



INDONESIA ISLAMIC BANK MERGER: STAGES, CHALLENGES, AND STRATEGIES

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ABSTRACT

This study analyzes the INDONESIA ISLAMIC BANK (BSI) merger's stages, challenges, and strategies. The type of data is quantitative. The research method used is the Literature review method. The data used is secondary data in the form of journal articles used for publication in 2014-2021. The results showed that the stages during the Indonesia Islamic Bank (BSI) merger process started from the approval of the BRIS, BNIS, and BSM Board of Commissioners on the Merger Plan on October 20, 2020, until it officially started operating on February 1, 2021. In addition, the challenge for the Indonesia Islamic Bank (BSI) merger is the market share of the Islamic finance industry, which is still small or lagging compared to conventional banks. Thus, several strategies can be carried out by Indonesia Islamic Bank (BSI), starting from improving business processes, strengthening risk management, strengthening human resources (HR), in enhancing digital technology. The results of this study are expected to be input for Indonesian Islamic banks in particular to be able to determine the right strategy in dealing with mergers so that they can be a solution to the challenges that will be faced by Indonesian Islamic banks. In addition, the government, namely the Financial Services Authority (OJK) can coordinate with the Sharia Accounting Standards Board (DSAS) and the Indonesian Ulema Council (MUI) to supervise and assist in accelerating the development of Islamic banking.

Keyword: Mergers, stages, challenge, strategy

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ABSTRAK

Penelitian ini bertujuan untuk menganalisa tahapan, tantangan serta strategi dari merger Bank Syariah Indonesia (BSI). Jenis data yaitu kuantitatif. Metode penelitian yang digunakan adalah metode Literature review. Data yang digunakan yaitu data sekunder berupa artikel jurnal yang digunakan untuk publikasi pada tahun 2014-2021. Hasil Penelitian menunjukkan bahwa tahapan selama proses merger Bank Syariah Indonesia (BSI) dimulai dari persetujuan Dewan Komisaris BRIS, BNIS dan BSM atas Rancangan Penggabungan pada 20 Oktober 2020 hingga resmi beroperasi pada 1 Februari 2021. Selain itu, tantangan adanya merger Bank Syariah Indonesia (BSI) adalah pangsa pasar industri keuangan syariah yang masih kecil atau tertinggal dibandingkan dengan bank konvensional. Sehingga, beberapa strategi yang dapat dilakukan oleh Bank Syariah Indonesia (BSI) mulai dari perbaikan proses bisnis, penguatan manajemen risiko, penguatan sumber daya manusia (SDM), hingga penguatan teknologi digital. Hasil penelitian ini diharapkan dapat menjadi masukan bagi bank syariah Indonesia khususnya untuk dapat menentukan strategi yang tepat dalam menghadapi merger sehingga dapat menjadi solusi dari tantangan yang nantinya akan dihadapi oleh bank Syariah Indonesia. Selain itu bagi pemerintah yaitu Otoritas Jasa Keuangan (OJK) dapat berkoordinasi dengan Dewan Standar Akuntansi Syariah (DSAS) dan Majelis Ulama Indonesia (MUI) untuk mengawasi dan membantu percepatan perkembangan perbankan syariah.

Kata kunci: Merger, tahapan, tantangan, strategi

Introduction

Based on the results of the Focus Group Discussion (FGD) of the National Finance Committee with four Islamic banks owned by state-owned banks, there are several main problems faced by the behavior of Islamic banking in Indonesia. These problems include limited capital, the high cost of funds and the condition of Islamic banking, which generally has excess liquidity. These three problems are related to each other and impact the general lack of competitiveness in Islamic banking (Komite Nasional Keuangan Syariah, 2019).

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Limited capital owned by Islamic banks is one of the main problems in developing the Islamic banking industry. In line with the Indonesian Islamic Financial Architecture Masterplan (MAKSI) and the Indonesian Islamic Economics Masterplan (MEKSI) 2019-2024, this capital issue deserves special attention because of its significant impact on bank business activities. Limited capital is an obstacle when Islamic banks expand their business, especially in the corporate sector, institutions, or financing government projects requiring significant funds. In addition, Islamic banks with foreign exchange business licenses also need to maintain the Net Open Position (NOP) ratio linked to bank capital. Capital strength is one of the keys to business success in a regulated banking framework based on risk aspects (Komite Nasional Keuangan Syariah, 2019).

Conventional banking had total capital of up to 8.5 times greater than Islamic banking capital in 2020. Traditional banks' capital adequacy ratio reflected this substantial capital was consistently above 20% from 2015 to 2020. Nevertheless, the capital growth of Islamic banks has a positive trend which was also reflected in the capital adequacy ratio, which is getting better every year to reach 21.64% in 2020.

The next problem is Islamic banks' Financing To Deposit Ratio (FDR), which is below the minimum limit of 80%. One of the contributing factors is the pricing of Islamic bank financing, which is less attractive when compared to competitors. Sub-optimal financing disbursement has various consequences for Islamic banking, such as (1) excess liquidity because TPF is not optimally absorbed, (2) disincentives for additional Minimum Statutory Reserves for banks with FDR below 80%, and (3) banking performance or productivity is poor less than optimal so that the return given to depositors/fund owners is reduced. As shown in the figure below, the FDR of Islamic banks has always been below conventional banks during the last six years and experienced a downward trend from 88.03% in 2015 to 76.36% in 2020. The limited short-term Islamic financial instruments exacerbated this condition to optimize the management of Islamic banking liquidity.

