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The Islamic Banking Spin-Off: Lessons from Indonesian Islamic Banking Experiences

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Abstract. The Indonesian Islamic Banking Act of 2008 requires conventional banks to spin-off their Sharīʿah business units if they fulfill the spin-off criteria, which is achieving 50% of the parent's assets or 15 years after this Act was established. This will allow some Sharīʿah business units to transform into fully-fledged Islamic banks. Some Sharīʿah business units have already undertaken the spin-off process although they did not fulfill the spin-off criteria. The purpose of this paper is to analyze these spin-off banks and compare their performance before and after the spin-off, while also examining the type of spin-off and its effect on the bank's performance. This study uses difference in difference analysis to conduct this analysis. Assets, financing, and deposit funds are used as performance measures. The findings show that the spin-off policy should be re-evaluated for various reasons. Most important among them is that it is highly unlikely that Islamic banks in Indonesia can achieve 50% of the parent bank's assets. The results also show that the spin-off did not have any significant impact upon assets and deposit funds, although total financing was found to be significantly improved. Lastly, the results show that the spin-off type did not have an impact on the bank's performance.

Keywords: Spin-off; Islamic banking; difference in difference analysis.

JEL Classification: C33, G21, G39.

KAUJIE Classification: H24, I32, L33.

1. Introduction

In 2008, the Act No. 21 concerning Islamic Banking was published. Before this Act was established, the regulation concerning Islamic banking was regulated by Act No. 10 of 1998. The former Act, not only regulated Islamic banking but also conventional banking. With the former Act it was difficult for the Islamic banking industry to achieve significant growth. Because of this the Act No. 21 of 2008 was established. One of the objectives of this Act was to accelerate Islamic banking industry growth in Indonesia.

One of the crucial points in the Act no. 21 of 2008 was the regulation of Sharīʿah business unit spin-offs if they fulfilled the criteria. The spin-off criteria according to this act are when: (1) the Sharīʿah business unit has reached 50% of the assets of its parent bank; or; (2) has reached 15 years after the act is enacted or by the end of July 2023.

According to Subarjo Joyosumarto (the former Governor Deputy of Bank of Indonesia), there are several reasons why this policy was established. Firstly, to increase the growth of the Islamic banking industry so it can significantly contribute to the Indonesian economy. Secondly, to increase the independence of bank subsidiaries. Thirdly, to improve spin-off bank's performance. Fourth, to enhance the adherence to Islamic principles in Islamic banks.

After the act was fully established, several Sharīʿah business units spun-off although they still had not fulfilled the criteria based on the act. This law resulted in increasing the number of fully-fledged Islamic banks. Before, there were only three full-fledged Islamic banks and 26 Sharīʿah business units, but now there are 12 fully-fledged Islamic banks and 22 Sharīʿah business units operating in the country.

However, some problems have arisen after the implementation of the spin-off policy: (1) The target that Islamic banking will account for at least a five percent asset market share still cannot be achieved. (2) According to data, there is a decline in the assets, total financing, and overall deposit funds growth in Islamic banks over the last few years after the spin-off policy was introduced. (3) Besides that, there is also a decline in the operational efficiency in spun-off banks. Novarini (2009, p. 80), Pramuka (2011, p. 79), and Endri (2011, p. 12) find that the greater part of Sharīʿah business units are not efficient with regard to generating profits. The level of efficiency of fully-fledged Islamic banks (that have larger assets) is much higher than Sharīʿah business units that tend to be much smaller. This is likely to lead to problems in the Sharīʿah business unit when spun off. If they are less efficient when they are still Sharīʿah business units, then the Sharīʿah business unit is also likely to be less efficient too if they convert to fully-fledged Islamic banks.

This fact raises questions. Whether this spin-off policy is appropriate to be implemented in the Indonesian Islamic banking industry? Whether the spin-off criteria according to the act is correct or not? Besides this, did the spin-offs that have been done by some Sharīʿah business units impact on their performance?

The topic about spin-offs in Islamic banking is important to discuss since it is unique and the conditions mentioned in the legislations are (as far as we know) only found in Indonesian banking. If we relate the spin-off activities with the structure-conduct-performance (SCP) hypothesis, one of the strategies to increase the growth of the Islamic banking industry is by adding more full-fledged Islamic banks, making the Islamic banking industry more competitive (structure). One of the ways to make the industry competitive is through spin-off activities (conduct). This activity is expected to increase performance, which is measured by an increase in assets, deposit funds, financing, and market share (performance).

This paper aims to firstly, analyze whether this spin-off policy has an impact on the performance of spin-off banks. Secondly, to examine whether the type of spin-off has an impact on the bank's performance. The difference between this paper and previous research is that we have included control banks and used the difference in difference analysis because one of the weaknesses when using dummy variables is that we never know the real effect of the spin-off policy for the spun-off banks. Also, this is the first study to evaluate the spin-off criteria in Indonesian Islamic banking industry.

