



The M&A of Indonesian Islamic Banks in the Pandemic Time: Opportunity or Challenge

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Talking Points – Online Discussion – INIEF (27 November 2020)

- The Size of Indonesia's Islamic Banking Industry
- Major Players of Indonesian Banking Industry (Islamic & Conventional)
- The Size of Indonesia's Islamic banking Industry from a Global Perspective
- Major Players of Global Islamic Banks: Where is Indonesia's position?
- The Impact of M&A on Indonesian Islamic Banking Industry
 - Opportunities & Challenges
 - Conclusion

The Size of Indonesian Islamic Banking Industry

Contoh Bank Syariah di Indonesia



Total Asset as of June 2020

- Shariah Commercial Bank : Rp. 356.3 T
- Shariah Business Unit : Rp. 175.5 T

Total Assets of Shariah Banks : Rp. 531.8 T

Total Asset of Banking Industry : Rp. 8,670.4 T

Market share: 6.13%

Major Islamic Banks in Indonesia

**Table-1: Top Ten Islamic Banks in Indonesia Based on Asset
As of 30 June 2020**

No.	Name	Total Assets (In trillion rupiah)
1	Bank Syariah Mandiri	114.4
2	BNI Syariah	50.8
3	BRI Syariah	49.6
4	Bank Muamalat Indonesia	48.6
5	CIMB Niaga Syariah (UUS)	43.1
6	BTN Syariah (UUS)	31.1
7	Maybank Syariah (UUS)	30.1
8	Bank Aceh Syariah	24.2
9	Bank Permata Syariah (UUS)	21.7
10	BTPN Syariah	15.3

❖ *BMI, the first Islamic bank, that had been traditionally in the second position has now been outpaced by BNIS & BRIS (see the two Islamic banking reports).*

Source: *trenasia.com; Bank Aceh Syariah Published Financial Report.*

Major Banks in Indonesia

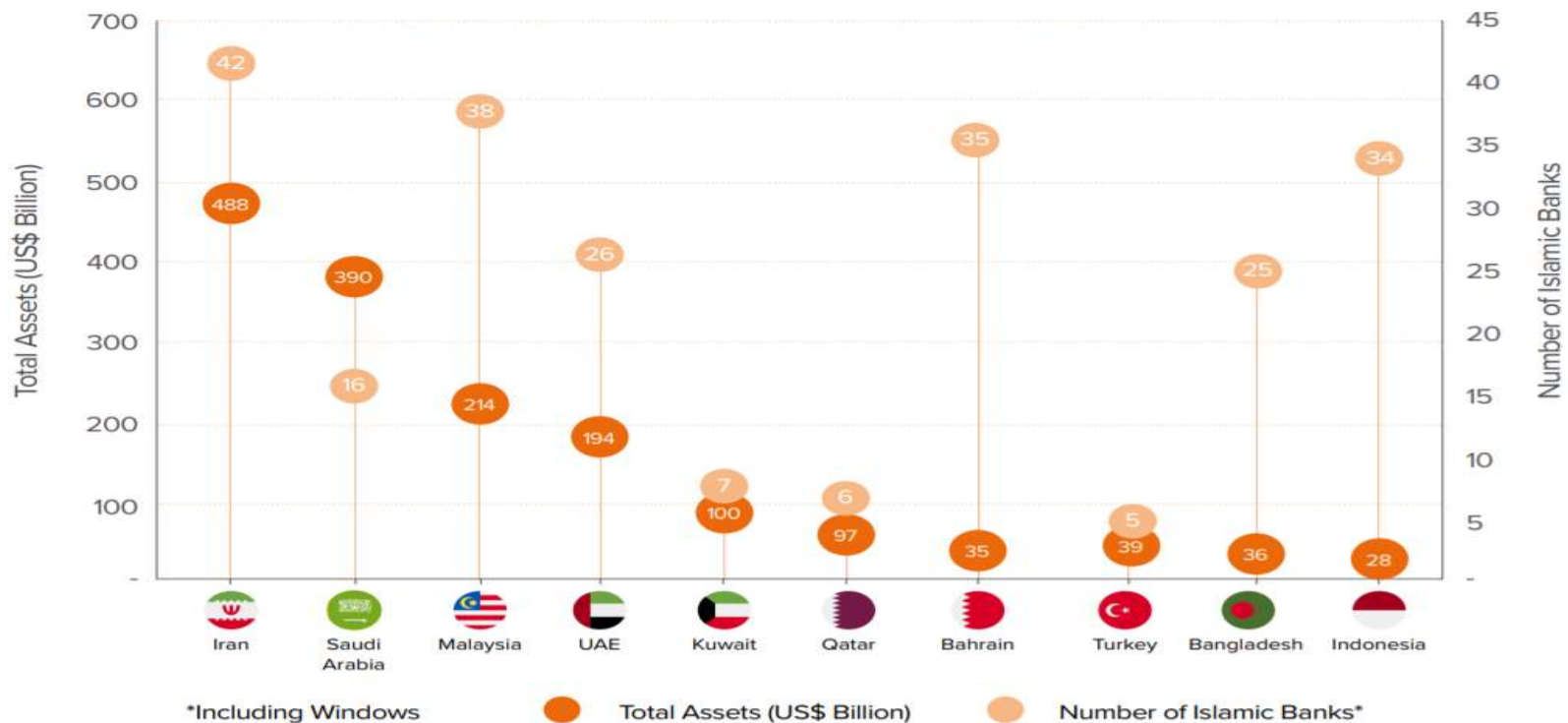
Table-2: Top Ten Banks in Indonesia Based on Asset
As of September 2019

