk can lead to a more thorough analysis of the potential risks and rewards associated with a particular investment, fostering a stronger bond between the institution and its clients. Furthermore, asset-backed financing provides a tangible security for both parties involved in a transaction. By securing the financing with a tangible asset, such as real estate or equipment, the risk of default is significantly reduced, giving both the lender and the borrower peace of mind in their business dealings.

These operational inefficiencies were primarily due to the smaller scale of Shariah banks compared to conventional banks, resulting in higher per-unit costs for services and products. Additionally, the limited product range offered by Shariah banks was a result of the complex processes and compliance requirements associated with developing and offering Shariah-compliant financial products. Furthermore, the lack of standardized Shariah compliance frameworks and guidelines across the industry also contributed to operational challenges for Shariah banks. This inconsistency in interpretation and application of Shariah principles often led to delays in product development and approval processes, further hindering operational efficiency. In order to address these challenges and improve operational efficiency, many Shariah banks undertook initiatives such as investing in technology and infrastructure upgrades, streamlining processes, and enhancing staff training and development programs. These efforts aimed to reduce transaction costs, improve product offerings, and ensure compliance with Shariah principles in a more efficient and effective manner.

Despite their niche following, Shariah banks face challenges in expanding their market reach beyond this specialized customer base. One of the main hurdles they encounter is the perception that their product offerings are limited and their financial structures are overly complex. This perception can deter potential customers who may be unfamiliar with the principles of Islamic banking and hesitant to navigate the intricacies of Shariah-compliant financial products. Furthermore, Shariah banks may also struggle to compete with conventional banks that have a more established presence and offer a wider range of traditional financial products and services. This can make it difficult for Shariah banks to attract customers who are not specifically seeking out Islamic banking options or who may be more comfortable with the offerings of conventional institutions. In order to overcome these challenges and increase their market penetration, Shariah banks need to focus on educating the broader public about the benefits and principles of Islamic banking. By increasing awareness and understanding of Shariah-compliant financial products, these banks can attract a more diverse customer base and expand their market share. Additionally, they may need to innovate and develop new products that appeal to a wider audience while still remaining true to Islamic principles.

The impending merger between the two financial institutions can be seen as a strategic move to capitalize on the strengths of both organizations while addressing their individual weaknesses in the competitive financial landscape. By consolidating resources, the merged entity will be better positioned to streamline operations, reduce redundancies, and ultimately increase efficiency. This increased efficiency will not only benefit the bottom line of the organization but also improve customer service and satisfaction. Furthermore, the merger will allow the combined entity to strengthen its market presence by leveraging the strengths of each organization and expanding their product offerings. This will enable them to better meet the diverse needs of their customers and compete more effectively with larger, more established financial institutions. In particular, the analysis suggests that Shariah banks, with their strong ethical and structural foundations, have the potential to differentiate themselves in the market by focusing on providing Islamic financial products and services. However, in order to fully capitalize on this advantage, the merged entity will need to enhance its operational efficiency and broaden its product offerings to attract a wider range of customers.

Social and Economic Impact on Banking Merger

The merger of banks, particularly in the Islamic banking industry, has significant economic implications that extend beyond the immediate financial performance of the institutions involved. One of the primary economic impacts of banking mergers is the potential to achieve economies of scale and increased efficiency (Kurniawan *et al*., 2023). By combining resources, such as branch networks, IT infrastructure, and administrative functions, the merged entity can leverage its size to reduce costs and improve profitability. This, in turn, can lead to more competitive pricing and better service offerings for customers, ultimately benefiting the broader economy (Utami *et al*., 2022).

Moreover, banking mergers can also contribute to the development of the Islamic finance sector, which plays a crucial role in promoting economic growth and financial inclusion (Ghozali *et al*., 2022). The creation of larger, more robust Islamic banks can enhance their ability to mobilize resources, expand their product and service offerings, and reach a wider customer base, including underserved segments of the population (Kurniawan, 2023). This can lead to increased access to Sharia-compliant financial services, fostering financial inclusion and supporting the growth of the Islamic economy (Syarifuddin *et al*., 2022).

Another economic impact of banking mergers is the potential to enhance the stability and resilience of the financial system (Rosmiati *et al*., 2023). Larger, more diversified banks may be better equipped to withstand economic shocks and market volatility, reducing the risk of systemic instability and promoting overall financial stability (Nurlaila *et al*., 2022). This can have positive ripple effects on the broader economy, as a stable financial system is crucial for sustained economic growth and development.

The merger of banks, particularly in the Islamic banking industry, can also have significant social implications. One of the key social impacts is the potential for job displacement and changes in employment patterns (Sopiah *et al*., 2021). Mergers often result in the consolidation of operations and the streamlining of organizational structures, which can lead to redundancies and job losses. This can have a direct impact on the livelihoods of affected employees and their families, and may require proactive measures to support workforce transitions and mitigate the social costs of the merger (Robbie and Novianti, 2020).