2. Literature Review

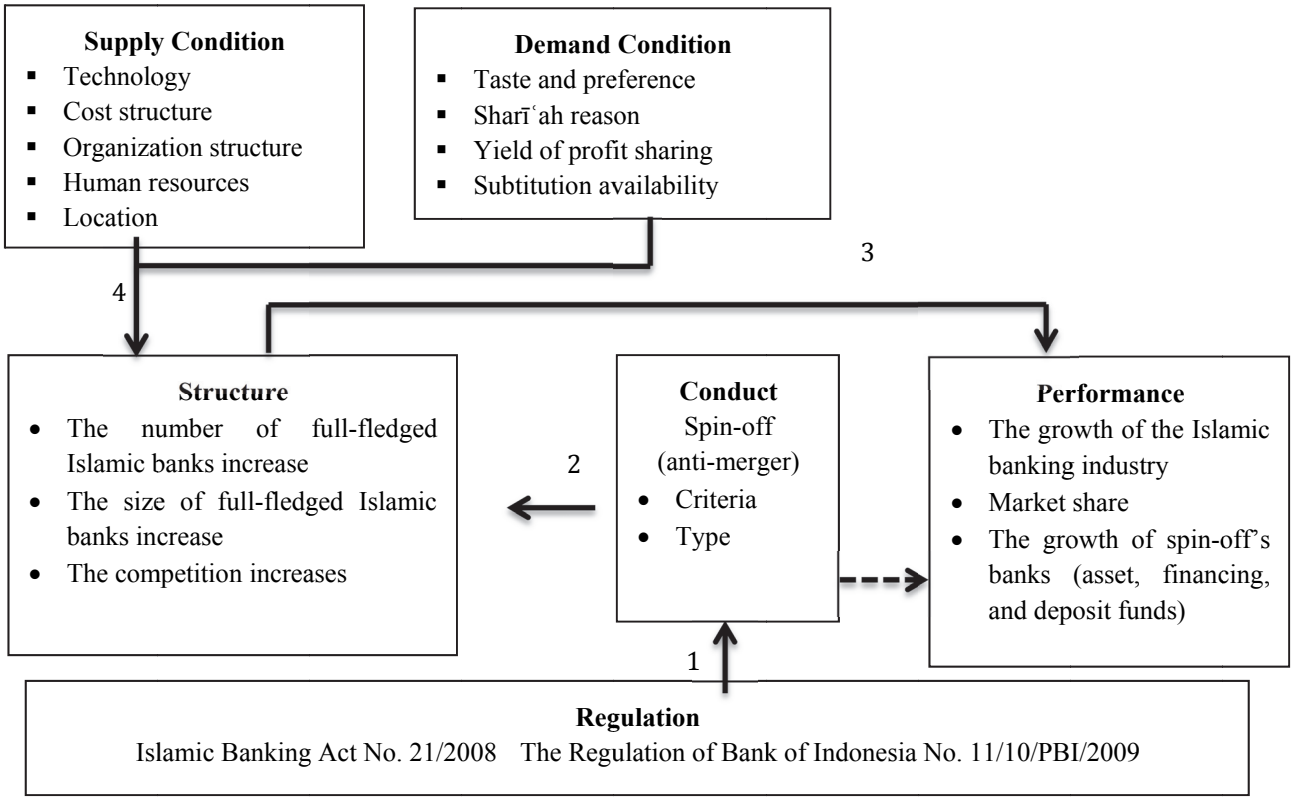
Up until now, there are few theories or studies associated with Islamic bank spin-offs as this (we believe) is only practiced in Indonesia. Therefore, we look at the theories or models of spin-offs in the banking industry in general. Cristo and Falk (2006, p. 331) state that spin-offs make the parent company focus on its primary business, leaving the subsidiaries with greater independence to focus on their areas of expertise. Beeson and Hyden (2002, p. 14) find that a lot of businesses do spin-offs to increase competitiveness and create a higher value-added for their shareholders. Lindholm-Dahlstrand (2000, p. 10) argue that there are several successful growth factors associated with spin-off companies. First, the company's size. Second, spin-offs may occur to move healthy businesses out of troubled firms. Third, success can depend on the level of parent support. Fourth, the parent's behavior can also impact on spin off performance depending on: (a) the spin-off's level of innovation, (b) the relationship between the parent and the spin-off's company just after the spin-off, and (c) the relationship between the parents and the spin-off's company 10 years after the spin-off.

The SCP hypothesis is based on the following proposition: when a few firms have significant market shares, this fosters collusion (lowers the cost of collusion) among enterprises in the industry. According to the SCP hypothesis, there is a positive correlation between the degree of market concentration and firm's performance (Samad, 2008, p. 181). There are some empirical studies in the banking market that provide support for the SCP hypothesis. Samad (2008, p. 181) and Athanasoglou, Brissimis, and Delis (2008, p. 121) find that there is a relationship between market concentration and profitability in the banking industry. Homma, Tsutsui, and Uchida (2014, p. 143) and Chan, Koh, Zainir, and Yong (2015, p. 84) also find that higher market concentration decreases efficiency in the banking industry.

To increase the performance and growth in the Islamic banking industry in Indonesia, the government as the regulator had set the spin-off policy, which will increase the number of fully-fledged Islamic banks. A greater number of fully-fledged Islamic banks will increase competition and reduce marginal costs, so the industry will operate more efficiently and the performance of the Islamic banks will increase. The theoretical framework of this research can be seen in Figure 1.