No.	Name	Total Assets (In trillion rupiah)
1	Bank Rakyat Indonesia	1,238.7
2	Bank Mandiri	1,097.7
3	Bank Central Asia	875.7
4	Bank Negara Indonesia	756.8
5	Bank Tabungan Negara	316.2
6	Bank CIMB Niaga	260.9
7	Pan Indonesia Bank	192.9
8	Bank OCBC NISP	175.5
9	Bank Tabungan Pensiunan Nasional	168.9
10	Bank Danamon	168.2

Source: kinerjabank.com

Indonesia's Islamic Banking Industry: a Global Comparison

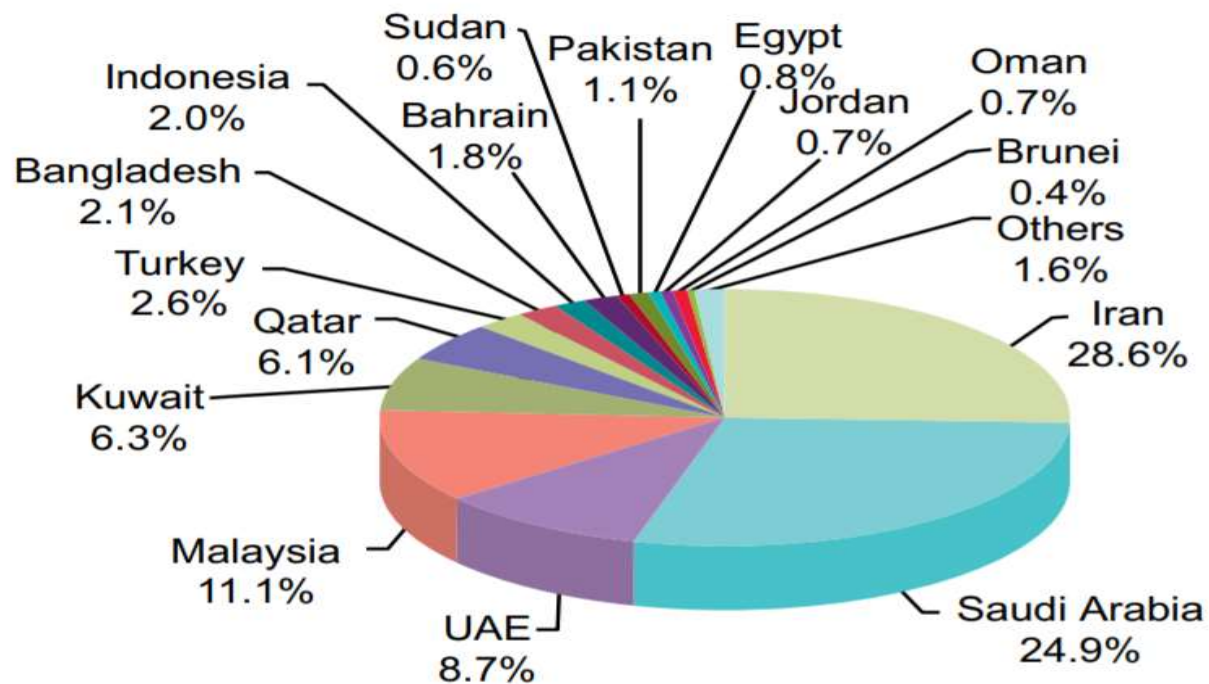
Chart-1: Top Countries in Islamic Banking Assets 2018
(US\$ Billion)