Indonesian Islamic Banking Roadmap in the 2015-2019 Indonesian Islamic Banking Roadmap, the Financial Services Authority (OJK) mentions several fundamental changes occurring in the banking sector, both macro and micro. According to the Financial Services Authority (OJK) said in the next five or ten years, changes in the global banking industry will be more drastic and fundamental than those that have been or are currently happening and will significantly affect the Indonesian Islamic banking industry. Among the situations that will affect the performance of Islamic banking in the future are as follows (OJK, 2015) adoption of international standards and commitments after Indonesia becomes a member of the G20, integration of the financial sector within the framework of the Asean Economic Community (AEC) in 2020, Indonesia's demographic bonus from 2015 to 2035, Indonesia's credit/GDP ratio which is still below 50% so that there is potential for financing growth that is very large and the low level of financial literacy of the Indonesian people, which is 22%.

The Financial Services Authority (OJK) as the regulator has prepared a Roadmap for the Development of Islamic banking from 2015 to 2019, summarized in the vision of realizing Islamic banking that contributes significantly to sustainable economic growth, equitable development, and financial development system stability

and is highly competitive. To achieve this vision, Financial Services Authority (OJK) has launched seven policy directions, namely: strengthening policy synergy between the authorities and the government and other stakeholders; strengthening the capital and business scale of Islamic banks, accompanied by improvements in efficiency; improving the structure of funds to expand the financing segment; improve service quality and product diversity; improve the quantity and quality of HR & Information Technology (IT); improve literacy and community preferences; and strengthening and harmonization of regulation and supervision.

In line with the second policy direction, namely, strengthening Islamic banks' capital and business scale, there is an aspiration for a large-scale Islamic bank. To achieve this, there is an option to accelerate the development of Islamic banking to produce large-scale Islamic banks, namely the merger of Islamic BUMN banks. It is hoped that these efforts will lead to the development of large-scale Islamic banks in Indonesia to expand strongly and sustainably, including financing large projects by the government and the private sector.

PT Indonesia Islamic Bank Tbk (in the future referred to as Indonesia Islamic Bank (BSI)) officially operates on February 1, 2021. Indonesia Islamic Bank is the largest Islamic bank in Indonesia, resulting from the merger of three Islamic banks from the Association of State-Owned Banks (Himbara), namely PT Bank BRI Syariah (BRIS), PT Bank Syariah Mandiri (BSM), and PT Bank BNI Syariah (BNIS). The government's breakthrough policy to merge three Islamic banks is expected to provide a choice of new financial institutions for the community and encourage the national economy by strengthening Islamic banks' capital and business scale (Alhusain, 2021).

Previously, the Ministry of State-Owned Enterprises (BUMN), on October 12, 2020, officially announced that the merger process of three Islamic commercial banks, Indonesia Islamic Bank (BSI) diaries of state-owned banks, had begun and was targeted for completion in February 2021. Several considerations that pushed the merger process were conveyed by the Minister of SOEs. Among other things, the government sees that the penetration of Islamic banking in Indonesia is far behind compared to conventional banks. In addition, the government sees an opportunity that this merger can prove as a Muslim-majority country with a fundamentally Islamic solid bank. President Joko Widodo reiterated that establishing Islamic banks is one of the government's efforts to strengthen the Islamic finance industry in Indonesia (CNBC Indonesia, 2021).

One of the visions carried out by Indonesia Islamic Bank is to become a world-scale Islamic bank, namely the target to be ranked in the top 10 world Islamic banks with a considerable capitalization value by 2025. Achieving this target is a big challenge because the Financial Services Authority (OJK) records the total assets of Islamic banking, including Islamic commercial banks (BUS) and Islamic business units (UUS); as of November 2020, only 3.97% of the total assets of commercial banks. In addition, the value of Islamic financing for BUS and UUS is only 2.49% of the total funding for commercial banks. The level of Islamic financial inclusion in 2019 also fell by 200 bps, from 11.1% in 2016 to only 9.10%. On the other hand, the level of financial inclusion in conventional banking has increased from 65.6% in 2016 to 75.28% in 2019 (Alhusain, 2021).

Meanwhile, the president director of Indonesia Islamic Bank (BSI), Hery Gunardi, stated that with the merger of these three banks, the company has a core capital of IDR 20.4 trillion. Currently, the company is targeting to enter the commercial bank business activity group (BUKU) IV in 2022. It means that the company must have a core capital of at least Rp. Thirty trillion next year so that the target can be achieved. Hery said to accomplish that, the company will issue a rights issue. Later, corporate action is expected to boost Indonesia's Islamic Bank's core capital (CNN Indonesia, 2021).

Mergers or other corporate actions aim to increase shareholder value. The existence of individual interests (self-interest) from managers who sacrifice the interests of shareholders is the main factor in the emergence of agency problems. In a company, agency problems must be avoided because if this continues to occur, it will cause high agency costs that the company must experience. Agency problems that happen in the company's internal environment will make the merger decision made by the company not optimal. Agency problems can cause merger decisions to be not optimal because of the possibility that agents use this decision for their interests, namely maximizing the contractual rewards they receive and ignoring the company's goals so that the purposes of the merger made by the company to increase the value and performance of the company are not achieve (Silaban and Silalahi, 2017).