To measure the performance of Islamic banks, The General Council for Islamic Banks and Financial Institutions has published six criteria (Ascarya & Yumanita, 2008, p. 95). The criteria are: (1) Asset quality and composition; (2) Capital structure; (3) Profitability; (4) Efficiency; (5) Liquidity; and (6) Growth. This research uses growth as the performance criteria because it is suitable for studying spin-off standards in the Indonesian Islamic banking industry. The growth criteria include several measures: asset growth, deposit funds growth, and financing growth. These criteria are compatible with the growth criteria as published by the Bank of Indonesia.

Figure (1). The Theoretical Framework of Islamic Bank Spin-off's.



3. Methods

The aim of this study is to analyze the influence of spin-off policy on performance in the Indonesian Islamic banking industry. We also examine the impact of each spin-off type on performance. We use the difference in difference analysis to achieve the aims of this research. Besides that, this study also uses qualitative analysis to support the experimental result and to analyze the response of customers, bankers, and policy-makers to the spin-off policy. The qualitative analysis was conducted using data from in-depth interviews with Islamic bankers and the regulator; and also from questionnaires given to bank customers.

3.1 Difference in Difference Analysis

This study uses difference in difference analysis to analyze whether the spin-off policy has an impact on the performance of spin-off banks. This method is applied when the data arises from a natural experiment; some exogenous event occurs – often a change in government policy – (Woolridge, 2009, p. 451). The sample is usefully broken down into four groups: the control group before the modification, the control group after the modification, the treatment group before the change, and the treatment group after the change. If C is the control group and T is the treatment group, then *dT* is equal to unity for those in the treatment group, and zero otherwise. Then, *dP* denotes a dummy variable for the post-policy change period. The general difference-in-difference setup is shown in Table 1. We used ordinary least square for these methods.

Table (1) Difference-in-Difference Estimator

	Before	After	After-Before
Control	β_0	$\beta_0 + \delta_0$	δ_0
Treatment	$\beta_0 + \beta_1$	$\beta_0 + \delta_0 + \beta_1 + \delta_1$	$\delta_0 + \delta_1$
Control-Treatment	β_1	$\beta_1 + \delta_1$	δ_1

The data used are quarterly banking data from 2005 to 2015. The sample used consists of four spin-off banks: Bank of BNI Sharia, Bank of BRI Sharia, Bank of Bukopin Sharia, and Bank of BJB Sharia, as treatment objects. Besides that, we add two banks, Bank of Sharia Mandiri and Bank of Mega Sharia, as controls. The control banks are chosen because they are fully-fledged Islamic banks owned by conventional banks. The reasons why we use only these four banks as treatment objects are: (1) they have operated for more than five years, as Sharīʿah business units, (2) they have already undertaken the spin-off for more than five years, and (3) data availability. Besides that, the reasons why only two banks were used as control objects are: (1) these two banks are subsidiaries of conventional banks and (2) these two banks had been fully-fledged Islamic banks since they were established. The difference-in-difference framework of this research is shown in Table 2.

Table (2) Difference-in-Difference Framework

	Before Spin-off	After Spin-off	After-Before
Control Banks	α	$\alpha + \beta_1$	β_1
Treatment Banks	$\alpha + \beta_2$	$\alpha + \beta_1 + \beta_2 + \beta_3$	$\beta_1 + \beta_3$
Control-Treatment	β_2	$\beta_2 + \beta_3$	β_3

To achieve the goal of this research, which is to analyze the influence of spin-off policy on performance in the Indonesian Islamic banking industry, the difference in difference analysis is used. This method is used when the observed outcome consists of two groups and two time periods. One group will be a treatment group, and the other will be a control group.

Model 1: Spin-Off and Assets

Model 1 is used to analyze the impact of spin-off policy upon the asset growth in the Indonesian Islamic banking industry by using the difference in difference analysis. The mathematical equation proposed in this research is:

$$LnAset_{it} = \alpha + \beta_1 D\_spinoff_{it} + \beta_2 D\_treatment_{it} + \beta_3 D\_S{*}D\_T_{it} + \beta_4 LnDeposit_{it} + \beta_5 BOPO_{it} + \beta_6 Inf_t + \beta_7 Int_t + \beta_8 Grwth_t + \varepsilon_{it} \quad (1)$$

If $Asset_{it}$ is Islamic banks' assets; $D\_spinoff_{it}$ is dummy variable for spin-off period, then zero is for before the spin-off period and one is for after the spin-off period. If $D\_treatment_{it}$ is dummy variable for treatment, then it is zero for before the treatment and one for after the treatment. $D\_S{*}D\_T_{it}$ is an interaction variable. $Deposit_{it}$ is Islamic banks' deposit funds. $BOPO_{it}$ is the efficiency ratio. Inf_t is the inflation rate (which is, measured by cost/revenue). Int_t is net interest margin from conventional banks. $Grwth_t$ is GDP growth in Indonesia.