Another social impact of banking mergers is the potential for changes in the organizational culture and work environment (Suryadi *et al*., 2023). The integration of different corporate cultures and management styles can be a challenging process, and may require significant efforts to foster a cohesive and inclusive work culture that aligns with the values and principles of Islamic banking (Kurniawan *et al*., 2023). Effective change management and employee engagement strategies are crucial in navigating these cultural transitions and ensuring that the merged entity maintains a strong commitment to Sharia-compliant practices and customer service (Utami *et al*., 2022).

Furthermore, the success of banking mergers can have broader social implications, particularly in terms of the impact on the communities served by the merged entity. Larger, more efficient Islamic banks may be better positioned to expand their reach and provide more accessible and affordable financial services to underserved populations, contributing to financial inclusion and social development (Ghozali *et al*., 2022). This can have a positive ripple effect on local economies, supporting entrepreneurship, job creation, and overall community well-being (Kurniawan, 2023).

The performance of the Islamic banking industry prior to the merger is a crucial factor in understanding the potential economic and social impacts of the merger. In the case of Indonesia, the Islamic banking industry has experienced significant growth and development in recent years, with the sector's total assets reaching IDR 593.24 trillion (USD 41.7 billion) as of December 2022 (Bank Indonesia, 2023).

However, the industry has also faced challenges, such as lower profitability compared to conventional banks, limited product diversification, and the need for greater operational efficiency (Sopiah *et al*., 2021). The pre-merger performance of the Islamic banking industry in Indonesia has been mixed, with some institutions performing better than others in terms of financial indicators, such as return on assets (ROA), return on equity (ROE), and non-performing financing (NPF) ratios (Nurlaila *et al*., 2022).

The merger of three leading Islamic banks in Indonesia, namely Bank Syariah Mandiri, Bank BRI Syariah, and Bank BNI Syariah, to form Bank Syariah Indonesia (BSI) in 2021, was seen as a strategic move to address these challenges and strengthen the overall performance of the Islamic banking sector (Utami *et al*., 2022). The merger aimed to create a larger, more efficient, and more competitive Islamic bank that could better serve the needs of the growing Muslim population in Indonesia and contribute to the development of the Islamic economy (Ghozali *et al*., 2022).

The merger of Islamic banks in Indonesia presents both opportunities and challenges that will shape the future performance and impact of the industry. One of the key opportunities is the potential to achieve greater economies of scale and operational efficiency, which can translate into improved financial performance and the ability to offer more competitive products and services (Kurniawan *et al*., 2023). The combined resources and expertise of the merged entities can also enable the development of more innovative and diverse Sharia-compliant financial solutions, catering to the evolving needs of the market (Utami *et al*., 2022).

Additionally, the merger can enhance the visibility and brand recognition of the Islamic banking industry, potentially attracting a wider customer base and increasing the overall market share of Sharia-compliant financial services (Ghozali *et al*., 2022). This, in turn, can contribute to the growth and development of the Islamic economy, supporting entrepreneurship, investment, and financial inclusion (Kurniawan, 2023).

However, the merger also presents several challenges that must be addressed to ensure its long-term success. One of the primary challenges is the integration of different corporate cultures, management styles, and operational processes, which can be a complex and time-consuming process (Suryadi *et al*., 2023). Effective change management and employee engagement strategies will be crucial in navigating these cultural transitions and maintaining a strong commitment to Sharia-compliant practices (Robbie and Novianti, 2020).

Another challenge is the potential for job displacement and the need to support affected employees during the transition (Sopiah *et al*., 2021). Proactive measures, such as retraining, job placement assistance, and social support programs, will be essential in mitigating the social costs of the merger and ensuring that the benefits of the merger are shared equitably among stakeholders (Rosmiati *et al*., 2023).

Furthermore, the merged entity will need to navigate the evolving regulatory landscape and ensure compliance with Sharia principles and guidelines, as well as address any potential concerns from the Muslim community regarding the integrity and transparency of the merged institution (Syarifuddin *et al*., 2022).

Conclusion

The merger of state-owned Islamic banks in Indonesia—Bank Syariah Mandiri, Bank BRI Syariah, and Bank BNI Syariah—has had significant economic and social implications. Economically, the merger created Bank Syariah Indonesia (BSI), the largest Islamic bank in the country, which aimed to enhance efficiency, reduce operational costs, and achieve economies of scale. The merger was also strategic for strengthening the competitiveness of Islamic banking in Indonesia, allowing BSI to better serve a growing Muslim population and contribute more effectively to the country's Islamic economy. However, some challenges persist, such as the integration of different corporate cultures, the standardization of operational processes, and managing the complexities of Shariah governance across a larger entity.

Socially, the merger has had profound impacts, including job displacement due to the streamlining of operations and consolidation of branches, which required effective workforce transition strategies. On the positive side, the merger has provided broader access to Shariah-compliant financial services, fostering financial inclusion, particularly for underserved populations. The merger has positioned BSI to play a crucial role in advancing social development and economic growth in Indonesia through more comprehensive Islamic financial solutions.

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