The stages of a islamic bank merger are not much different from other bank mergers. However, the challenges and strategies in the merger of Bank Syariah Indonesia (BSI) have their differences, although the merger of Bank Syariah Indonesia has received a good response from the public, both business actors and investors, as noted by the stock exchange share. However, Bank Syariah Indonesia still needs to choose the correct alternative strategy to face the challenges. This study provides several alternative methods for Indonesian Islamic banks in the face of mergers. Thus, this research becomes an additional description of the challenges when conducting mergers and choosing alternative strategies and new insights into the world of Indonesian Islamic banking.

Ika Atikah also conducted another research regarding the merger of BUMN Islamic banks with the title strengthening the merger of BUMN islamic banks and their impact on state economic stability. This research aims to determine the legal arrangements for strengthening the merger of Islamic banks into Indonesia Islamic Bank (BSI) and their impact on state financial stability during the COVID-19 pandemic (Atikah et al., 2021).

Another research is research by Alif ulfa with the title the impact of merging three islamic banks in indonesia. The study results show that mergers impact several elements such as customers, employees, and society. Customers can still transact using card-based electronic money. Customers only need to do bank migration. For employees, the status of employees from BNI Syariah, BRI Syariah, and Bank Syariah Mandiri remains an employee of Bank Syariah Indonesia, and there is no termination of employment. The public, Bank Syariah Indonesia (BSI) educates the public by launching a literacy program and accelerating the Islamic economy to develop the halal industry, supporting MSME financing, and participating in large-scale project financing with Islamic schemes (Ulfa, 2021).

The following research by Anis fataniah is entitled analysis of financial performance, impact of merger 3 state-owned islamic banks and strategy of Indonesian Islamic Bank (BSI) in National Economic Development. The study concluded that with the merger of Islamic banks, the capital problem in Islamic banks had been resolved. Islamic banks will be able to expand more widely to meet and facilitate the community's needs. The existence of significant capital will also encourage Islamic banks to provide more excellent financing to the community (Fatinah and Fasa, 2021).

There are other studies that show the positive and negative impacts of mergers. The negative impact of mergers, various studies that have been conducted by Rizal et al. (2021) state that the merger of these three state-owned Islamic banks has a difference in value with the negative aspects. According to Hassan and Giouvriss (2021) this bank merger will be able to stabilize individual banks and reduce risk. Meanwhile, according to Montgomery and Takahashi (2020) mergers can also improve the welfare of company partners. In addition, according to Ab-Hamid et al. (2018) post-bank mergers can maintain market risk exposure from the global financial crisis.

As for the negative impact of the merger, according to Rizal et al. (2021) it was stated that the negative impact on the cost aspect (especially on the criteria for the occurrence of employee reductions). According to Yusuf and Raimi (2019) did not find a positive relationship between bank mergers and acquisitions with bank assets alternation and separate banks outperformed the merged banks. As well, research conducted by Kandil and Chowdhury (2014) that mergers and acquisitions of Islamic banks have a negative effect on the performance of Islamic banks in the long term.

As for the motive for the merger, according to Hartono and Widjojo (2018) it is stated that the Merger is intended to strengthen synergies in order to strengthen PT Ciputra's position in the midst of property companies that are increasingly competitive. Furthermore, according to Rani et al. (2016) who conducted a survey of merger motives by companies in India. The results of the study reveal that the main motive for companies to merge is synergy, followed by motives to increase profitability and expand shares.

This research is different from previous research that has been done by previous researchers. This research focuses on the stages, challenges, and strategies of the merger, while the previous research examines the impact and motive of mergers, bank financial progress, and investment in Indonesian Islamic Banks (BSI). In addition, there are inconsistencies in previous research related to the impact of Islamic bank mergers that still need to be explored further. This impact will later become a merger challenge (negative impact) or strategy (positive impact). The novelty in this study is to add details of the stages of the merger of Indonesian Islamic banks and the challenges faced and how to strategy to deal with these challenges. The results of this study are expected to be input for Indonesian Islamic banks in particular to be able to determine the right strategy in dealing with mergers so that they can be a solution to the challenges that will be faced by Indonesian Islamic banks. In addition, the government, namely the Financial Services Authority (OJK) can coordinate with the Sharia Accounting Standards Board (DSAS) and the Indonesian Ulema Council (MUI) to supervise and assist in accelerating the development of Islamic banking.

Literature Review

Agency Theory

Jensen and Meckling (Jensen and Meckling, 1976) explain agency theory as a contract between one or more people (principal) who hires another person (agent) to provide a service and then delegates decision-making authority to the agent. There are three assumptions of human nature related to agency theory, namely (1) humans are generally self-interested, (2) humans have limited thinking power about perceptions of the future (bounded rationality), and (3) humans always avoid risk. (risk-averse). Based on the assumption of human nature, managers will tend to act opportunistically, namely prioritizing personal interests, which triggers agency conflicts (Eisenhardt, 1989).

The relationship between agency theory and company mergers is that by doing a merger, it is hoped that there will be harmony between the principal and the agent. This alignment can minimize agency problems because the company's merger decision will benefit both the agent and the principal, where the agent can maximize the contractual fees he receives. In contrast, the principal can increase the return or profit he receives in the future. The minimized agency problem will affect the reduction in agency costs incurred by the company. The company's decision to merge can achieve synergy, be carried out optimally, and impact the company's financial performance for the better.