Model 2: Spin-Off and Deposit Funds

Model 2 is used to analyze the impact of spin-off policy upon the deposit funds growth in the Indonesian Islamic banking industry by using the difference in difference analysis. The mathematical equation proposed in this research is:

$$LnDeposit_{it} = \alpha + \beta_1 D\_spinoff_{it} + \beta_2 D\_treatment_{it} + \beta_3 D\_S{*}D\_T_{it} + \beta_4 LnAsset_{it} + \beta_5 Margin + \beta_6 BOPO_{it} + \beta_7 Inf_t + \beta_8 Int_t + \beta_9 Grwth_t + \varepsilon_{it} \quad (2)$$

if $Deposit_{it}$ is Islamic banks' deposit funds; $D\_spinoff_{it}$ is dummy variable for spin-off period, which is zero for before the spin-off and one for after spin-off. If $D\_treatment_{it}$ is dummy variable for treatment, then it is zero for before the treatment and one for after the treatment. $D\_S*D\_T_{it}$ is an interaction variable. $Asset_{it}$ is Islamic banks' assets. $Margin_{it}$ is three months times deposit margin. $BOPO_{it}$ is the operational efficiency ratio. Inf_t is the inflation rate. Int_t is net interest margin from conventional banks. $Grwth_t$ is the GDP growth of Indonesia.

Model 3: Spin-Off and Financing

Model 3 is used to analyze the impact of spin-off policy upon financing growth. The mathematical equation proposed in this research is:

$$LnFin_{it} = \alpha + \beta_1 D\_spinoff_{it} + \beta_2 D\_treatment_{it} + \beta_3 D\_S*D\_T_{it} + \beta_4 LnDeposit_{it} + \beta_5 BOPO_{it} + \beta_6 Inf_t + \beta_7 Int_t + \beta_8 Grwth_t + \varepsilon_{it}..... \quad (3)$$

where Fin_{it} is Islamic banks' total financing; $D\_spinoff_{it}$ is a dummy variable for the spin-off period, which is zero for before the spin-off period and one for after the spin-off period. If $D\_treatment_{it}$ is a dummy variable for treatment, then it is zero for before the treatment and one for after the treatment. $D\_S*D\_T_{it}$ is an interaction variable. $Deposit_{it}$ is Islamic banks' deposit funds. $BOPO_{it}$ is an operational efficiency ratio. Inf_t is inflation rate. Int_t is net interest margin from conventional banks. $Grwth_t$ is the GDP growth of Indonesia.

This research is also intended to examine whether the spin-off type has an impact on performance, measured by assets, financing, and deposit funds. The data used are quarterly banking data from 2005 to 2015, and including four spin-off banks, namely Bank of BNI Sharia, Bank of BRI Sharia, Bank of Bukopin Sharia, and Bank of BJB Sharia. There are two spinoff types: first, spin-offs by using acquisition, conversion, and merger – we call these spin-offs type 1. The second category are pure spin-offs. The treatment banks that belong to type 1 are Bank of BRI Sharia and Bank of Bukopin Sharia. The other two banks, Bank of BNI Sharia and Bank of BJB Sharia, are denoted as type 2 and are used as control banks.

Model 4: Spin-Off type and Assets

Model 4 is used to analyze the impact of spin-off types upon asset growth in the Indonesian Islamic banking industry. Again we use the difference in difference analysis. The mathematical equation proposed in this research is:

$$LnAset_{it} = \alpha + \beta_1 D\_spinoff_{it} + \beta_2 D\_treatment_{it} + \beta_3 D\_S*D\_T_{it} + \beta_4 LnDeposit_{it} + \beta_5 BOPO_{it} + \beta_6 Inf_t + \beta_7 Int_t + \beta_8 Grwth_t + \varepsilon_{it} \quad (4)$$

if $Asset_{it}$ is Islamic banks' assets; $D\_spinoff_{it}$ is dummy variable for spin-off period, then it is zero for before the spin-off period and one for after the spin-off period. If $D\_treatment_{it}$ is a dummy variable for treatment, then it is zero for control banks and one is for treatment banks. $D\_S*D\_T_{it}$ is an interaction variable. $Deposit_{it}$ is Islamic banks' deposit funds. $BOPO_{it}$ is the operational efficiency ratio. Inf_t is the inflation rate. Int_t is net interest margin from conventional banks. $Grwth_t$ is the GDP growth of Indonesia.

Model 5: Spin-Off type and Deposit Funds

Model 5 is used to analyze the impact of spin-off type upon deposit funds growth. The mathematical equation proposed is:

$$LnDeposit_{it} = \alpha + \beta_1 D\_spinoff_{it} + \beta_2 D\_treatment_{it} + \beta_3 D\_S*D\_T_{it} + \beta_4 LnAsset_{it} + \beta_5 Margin + \beta_6 BOPO_{it} + \beta_7 Inf_t + \beta_8 Int_t + \beta_9 Grwth_t + \varepsilon_{it} \quad (5)$$

where $Deposit_{it}$ is Islamic banks' deposit funds; $D\_spinoff_{it}$ is a dummy variable for the spin-off period, which is zero for before the spin-off and one for after the spin-off. $D\_treatment_{it}$ is a dummy variable for treatment, which is zero for control banks and one for treatment banks. $D\_S*D\_T_{it}$ is an interaction variable. $Asset_{it}$ is Islamic banks' assets. $Margin_{it}$ is three months times deposit margin. $BOPO_{it}$ is the operational efficiency ratio. Inf_t is inflation rate. Int_t is net interest margin for conventional banks. $Grwth_t$ is the GDP growth of Indonesia.