Source: ICD-REVINITIF, 2019

Indonesia's Islamic Banking Industry: a Global Comparison

Chart-2: Share of Global Islamic Banking Assets* (%) (3Q19)

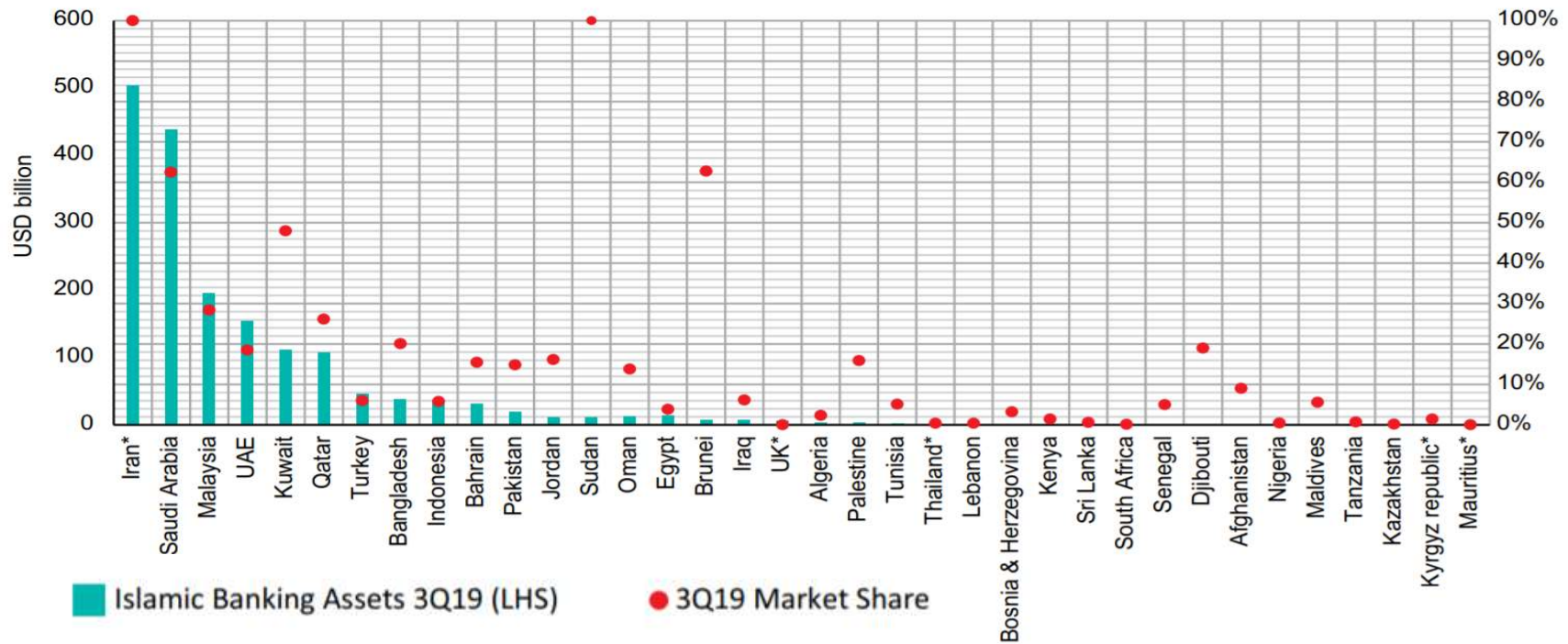


**The Share is apportioned in US dollar terms.*

Source: Islamic Financial Services Board (IFSB), 2020

Indonesia's Islamic Banking Industry: a Global Comparison

