SUMMARY

ETY NURWATI. Performance of Islamic Banks and its relationship with Conventional Bank Holding Company. Supervised by NOER AZAM ACHSANI, DIDIN HAFIDHUDDIN dan NUNUNG NURYARTONO

Islamic banking in Indonesia started in 1992 and began to grow in 1999 after the publishing of Banking Regulation No 10/1998 regarding the dual banking system, which allows conventional banks to establish subsidiaries Islamic Banks (BUS) and open Sharia Business Unit (UUS) on conventional banks. Up to the year 2012 in Indonesia there are 11 Islamic Banks (BUS) and 24 UUS. Among the 11 BUS, 4 BUS comes from the spin-off UUS (BRI Syariah, BNI Syariah, BJB Sharia and Bukopin Sharia), 6 BUS comes from the acquisition and conversion of conventional banks (Bank Syariah Mandiri, Bank Mega Syariah, Bank Panin Syariah, BCA Syariah, Maybank Shariah and Victoria Shariah), as well as one’s own formation BUS (Bank Muamalat Indonesia). Among these 11 BUS, there are 9 BUS which is a conventional bank subsidiaries in Indonesia (the parent company: Bank Mandiri, Bank Mega, BRI, Bukopin, BCA, BNI, BJB, Bank Panin, and Bank Victoria).

Several reasons a company set up a subsidiary company, such as (1) the parent company wants a new line of business (diversification) in this case is the Islamic Banking; and (2) improve existing or projected revenue that can be obtained with the new line of substantial business activity. Long-term success of diversification depends on the transfer of knowledge (marketing knowledge, technological knowledge and experience), and the commitment of resources (human resources, capital, infrastructure) from the parent company to the subsidiaries (Barney, 1991; Luo, 2003; Knott, 2003; Fang, 2007). Another factor that can affect the performance of the subsidiaries are market structure, regulation and ownership structure of the company.

BUS subsidiaries showed a growth performance, however, the average financial performance (ROA, ROE, OER, NPL) and total assets lower than its parent. The market share of Islamic banking assets is approximately 4.3%, mean while the market share of the assets of the parent bank is more than 50% of the total national banking assets (2012). This condition indicates that the development of Islamic banking in Indonesia is not optimal, and there are several factors that detain the development.

The purpose of this study was to examine the factors that influence the development and performance of BUS in related with the parent company, market structure, ownership structure and regulation. This study uses primary data and secondary data from Bank Indonesia statistics for the period 1999-2011. For analysis using panel data regression model and Structural Equation Modeling (SEM). BUS performance measures are used in the form of financial profitability ratios (ROA, ROE), liquidity (FDR), efficiency (ROA), and the growth of asset, profit, third-party funding (TPF) and financing.

The results showed: 1) Islamic banking market structure shows characteristics of oligopolistic competition markets with a Herfindahl - Hirschman Index values (HHI) is 2705 (in 2011), the market share is concentrated on the two...
banks, and showed a significant relationship between market concentration with Return on Equity (ROE) and Financing to Deposit Ratio (FDR) BUS. However, from the aspect of price and the barrier to entry, showed a more perfect competition, because the BUS can not increase the price to the maximum due to the policy of maximum interest rate restriction that can be provided to customers, as well as the lack of barrier to entry, with the ease of licensing to establish a new BUS and UUS. 2) Additional number of BUS showed no significant effect on the performance of profitability (ROA and ROE), but it has a significant negative effect on profits, deposits and financing. Additional number of UUS showed a positive influence on the performance of ROA, ROE, OER, profit and financing BUS, but showed a negative effect on deposits. 3) Dimensional relationships between parent company – subsidiary, which is transfer of knowledge and the commitment of resources, did not show a significant effect on performance of subsidiaries BUS. Regulation had a positive influence on the performance of the BUS. This showed that the transfer of knowledge and commitment of resources from the parent company to the subsidiaries did not optimal, however, the regulation can increase the relationship dimension of parent – subsidiary company, so that it can increase a positive effect on performance. 4) parent company performance indicates an effect on performance of subsidiaries BUS. An increase in profitability (ROA) in the parent company indicated a negative effect on the growth of profits, assets, deposits and financing of subsidiaries. Credit enhancements to the parent company has a positive effect on profitability (ROA, ROE), growth in assets, and financing. This shows that there is competition for gaining market share in the assets and deposits, but not in financing. 5) Experience as BUS company has a more significant effect on performance, compared to prior experience as UUS before spin-off. This showed that the experience is an accumulation of knowledge, the company from time to time learn and discover what is good and how to improve the performance. 6) Government-owned Islamic Bank showed better performance than the private owned Islamic Bank, in the case of FDR, efficiency (ROA), asset, capital and financing.

From this study it can be concluded that the growth performance of Islamic Banks is not maximized, as influenced by several factors: 1) the market structure and corporate conduct, 2) lack of transfer of knowledge and commitment of resources from parent company - conventional banks to its subsidiary Islamic Bank, especially private banks; 3) competition with the parent company in gaining market share in deposits. However, regulation can increase the dimensions of a conventional bank holding company relationship - Islamic commercial bank subsidiary, thus increasing the performance of Islamic Banks.

Keywords: Conventional Banks, Islamic Bank Performance, Parent Company, Subsidiaries, Sharia Business Unit (UUS),