Model 6: Spin-Off type and Financing

Model 6 is used to analyze the impact of spin-off type upon financing growth using the difference in difference analysis. The model proposed is:

$$LnFin_{it} = \alpha + \beta_1 D\_spinoff_{it} + \beta_2 D\_treatment_{it} + \beta_3 D\_S*D\_T_{it} + \beta_4 LnDeposit_{it} + \beta_5 BOPO_{it} + \beta_6 Inf_t + \beta_7 Int_t + \beta_8 Grwth_t + \varepsilon_{it} \quad (6)$$

where Fin_{it} is Islamic banks' total financing; $D\_spinoff_{it}$ is a dummy variable for the spin-off period, which is zero for before the spin-off period and one for after the spin-off period. $D\_treatment_{it}$ is a dummy variable for treatment, which is zero for control banks and one for treatment banks. $D\_S*D\_T_{it}$ is an interaction variable. $Deposit_{it}$ is Islamic banks' deposit funds. $BOPO_{it}$ is an operational efficiency ratio measure. Inf_t is the inflation rate. Int_t is net interest margin from conventional banks. $Grwth_t$ is the GDP growth of Indonesia.

4. Results and Discussion

In this section, the empirical findings of the research are presented. We begin by examining the effect of spin-off policy on the performance of spin-off banks. Next, we analyze the effect of the spin-off type on the performance of spin-off banks. Finally, the response of bank customers, bankers, and policy-makers is examined.

4.1 Spin-Off and Performance

Spin-Off and Assets

In the first model, the results show that spin-off policies did not have an effect on the asset growth of spin-off banks. Table 3 presents the estimates of the impact of spin-off policy on performance, which is measured by asset, deposit funds, and financing growth. The variables that are significant in model 1 are the dummy spin-off, deposit funds, BOPO, and the interest rate. The dummy spin-off variable shows that there is a difference in asset growth between pre and post spin-off, but there is no difference in the dummy treatment and interaction variable. This result suggests that there is no difference in asset growth between the treatment banks (four banks) and the control banks (two banks). Besides, the interaction variable indicates that the spin-off policy did not impact upon the asset growth in spin-off banks. This result implies that the increase in asset growth in spin-off banks was not caused by the spin-off decision. This result is similar to the findings from Nasuha (2012, p. 241) who show that there is a difference in assets one year before and one year after the spin-off. But, this result is different to al-Arif (2015b, p. 41), who shows that the dummy spin-off variable does not have an effect on asset growth. This different result may be due to the inclusion of different control variables in the model.

The deposit funds variable has a positive effect on asset growth. This result implies that an increase in deposit funds results in an increase in asset growth. The result is similar to al-Arif (2015b, p. 41) who also found that only deposit funds have a significant effect on asset growth in spin-off banks. Variable BOPO (ratio of operational efficiency) shows a negative effect on asset growth in spin-off banks. This result implies that an increase in the BOPO ratio (decreasing level of efficiency) results in a fall in asset growth. The interest rate variable also shows a negative effect on asset growth implying that increasing levels of interest rates in conventional banks result in a decrease in asset growth. This result is similar to Indriani (2006, p. 80) and Mukhlisin (2010, p. 1) who also found that the interest rate variable has a negative effect on asset growth in Islamic banks. Other variables such as the inflation rate and economic growth do not appear to have an effect on asset growth. But this result is different for Indriani (2006, p. 80) who found that both inflation and growth boost Islamic bank assets.

Table (3) Estimation Result of Spin-off and Performance

Variables	Model 1 Asset	Model 2 Deposit	Model 3 Financing
D_spinoff	0.15874***(2.62382)	0.02842 (0.350933)	0.280006***(3.757349)
D_treatment	0.078007 (0.919586)	-0.014131 (-0.13355)	0.053054 (0.507743)
D_S*D_T	0.088343*(1.694969)	-0.004880 (-0.07615)	0.193723***(3.017435)
Ln_Deposit	0.79433***(61.16982)		0.841289***(52.5953)
Ln_asset		1.18592***(61.2285)	
Margin		0.03093*(1.733331)	
BOPO	-0.00142 **(-1.9804)	0.001356 (1.545097)	-0.00364***(-4.13647)
Inflation	0.705078 (1.252738)	-1.012324 (-1.48036)	1.125512 (1.623449)
Interest	-0.08562** (-2.0412)	0.028917 (0.547621)	-0.104073**(-2.01429)
Growth	-0.00201 (-0.070689)	0.031284 (0.893998)	0.013017 (0.372441)
Intercept	3.9013 (11.75563)	-3.8008***(-8.1530)	3.140581***(7.6825)
R^2-adj	0.970084	0.969335	0.961434
F-Value	1018.4	882.5824	783.1659
SE	0.240349	0.292008	0.296058

Note: ***,**,* *significant at 1%, 5%, and 10% levels.*

Spin-Off and Deposit Funds

Next, the effect of spin-off policy on deposit funds is examined. The empirical result shows that the spin-off policy did not have an effect on deposit fund growth (for spin-off banks). The variables that significantly affect deposit funds are only assets and margins. Table 3 shows that the dummy spin-off variable has no effect on deposit funds, which implies that there are no differences in deposit funds between pre and post spin-off periods either for the treatment or control banks. The dummy treatment variable also has no effect on deposit funds and this indicates that there are no differences in deposit funds between treatment and control banks after the spin-off policy was established. The interaction variable also has no effect on deposit funds. This result implies that there are no differences in deposit funds for the spin-off banks between the periods before and after the spin-off decision.