Merger

In connection with the Indonesia Islamic Bank merger, the merger comes from the Latin "mergerer" which means (1) joining, together, uniting, combining (2) causing loss of identity due to being absorbed or swallowed by something. A merger combines two or more companies to form a new company (Whitaker, 2012). Mergers are commonly used in companies as a process of merging a business. Mergers can be carried out both internally and externally. An internal merger occurs when the target company is in the same ownership group, while an external merger occurs when the target company is in a different ownership group. Atikah et al. (2021) research mentions a merger can be seen as a combination or merger of two or more separate companies into one company where one survives, and the other loses its corporate existence.

Merger in Islamic Perspective

According to fiqh scholars, merger activities include syirkah or partnerships. Syirkah, according to language, means ak-ikhtilath, which means to mix or mix, as stated by taqiyuddin. The meaning of mixing here is that someone combines his wealth with other people's property so that it is impossible to distinguish (Suhendi, 2013). Syirkah can also be called cooperation between two or more parties in conducting a business, the profits and losses are shared. In general, cooperation is a form of mutual assistance that is commanded in religion as long as the cooperation is not in the form of sin and hostility, as stated in the Qur'an Surah Al Maidah verse 2.

...وَتَعَاوَنُوا عَلَى الْبِرِّ وَالنَّفَقَىٰ وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ وَاتَّقُوا اللَّهَ...
....

“.. and help you in (doing) righteousness and piety, and do not help in sin and transgression and fear Allah ...”

In the Qur'an, Allah SWT mentions that syirkah or legal partnerships are allowed or prescribed based on the Qur'an and hadith, Allah SWT says in Q.S Shad: 24 as follows:

...وَأَنَّ كَثِيرًا مِّنَ الْخُلَطَاءِ لَيَبْغِي بَعْضُهُمْ عَلَىٰ بَعْضٍ إِلَّا الَّذِينَ ءَامَنُوا وَعَمِلُوا الصَّالِحَاتِ وَقَلِيلٌ مَّا هُمْ...
....

“...Indeed, most of the people who are in a merger, some of them do wrong to some of them. Except those who believe and do righteous deeds; and very few of them...”

The Reasons for Companies to Merge

According to Sartono (2001) the reasons for companies to merge include economies of scale, improving management, tax savings, diversification/risk reduction, and increasing the corporate growth rate. With a merger, companies can achieve economies of scale of operations. Economies of scale here are the scale of operation with the lowest average cost. By merging, duplication of operating facilities can be eliminated and provide a more efficient marketing and accounting system. With a merger, synergy can be obtained where the overall value is greater than the sum of the importance of each part. Economies of scale occur not only in the production process but also in marketing, personnel, finance, and administration. Broadly, the scope of economies of scale to be achieved is the full use of existing resources. Economies of scale can be achieved by various forms of mergers, such as horizontal mergers, eliminating duplication of operating facilities because they have the same product. Vertically will extend the business network. Vertical mergers can be from front to back to ensure the supply of raw materials or from back to front to reach more consumers.

In addition, due to inefficient company management, the company's profitability will be low. Lack of motivation to achieve high profits and lack of courage to take risks is part of the company's failure to face increasingly fierce competition. With the merger, the company can retain employees who bring benefits to the company so that the prosperity of shareholders can be increased; besides that, efficiency and employee productivity can be improved. There are many examples where companies achieve prosperity when carrying out a business merger, such as the merger of four state-owned banks, namely Bapindo, Bumi Daya Bank, National Trade Bank, and Exim Bank, to become Mandiri Bank. Where Mandiri Bank is now one of the largest banks in Indonesia, it is evident that the merger will bring the company prosperity. Then, concerning taxes, companies often get the potential to save taxes, but because the company does not make a profit, the company cannot take advantage of it. So the company decided to combine business with other companies that make a profit; with this, the tax that the company must pay becomes smaller. From the side of companies experiencing growth, this has a double benefit, in

addition to tax savings and taking advantage of idle funds because companies experiencing growth generally have a large cash surplus, which will provide a significant tax burden for the company. If the considerable cash is distributed to shareholders, it will also burden the shareholders because the taxes they have to pay will be more significant. Another motivation is that diversification is made easy with a merger, where companies don't have to start all over again to have a new line of business. The company's diversification can also minimize the effect on the company's profit cycle obtained. With diversification, the risk a stock faces can be compensated by other supplies, thereby reducing the overall risk. It can happen with the assumption that investors are risk-averse and can diversify efficiently. Lastly, through mergers, companies can increase their growth. It is possible with the mastery of a more comprehensive marketing network and better and more efficient management. For example, the purchase of shares of PT. Semen Gresik by Cemex from Mexico can increase production capacity and company growth. In other words, this alternative can make it easier for companies to penetrate a broader market, especially foreign markets.

While research by Atikah et al. (2021) states that there are several reasons why mergers can be carried out by several companies, namely growth or diversification, where companies expect rapid growth in terms of size, stock market, and diversification rather than establishing their own business. In addition, the company also has no risk to new products, meaning that it continues to run existing products and is developed simultaneously based on a mutual agreement. By conducting a merger, the company's strengthening will increase with the reduction of competitors between the same company to increase product prices for buyers or reduce the costs of raw materials paid to suppliers. The essential factor of the merger is the economic motive. On the other hand, corporate mergers are justified when they are profitable. A mutually beneficial situation here can occur if, from the implementation of the merger, a synergy is obtained, and the combined value of the synergy between companies that agree to merge is greater than the benefits of separate companies.