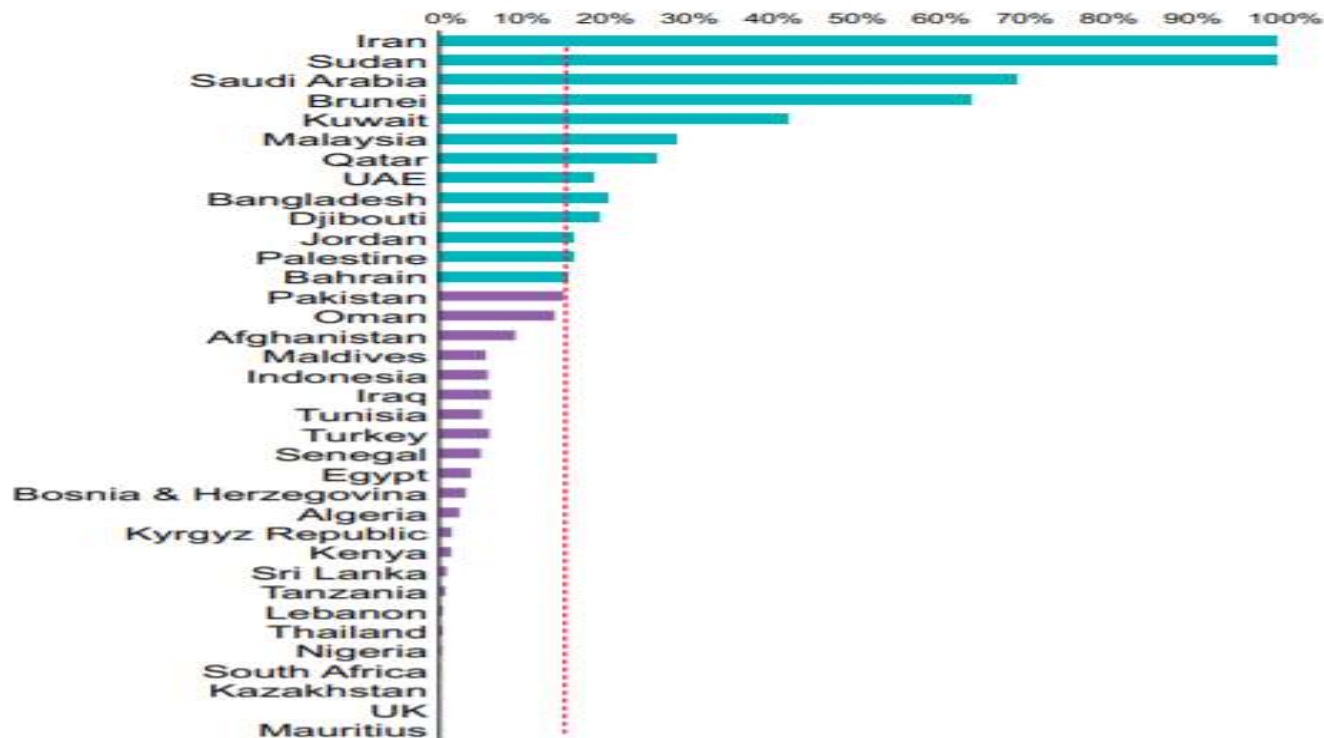
Chart-3: Islamic Banking Assets and Market Share (3Q19)



Source: IFSB, 2020

Indonesia's Islamic Banking Industry: a Global Comparison

Chart-4: Islamic Banking Share in Total Banking Assets by Jurisdiction (3Q19)



Source: IFSB, 2020

Major Players of Global Islamic Banks: Where are Indonesian Islamic Banks' Positions?