The results obtained here are different from the research undertaken by by al-Arif (2014a, p. 50) and Nasuha (2012, p. 241). Both find that there is a difference in deposit funds between the periods before and after the spin-off policy was introduced. The difference from our study, however, and that of al-Arif (2014a, p. 50) and Nasuha (2012, p. 241) lies in the methods and the data. The asset variable has an effect on depositing funds, so if Islamic bank's assets increase, deposit funds will also increase. The other variable that has an impact on deposit funds is time deposit margins. This result implies that increasing margins would result in an increase in deposit funds. This result also shows that the customers of Islamic banks are price sensitive and are not only choosing Islamic banks solely for religious reasons. This result is similar to Andriyanti and Wasilah (2010, p. 1) and Kasri (2010, p. 41) who find that higher return of Islamic banks increases deposit funds growth. The other variables such as BOPO (operational efficiency ratio), interest rate, inflation rate, and economic growth rate have no effect on deposit funds growth. This result, however, is different to Kasri (2010, p. 41) and also by Andriyanti and Wasilah (2010, p. 1). They find that the interest rate influences the growth of deposit funds. A higher interest rate will decrease deposit funds growth because there will be a movement of customers from Islamic banks to conventional banks.

From this result, it can be concluded that the spin-off policy had no impact on deposit funds at spin-off banks. Empirically, the increase in deposit funds at spin-off banks is not caused by the spin-off decision. Table 4 shows that in an earlier period of spin-off decision the growth of third-party funds was increasing. The growth shown by Bank of BRI Sharia and Bank of Bukopin Sharia who achieved third-party fund's growth above 200 percent after the spin-off decision. Bank of BNI Sharia showed a different trend of steady growth after the spin-off decision.

The highest growth from Bank of BNI Sharia was before the spin-off in 2008 when it reached 69.07%. Bank of BJB Sharia shows a declining growth after the spin-off decision. The highest growth is in 2009 when it reached 124.73%, and this increase is also stable in the spin-off's year (in 2010) when it reached 124.07%. From the data, it can be seen that the nominal third-party funds are always increasing, but the growth rate is declining.

Table (4) Deposit Funds Growth at Spin-off Banks (%)

Bank	2006	2007	2008	2009	2010	2011	2012	2013	2014
BNI Sharia	31.25	60.02	69.07	37.19	22.96*	31.66	32.91	27.93	36.24
BRI Sharia	43.88	107.93	(24.26)*	278.57	167.91	71.90	20.62	20.09	11.76
BJB Sharia	91.01	26.92	43.64	124.73	124.07*	70.43	51.55	10.13	13.50
Bukopin Sharia	70.96	9.34	(54.59)*	553.31	27.52	41.30	24.39	14.78	2.89

*) Spin-off year.

Spin-Off and Financing

Finally, the effect of spin-off policy on financing growth at spin-off banks is examined. The variables that significantly impact financing are: the dummy spin-off variable, the interaction variable, deposit funds, operational efficiency ratio (BOPO) and interest rates. The dummy spin-off variable shows that there are differences in financing growth between the period before and after the spin-off. The dummy treatment variable shows that there are no differences in financing growth between the treatment and control banks. The interaction variable shows that there are differences in financing growth at the spin-off banks between the period before and after the spin-off decision. This result implies that the spin-off decision could increase financing growth at spin-off banks. A similar result was also found by Nasuha (2012, p. 241) that there is a difference in financing between one year before and one year after at five spin-off banks. A different result was reached by al-Arif (2015a, p.173) who found that the spin-off policy did not have an impact on the financing growth at spin-off banks. The results from this research are also compatible with in-depth interviews with Rizqullah (former Director of Bank of BNI Sharia business) and Subarjo Joyosumarto (former Governor Deputy of Bank of Indonesia). They said that one of the benefits of the spin-off decision is related to financing decisions. If the banks were still operating as Sharīʿah business units the authority for financing decision is limited. They must ask their parent banks (conventional banks) for financing approvals.

The other variables that had an effect on financing growth are deposit funds, the operational efficiency ratio (BOPO), and interest rates of conventional banks. Asy'ari (2009, p. 70) and al-Arif (2015a, p. 173) found similar results that deposit funds had an effect on financing growth in Islamic banks. If deposit funds are increasing, then it will increase financing too. Asy'ari (2009, p. 70), Ambarwati (2011, p. 75), Adebola, Yusoff, and Dahalan (2011, p. 22), and al-Arif (2015a, p. 173) also found that the interest rate from conventional banks had an effect on financing growth in Islamic banks. Giannini (2013, p. 96) also found that the operational efficiency ratio is the factor that had an effect on financing growth in Indonesian Islamic banks. When a bank is less efficient, then financing growth will decline.