Stages of Merger

According to Estanol and Jo (2005) a merger has three stages: pre-merger, consolidation, and post-merger. The pre-merger stage is a situation before the merger where at this stage, the task of the entire board of directors and management of the two or more companies is to collect competent and significant information for the benefit of the merger process of these companies so that synergies can occur from the merger that will be carried out. At the merger stage, the first thing that must be done is to adapt and integrate with their partners so that synergies can occur. Then, at the post-merger stage, the company must take several steps. The first step (1) to be taken by the company is restructuring, wherein a merger and leadership dualism often occurs, which will negatively influence the organization. The second step (2) taken is to build a new culture where this new culture or culture can be a combination of the advantages of the two corporate cultures, or it can also be a completely new culture for the company. The third step (3) taken is by smoothing the transition, where what must be done in this case is to build collaboration; it can be a joint team or cooperation.

Research Methode

Types of Research

The type of data used is quantitative with a research method, namely the Literature review method. Literature Review is a series of activities involving methods of collecting library data, reading and taking notes, and managing research materials. According to Daniel and Warsiah (2009) literature study is research conducted by researchers by collecting a number of books, magazines related to the problem and research objectives. This technique is carried out with the aim of revealing various theories that are relevant to the problem being faced/researched as a reference material in the discussion of research results.

Data Types and Resources

Sources of data used are secondary data consisting of journal articles, textbooks, handbooks, archives and regulations. is a way to solve problems by tracing the sources of previously written writings. The secondary data is used to solve problems by tracing the sources of writings that have been previously written.

Data Collection Technique

The collection of literature reviews is used in several stages, including searching for articles based on topic outlines, grouping articles based on topic relevance and previous research years, sorting out the structure of explanations and comparing related data. The search for journal articles used for publication in the 2014-2021 range uses title keywords including "Merger" and "Merger of Islamic Banks" which are identified based on the relevance of journal content and relevance of research topics.

Technique of Analysis

The journal analysis of the results of this literature review uses the critical appraisal method. Critical appraisal is a journal analysis process that is used as a theoretical basis regarding the differences, similarities and shortcomings of the journals used. Journals are reviewed to select journals of measurement results that are appropriate to the topic. From a search that has been done on Google scholar 14 articles from 2014 to 2021 that meet the topic study.

Result and Discussion

Stages of Merger of Indonesia Islamic Bank

The following is the schedule for the completion of the BRIS-BSM-BNIS merger to become Indonesia Islamic Bank (BSI) based on prospectus data (CNBC Indonesia, 2020):

- Approval of the Board of Commissioners of BRIS, BNIS, and BSM on the Merger Plan: 20 October 2020
- Announcement of the Summary of the Merger Plan in the Daily Newspaper: 21 October 2020
- Submission of the Merger Statement to OJK containing the Merger Plan, which the Board has approved of Commissioners of the Merger-Participating Banks, along with Supporting Documents: 21 October 2020

- Submission of the Merger Plan to OJK - DPBS and DPPS along with supporting documents: 21 October 2020
 - The Board of Directors of the Merger-Participating Banks provides written notification to employees regarding the proposed Merger: 21 October 2020
 - Submission of application for listing of shares resulting from the Merger to the IDX: 21 October 2020
 - Submission of the BRIS EGMS plan and schedule to OJK: 27 October 2020
 - Deadline for creditors of the Merger-Participating Banks to file objections: 4 November 2020
 - Announcement of the holding of the BRIS EGMS: November 5, 2020
 - Last date of registration of shareholders in the Register of Shareholders of BRIS who are entitled to attend the EGMS and who have the right to sell their shares: 19 November 2020
 - Invitation to the EGMS of BRIS: 20 November 2020
 - Estimated date of the Effective Statement from OJK (Capital Market Supervisor) for the proposed Merger: 25 November 2020
 - Submission of a written report to the IDX after the Merger Statement becomes effective: November 26, 2020
 - Announcement of changes to the summary of the Merger Plan in daily newspapers: 9 December 2020
 - EGMS of BRIS, BSM and BNIS: 15 December 2020
 - The Board of Directors of the Merger-Participating Banks signs the Deed of Merger based on the draft Deed of Merger approved by the RUPLSB: on 15 December 2020
 - Notification of the results of the EGMS to the OJK (Capital Market Supervisor) and the Indonesia Stock Exchange and the announcement of the results of the EGMS to the public in 2 (two) Indonesian language newspapers: December 16, 2020
 - Submission of a copy of the deed of Merger to OJK (Capital Market Supervisor): 16 December 2020
 - Submission of Merger application to OJK (DPPS): 17 December 2020
 - Submission of Merger information to BI: 17 December 2020
 - Sales Request Period for shareholders who disagree with the Decision of the BRIS GMS regarding the Merger: 17 December 2020 - 5 January 2021
 - Merger Approval from OJK (DPPS): 22 January 2021
 - Submission of the Deed of Merger and Amendment to the Articles of Association to the Ministry of Law and Human Rights: January 22, 2021
 - Recommendation of Merger Approval to the Indonesia Stock Exchange: January 25, 2021
 - Merger Effective Date (Legal Merger day-1): February 1, 2021
 - The payment date for shares sold by shareholders: March 5, 2021
- The independent parties involved are:
- BRIS and BNIS Independent Public Accountants: KAP Purwantono, Sungkoro & Surja (Member of Ernst & Young Global Limited)
 - BSM Independent Public Accountant: KAP Tanudiredja, Wibisana, Rintis & Rekan (Member of Pricewaterhouse Cooper Indonesia)