Table-3: The Largest Islamic Banks in 2018

Islamic Bank Rank 2019	Bank	Country	Assets (\$Million)
1	Al Rajhi Bank	Saudi Arabia	97,298
2	Dubai Islamic Bank	UAE	60,899
3	Kuwait Finance House	Kuwait	58,515
4	Maybank Islamic	Malaysia	54,459
5	Qatar Islamic Bank	Qatar	42,088
6	Abu Dhabi Islamic Bank	UAE	34,085
7	Alinma Bank	Saudi Arabia	32,398
8	Parsian Bank	Iran	31,024
9	Masraf Al Rayan	Qatar	26,723
10	Bank Rakyat	Malaysia	25,846
33	<u>Bank Syariah Mandiri</u>	<u>Indonesia</u>	<u>6,818</u>
37	Jordan Islamic Bank	Jordan	5,864
46	Al- Arafah Islami Bank	Bangladesh	3,979
47	<u>Bank Muamalat Indonesia</u>	<u>Indonesia</u>	<u>3,968</u>
50	Bahrain Islamic Bank	Bahrain	3,396

Source: <https://www.theasianbanker.com/ab500/2018-2019/largest-islamic-banks>

The Impact of M&A on the Positioning of Indonesian Islamic banking industry

- ✓ The new merged Islamic Bank will be the first largest Islamic bank in the country;
- ✓ It will be at around 7th rank in Indonesian banking industry;
- ✓ It is estimated to be at between 5th and 6th in ASEAN Islamic banking industry (up from the current 10th position – BSM);
- ✓ It is estimated to be at between 16th and 18th in global Islamic banking industry (up from the current 33th position – BSM).

The Impact of M&A on the Positioning of Indonesian Islamic Banking Industry

- ✓ On one side, there is a need to have a major Islamic bank in the country;
 - ✓ It helps in creating economies of scale;
 - ✓ Size matters in banking, it is expected to enhance competitiveness;
- ✓ The new merged Islamic bank is expected also to be able to do a major financing work in financing infrastructure and initiate a major syndicated financing for big project deals;
- ✓ But, on the other side, it is important to note that this merger will not increase the market share locally and internationally unless the bank itself could make a major contribution in fostering the Islamic banking market share.

The Merger in the Pandemic Time: Opportunity or Challenge?

- ✓ It can be both, an opportunity and a challenge at the same time;
- ✓ It can be considered an opportunity as this is the time to accelerate the digitalization of banking services, Islamic banking service is not an exception;
- ✓ In addition, this bank could be made a national & regional player as size is important for a bank, but it has to be ready to compete with regional players such as Maybank & CIMB Islamic, adapting to more digital business;



The Merger in the Pandemic Time: Opportunity or Challenge?

- ✓ This could also be a challenge considering the rate of non-performing financing (NPF) estimated to increase;
- ✓ **The issue of market expansion is another challenge;**
- ✓ Like it or not, covid-19 has affected many businesses; businesses tend not to expand at best, close down at worst, defaulting in their banking obligation.



ITC survey finds one out of four small businesses in developing countries will close permanently due to the COVID-19 crisis (source: intracen.org)



Conclusion

- ✓ It is actually not a new idea, it was discussed since the time of Dahlan Iskan as the SOE Minister (*See the report in 2013*);
- ✓ It is an effort to progress anyway. But, as mentioned previously, it will not enlarge the market share, but, it may enable the bank to contribute to the expansion of market share;
- ✓ At the end, to grow successfully, it will need:
 - Strong value-system;
 - Good GCG & Risk Management;
 - Product innovation & service excellence;
 - Sound technology & network.



THANK YOU !