From these three sets of empirical results, it can be concluded that the spin-off policy had an effect on spin-off banks only in terms of financing growth, but did not have an effect in terms of asset growth and deposit funds growth. So, if Islamic banks are going to increase the growth of deposit funds they must improve several things, such as: service quality, product quality, product innovation, etc. According to Tubke (2004, p. 25), there are several factors that affect the spin-off process. First, factors such as company size and the business orientation of subsidiaries. Second, organization and management factors. Fourth, transfer factor or the transfer of experience from the parent to its subsidiaries. Fifth, the motivation factor and finally the business environment.

4.2 Spin-Off Type and Performance

Spin-Off Type and Assets

This section explains the effects of spin-off type on performance which is measured by assets, financing, and deposit funds growth. The first result shows that there is a difference in the assets between the period before and after the spin-off. Besides that, there is no difference in the assets between the treatment and the control banks and also there is no difference in the assets of the treatment banks before and after the spin-off. This result implies that the spin-off type does not have an impact on asset growth in the spin-off banks. So, the Sharīʿah business unit that has the plan to make the spin-off can choose type 1 or type 2. This result is in conformity with the results of al-Arif (2014b, p. 168) who found (using panel fixed effect estimations) that the spin-off type did not have an influence on the total assets in the spin-off bank. But, this result is different to the findings from Rizqullah (2013, p. 75) who stated that the first best choice for the spin-off is type 2 or the pure spin-off.

Deposit funds have a positive effect on asset growth. This result implies that if deposit funds increase, this will result in an increase in asset growth. Al-Arif (2015b, p. 41) also found that deposit funds have a significant effect on asset growth. Other variables such as BOPO, inflation rate, interest rate and economic growth rate do not have an effect on asset growth.

Table (5) Spin-Off Type and Performance

Variables	Model 4 Asset	Model 5 Deposit	Model 6 Financing
D_spinoff	345101**(2.016285)	0.02842 (0.350933)	333479 (1.084320)
D_type	-13265.07 (-0.08755)	-0.014131 (-0.13355)	264677.6 (0.972165)
D_S*D_T	3981.651 (0.024419)	-0.004880 (-0.07615)	276730 (0.944524)
Ln_Deposit	1.173676*** (85.8959)		1.108425***(45.14543)
Ln_asset		1.18592***(61.2285)	
Margin		0.03093*(1.733331)	
BOPO	-976.9089 (-0.507921)	0.001356 (1.545097)	-5309.138 (-1.536206)
Inflation	757466.4 (0.472627)	-1.012324 (-1.48036)	2988004 (1.037576)
Interest	-185685.6 (-1.340322)	0.028917 (0.547621)	-795912.2***(-3.19727)
Growth	-15898.91 (-0.192676)	0.031284 (0.893998)	289014.7* (1.949238)
Intercept	1483045* (1.877816)	-3.8008***(-8.1530)	2976173**(2.097203)
R^2-adj	0.987654	0.969335	0.958170
F-Value	1670.964	882.5824	479.1696
SE	611173.2	513140.1	1098198

*Note: ***, **, * significant at 1%, 5%, and 10% levels.*

Spin-Off Type and Financing

The results show that there is a difference in financing between the period before and after the spin-off. However, there is no difference in financing between the treatment and control banks, and also there is a no difference in financing for the treatment banks between pre and post spin-off periods. This result implies that the spin-off type does not have an impact on financing growth in the spin-off banks. So, the Sharīʿah business unit that has a plan to make a spin-off can choose the type of spin-off either type 1 or type 2. The variables that significantly influence financing growth are deposit funds and the interest rate. The other variables such as BOPO, inflation rate, and economic growth rate do not have an effect on financing growth.

Spin-Off Type and Deposit Funds

The results show that there is a difference in deposit funds between the period before and after the spin-off. But there is no difference in deposit funds between the treatment and control banks and also no difference in deposit funds of the treatment banks between the period before and after the spin-off. This result implies that the spin-off type does not have an impact on deposit fund growth in the spin-off banks. So, the Sharīʿah business unit that has the plan to

make the spin-off can choose either type 1 or type 2 spin-off. The only variable that significantly influences deposit fund growth is assets. The others variables such as margin, BOPO, inflation rate, interest rate, and economic growth rate don't have an effect on deposit fund growth.

According to the results, it can be concluded that the spin-off type doesn't have an impact on performance. Assets, financing, and deposit funds were used as performance measures. According to Rizqullah (2013, pp. 206-207) the choice of type 1 spin-off is determined by several factors, such as: (1) the transfer of employee status; (2) reporting and accounting systems; (3) information and technology systems; (4) taxation; (5) policy-makers' response; and (6) due diligence. Dewati (2015, p. 58) found that the factors that are considered in choosing the first type are: (1) IT driven; (2) stakeholders concerns and (3) internal orientation.