- Legal Consultants: Hadiputranto, Hadinoto & Partners
- BRIS Independent Appraiser: Public Appraisal Service Office Suwendho Rinaldy and Partners
- BSM Independent Appraiser: Public Appraisal Service Office Kusananto and Partners
- BNIS Independent Appraiser: Public Appraisal Service Office Iwan Bachron & Partners
- Notary Bank Participants: Office of Notary Jose Dima Satria S.H., M.Kn.
- BAE BRIS: PT Datindo Entercom
- Designated Securities Company: PT BRI Danareksa Sekuritas

Additional Information on news related to the merger:

- PT Bank BRI Syariah Tbk held an Extraordinary General Meeting of Shareholders (EGMS) on Tuesday (15/12/2020). The EGMS discussed five agenda items related to the merger of three state-owned Islamic banks. The five BRI syariah EGMS agenda items are approval of the merger, approval of the merger plan, approval of the merger deed, acceptance of amendments to the articles of association, and support of the composition of the Board of Directors, Commissioners, and Islamic Supervisory Board of the Merged Bank. BRI syariah held an EGMS as one of the processes that must be passed in the merger process of three Islamic commercial banks owned by state-owned Indonesia Islamic Bankdiaries. The merged bank will merge effectively on February 1, 2021 (Bisnis.com, 2020a).
- On December 16, 2020, was the initial signing of the mega-merger of Islamic banks. The signing of the merger deed of the three Islamic banks owned by Himbara was carried out by representatives of the participating banks, namely the President Director of Bank BRI Syariah Ngatari, the President Director of Bank Syariah Mandiri Hery Gunardi, and the President Director of Bank BNI Syariah Abdullah Firman Wibowo. This process was also witnessed by Deputy Minister of BUMN Kartika Wirjoatmodjo and representatives from PT Bank Rakyat Indonesia (Persero) Tbk., PT Bank Mandiri (Persero) Tbk., and PT Bank Negara Indonesia (Persero) Tbk. (Bisnis.com, 2020b).
- On January 27, 2021, the Financial Services Authority (OJK) approved the plan to merge three state-owned Islamic banks, namely PT Bank BRI Syariah Tbk, PT Bank Syariah Mandiri, and PT Bank BNI Syariah, under the new name PT Indonesia Islamic Bank Tbk. This approval is marked by issuing a copy of the Decree of the OJK Board of Commissioners Number 4/KDK.03/2021 concerning the Granting of Permits for the Merger of PT Bank Syariah Mandiri and PT Bank BNI Syariah into PT Bank BRISyariah Tbk as well as the Permit to Change Name by Using the Business License of PT Bank BRI Syariah Tbk Becoming a Business License on behalf of PT Indonesia Islamic Bank Tbk as the Merged Bank (detikFinance, 2021).
- PT Indonesia Stock Exchange through Letter No. S-00871/BEL.PP1/01-2021, dated January 29, 2021, has approved the application for listing shares resulting from the merger of PT Bank Syariah Mandiri (BSM) and PT Bank BNI Syariah (BNIS) into PT Bank BRISyariah Tbk. According to the IDX, the decision refers

to PT Bank BRIsyariah Tbk No letter. S.B.065-PDR/01-2021 dated January 27, 2021, regarding Application for Listing of Additional Shares from the Merger Result (Shariahfinance. id, 2021). In addition, the Letter of the Ministry of Law and Human Rights No. AHU-AH.01.10-0011384 dated January 28, 2021, concerning Receipt of Notification of Company Merger. The number of companies shares before the merger was 9,900,508,698, based on IDX records. The number of additional claims resulting from the merger is 31,130,700,245 shares. After the merger, the company's number of shares is 41,031,208,943 shares, with a par value of Rp. 500 per share (Shariahfinance.id, 2021). However, the IDX emphasizes the existence of Government Regulation No. 29 of 1999, which stipulates that a maximum of 99% of bank shares may be listed on the stock exchange. It means that from the company's number of shares after the merger, some are not listed on the stock exchange. Namely, 314,221,836 shares owned by PT Bank Mandiri (Persero) Tbk and 97,161,135 shares owned by PT Bank Rakyat Indonesia (Persero) Tbk. Thus, the number of registered shares after the merger was only 40,619,825,972. The listing and trading of securities of the company resulting from the merger begin with the trading of shares starting from the date of approval from the Ministry of Law and Human Rights on the amendment to the Articles of Association of PT Bank BRIsyariah Tbk, which is on February 1, 2021 (Shariahfinance.id, 2021).

- On February 15, 2021, Indonesia Islamic Bank added 15 integrated branches for essential servicing for all customers. The list and location of units will be further informed. Meanwhile, February 15 - October 20, 2021, which is within eight months, is a gradual integration period. Customers will be contacted to migrate to Indonesia Islamic Bank through the gradual integration of branch operations, services, and products (Bisnis.com, 2021).
- On 1 November 2021, Indonesia's Islamic Bank was fully integrated (Bisnis.com, 2021). The integration process consists of migrating accounts, and ATM cards, to customer mobile or internet banking. Indonesia Islamic Bank targets that by the end of this year (2021), all Indonesia Islamic Bank customers will have accounts in the new integrated system. Indonesia Islamic Bank has migrated to two integrated branch offices, KC Tangerang BSD and KC West Jakarta, from February 2021. The achievement of migration in two integrated branch offices, namely until March 30, 2021, is 94 percent for checking and savings accounts and 98 percent for bank accounts deposit. To maximize migration at integrated branch offices, Indonesia Islamic Bank has also performed auto-migration on March 6, 13, 22, and 23, 2021. Bank customers from Indonesia Islamic Bank can still use their cards and passbooks during the migration process. until the branch turns into an integrated branch office. In addition, during the migration process, customers can use the ATM network of each originating bank. The account migration process can be done digitally with the Indonesia Islamic Bank Mobile application and comes directly to the Indonesia Islamic Bank branch office (Kompas.com, 2021).

The results of this study are similar to Rahmatullah (2022) which states that in conducting a merger, the guidelines used are based on the Financial Services Authority Regulation (OJK) No. 41/POJK.03/2019 regarding the merger, consolidation, acquisition

integration, and conversion of commercial banks, which came into effect on December 26, 2019. Things that need to be done prior to the merger, namely, the duties of all directors and management of two or more companies are: collect competent and significant information for the benefit of the merger process of these companies so that synergies can occur from the upcoming merger (Estanol and Jo, 2005). In this case, the management of BRIS, BNIS, and BSM have each collected competent information so that on October 20, 2020 there will be approval from the Board of Commissioners of BRIS, BNIS, and BSM on the Merger Plan. At this stage in the merger, the first thing to do is adjust and integrate with the partners so that synergies can occur (Estanol and Jo, 2005). In this case, on November 1, 2021, Bank Syariah Indonesia (BSI) has been fully integrated (Bisnis.com, 2021). The integration process consists of migrating accounts, and ATM cards, to the customer's mobile banking or internet banking. Indonesia Islamic Bank (BSI) targets that by the end of 2021 all Indonesia Islamic Bank (BSI) customers will have accounts in the new integrated system. At the post-merger stage there are several steps that must be taken by the company, one of which is how to smooth the transition, where what must be done in this case is to build cooperation, it can be in the form of a joint team or cooperation. In this case, it can be a challenge for Indonesian Islamic banks in the future to achieve common goals.

Based on the agency theory perspective, the merger decision to conduct a merger with the aim of achieving synergy, in this case Indonesian Islamic banks is a form of synergy from the Financial Services Authority Regulation (OJK) as the financial authority as a determinant of policy direction and Islamic banking as a business actor. Major in the development of national Islamic banking (Apriyanti, 2017). So that the process or stages during the Islamic bank merger process are supervised and directed in accordance with Financial Services Authority (OJK) regulations Number 41/POJK.03/2019 concerning mergers, consolidations, takeovers, integrations, and conversions of commercial banks. In addition, the merger also aims to minimize agency and principal problems, namely related to shares, which the number of shares of the company before the merger was 9,900,508,698 shares to the number of registered shares after the merger was only 40,619,825,972 shares. The addition of these shares, it is hoped that the principal can feel the impact of the merger, namely by increasing the rate of return.

Challenges and Indonesia Islamic Bank Strategies

President Joko Widodo, in his inaugural speech at the State Palace, hopes that this Islamic financial institution can contribute more broadly to the development of the Islamic economy for the welfare of all people. The President considered that Islamic banking was able to survive during the Covid-19 pandemic. The proof is that its performance growth was superior to conventional banking last year. Although the market share of the Islamic finance industry is still small or lagging behind conventional banks in the country, this condition becomes the ammunition for Islamic banks in the future (Alhusain, 2021). The President's statement was reinforced by the Financial Services Authority Regulation (OJK) data, where until the end of 2020, the distribution of Islamic bank financing in Indonesia grew by 9.5% on an annual basis. This growth is above the national banking industry financing growth, which was minus 2.41%. (Kompas, 2021a). Therefore, the birth of a new financial institution resulting from this merger can enrich the choice of Islamic financial products and services for the public.

The significant challenges ahead of course force Indonesia Islamic Bank (BSI) management to transform and set several strategies, starting from improving business processes, strengthening risk management, strengthening human resources (HR), and strengthening digital technology. Islamic economic researcher at the Institute for Development of Economics and Financing (INDEF), Fauziah

Rizki Yuniarti reminded us that people's preferences for choosing Islamic-based or conventional services are not entirely based on religious beliefs. The main factors are access to financial services and technology-based products (Kompas, 2021b).

The results of this study are similar to those stated by Kumaidi and Padli (2021), to improve the technology infrastructure in order to compete with the mushrooming fintech, Islamic banks require significant capital investment. So far, Islamic banks are constrained by capital problems in their efforts to expand or expand the market. Moreover, in terms of improving technology, Islamic banks must think harder so that the problem of capital for technological improvement can be met. The head of the OJK Institute, Agus Sugiarto, also reminded that another factor, namely the low level of Islamic financial literacy of the Indonesian people, which was at 8.93%, was a big challenge considering that only about 9 people out of every 100 residents already understand Islamic financial products. This figure is far below the conventional financial inclusion level of 76.19% and the literacy rate of 38.03%. In the research, Romadhon and Sutantri (2021) said that the figure was actually increased from the previous survey which showed that the literacy rate for Islamic banking products was only 21.84%. The head of the the Financial Services Authority Regulation (OJK) Institute, Agus Sugiarto, also reminded us that another factor, namely the low level of Islamic financial literacy of the Indonesian people, which was at 8.93%, was a big challenge considering that only about nine people out of every 100 residents already understand Islamic financial products. It is equally essential that adapting the work culture after incorporation is also not easy. Indonesia Islamic Bank management must ensure that the integration smoothly without compromising HR management and core banking systems (Alhusain, 2021). By carrying out a comprehensive transformation, the government is expected to encourage Indonesia's Islamic Bank to play an active role in increasing Islamic financial inclusion and providing the broadest possible social benefits for the people of Indonesia.

Facing this enormous challenge, Indonesia Islamic Bank President Director Hery Gunardi is committed that Indonesia Islamic Bank will become a banking institution with a strategy of offering competitive products to meet the needs of every line of society. In addition, Indonesia's Islamic Bank is directed to become a modern bank but remains faithful to Islamic principles. Efforts to increase the market share of the national Islamic financial services industry will be carried out by Indonesia Islamic Bank (BSI) through diversification of more comprehensive Islamic business lines, covering the MSME, retail, and consumer segments, as well as wholesalers with innovative products, as well as developing international businesses such as global sukuk. (Alhusain, 2021). In particular, Hery Gunardi emphasized that Indonesia's Islamic Bank will continue to uphold its commitment to MSME actors spread across various regions in the country. Indonesia Islamic Bank (BSI) will build MSME centers in cities and districts and conduct community-based and mosque-based distribution. Indonesia Islamic Bank will also distribute financing to MSMEs assisted by the Ministry of Cooperatives and SMEs or other institutions (Republika, 2021). This commitment dispels concerns that Indonesia Islamic Bank, which has large asset values and is oriented towards becoming a world-class Islamic bank, has the potential to leave facilitation support for MSMEs. Based on the perspective of agency theory, one of the assumptions of human nature related to agency theory is that humans always avoid risk. (avoid risk). Challenges are risks that must be faced by Indonesia Islamic Bank (BSI), both internal and external risks. Indonesia Islamic Bank (BSI) must be able to choose the right strategy in dealing with these challenges so as not to cause problems for agents and principals.

Conclusion

As a result of the merger of 3 (three) state-owned Islamic banks, Indonesia Islamic Bank officially operates. The stages of the merger of Indonesian Islamic banks are guided by the Financial Services Authority (OJK) regulation No. 41/POJK.03/2019. The Financial Services Authority (OJK) acts as a regulator in the process of supervising the merger. Some of the challenges in the merger of Indonesian Islamic banks include: Access to financial services and technology-based products, low levels of Islamic financial literacy and the process of adapting to work culture. Meanwhile, the strategy in dealing with the merger of Indonesian Islamic banks includes the strategy of offering competitive products to meet the needs of every line of society, increasing the market share of the national Islamic financial services industry, which will be carried out by Indonesia Islamic Bank (BSI) through the diversification of wider Islamic business lines, covering the MSME, retail and consumer segments, and wholesale with innovative products, as well as developing international business such as global sukuk.

Limitation

This study has limitations where the author has just started studying mergers from an Islamic perspective, which in this study is a discussion of mergers for Islamic banks. Data sources have limited information and access, namely only articles or news related to Islamic and not many publications on search engines or offline queries. This causes information on Islamic bank mergers in research in this study to only rely on secondary data in the form of news articles and only slightly rely on scientific publications, and there is no information sourced directly from trusted sources relating to mergers on stages, challenges, and strategies.

Suggestions

Regarding the discussion of this research, the author has several suggestions, namely:

1. Regulators, namely the Financial Services Authority (OJK), can coordinate with the Sharia Accounting Standards Board (DSAS) and the Indonesian Ulema Council (MUI) to supervise and assist in accelerating the development of Islamic banking.
2. For business players, alternative merger strategies can be chosen to face the challenges faced during or after the merger. In addition, it can be a consideration for other business actors regarding several stages that must be passed when a company wants to conduct a merger.
3. Further researchers can add primary data in the form of interviews or questionnaires. Interviews can be conducted to obtain more detailed information regarding the process or stages of the merger of Indonesia Islamic Bank (BSI). Interviews can be conducted with parties involved in the merger process such as independent public accountants BRIS, BNIS, BSM, merger legal consultants etc. While questionnaires can be distributed to customers of Indonesia Islamic Bank (BSI) related to the services and products expected from Indonesia Islamic Bank (BSI), the answers to the questionnaire can be used as a strategy to increase public interest in choosing Indonesia Islamic Bank (BSI) as a result of the merger compared to other banks. Thus, the source of the research data obtained becomes wider so that the research results obtained can be more generalized, namely from journals and news and from informants who are involved and feel the impact of the merger of Indonesian Islamic banks.

Implication

The implications of this research include 1) in the process of strengthening Islamic banking, the Financial Services Authority (OJK) as a regulator, must monitor the development of the merger of Islamic banks that have been formed 2) management must carry out sustainable business transformation and improve the quality of banking services and products 3) shareholders the company must monitor management to ensure the decisions taken do not harm the company in the long term.

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