Factors that are considered in choosing the second type according to Rizqullah (2013, p. 206-207) are: (1) company culture; (2) communication programs; (3) customer's response; (4) delivery channel; (5) competitor's response; and (6) taxation. Dewati (2015) found that the factors that are considered in choosing the second type are: (1) strategic planning; (2) infrastructure; and (3) practicality of the spin-off process. Each element shows that the priorities in each Sharīʿah business unit might be different. The differences in each Sharīʿah business unit's characteristics will also lead to differences in the decision taken. Each Sharīʿah business unit can choose the spin-off type that is suitable for their condition. According to the data from five spin-off banks, there are three banks that chose the first type of spin-off and two banks that chose the second type of spin-off.

4.3 Discussion

One of the reasons for the spin-off policy is to increase the growth of the Indonesian Islamic banking industry. This activity will increase the number of full-fledged Islamic banks and aims to make the industry more competitive which will in turn, enhance the performance of the Islamic banking industry. Table 6 shows that after the spin-off activities, the concentration ratio of Indonesian Islamic banking industry is still highly concentrated. If we consider the Concentration Ratio 2 (known by CR2) measure, the largest two banks dominate by having 43-50% of the total assets and deposits. If we consider the Concentration Ratio 4 (known as CR4) the largest four banks in Islamic banking industry dominate by having 59-62% of the total assets and deposits. Although the spin-off activities increased the number of Islamic banks, those activities still could not make a performance difference in the spin-off banks. According to the previous results, it can be seen that the spin-off activities only resulted in performance differences in financing while there were no performance differences in assets and deposits.

The spin-off decision should be based on the strategic planning from banks. The decision should not be taken only to fulfill regulations. Rizqullah (2013, pp. 206-207) said that there are eleven elements that should be considered when the Sharīʿah business unit decides to make a spin-off. The elements are: (1) the customer's response; (2) the competitor's response; (3) the business model after spin-off; (4) the integration program; (5) communi-cation program; (6) the transfer of employment status; (7) supporting institution; (8) decision-making speed; (9) the conformity of regulation; (10) the strategic consideration; and (11) the information and technology system.

Table (6) Market Share and Concentration Ratio in Islamic Banking in Indonesia

Banks	*Market share* Asset			*Market Share* Deposit Funds		
	2013	**2014**	**2015**	**2013**	**2014**	**2015**
BSM	0.25781	0.24001	0.23977	0.29791	0.26718	0.26962
BMI	0.22044	0.22377	0.20004	0.24051	0.24110	0.19035
BRIS	0.07013	0.07294	0.07745	0.07665	0.07638	0.07889
BNIS	0.05928	0.06989	0.07468	0.06102	0.07322	0.07894
Panin Sharia	0.01633	0.02226	0.02403	0.01533	0.02288	0.02531
Mega Sharia	0.03676	0.02525	0.01928	0.04130	0.02624	0.02019
BJB Sharia	0.01892	0.02184	0.02244	0.01978	0.02360	0.02349
Bukopin Sharia	0.01750	0.01850	0.01868	0.01748	0.01800	0.01851
BCA Sharia	0.00823	0.01074	0.01214	0.00910	0.01054	0.01237
Maybank Sharia	0.00927	0.00878	0.00623	0.00522	0.00470	0.00555
Victoria Sharia	0.00533	0.00516	0.00522	0.00543	0.00510	0.00005
CR2	**0.47825**	**0.46378**	**0.43981**	**0.53842**	**0.50828**	**0.45997**
CR4	**0.60767**	**0.60660**	**0.59194**	**0.67609**	**0.65788**	**0.61779**
CR8	**0.69720**	**0.69445**	**0.67638**	**0.76997**	**0.74860**	**0.70528**

To support the quantitative result, this research also uses a qualitative approach obtaining data from in-depth interviews with policy-makers (Bank of Indonesia and Financial Service Authority), bankers, and questionnaire to bank's customers. According to the questionnaire that was distributed to bank customers, several results can be discussed. First, the Sharīʿah business compliance is not the dominant factor in the consumer decision. This result implies that the reason for the spin-off, which states that Sharīʿah factor is the main reason, is not entirely appropriate. Second, most of the respondents knew that the bank has been separate from the parent banks (53% of those surveyed). Although the respondents knew that the bank had been independent, there were no changes in savings behavior. Third, some respondents said that there is an increase in services and performance of Islamic banks after the spin-off decision. However, several other respondents said that there is no difference in services and performance, while some felt that there is a decrease in services and performance after the spin-off decision.

Based on the interviews with bankers, some results can be obtained. Firstly, because of the characteristic differentiation between Islamic and conventional banks, they stated that spin-off is a matter that must be done. To ensure the conformity with Islamic principles, Sharīʿah business units should separate from their parents. Secondly, the spin-off decision should be based on corporate strategy and not imposed by policy makers. The primary consideration in a spin-off decision should be built on the internal conditions of Sharīʿah business units. Ariawan Amin (the former CEO of Bank of Jabar Banten Sharia) said that the core idea from the spin-off policy is to accelerate Islamic banking growth, especially Sharīʿah business units. In fact, policy makers encourage spin-offs to be done. There are, however, some weaknesses from premature spin-offs, such as (i) the efficiency of the spin-off banks; (ii) the human resources in spin-off banks. Thirdly, all the respondents agreed that the 50% share asset criterion is impossible to be achieved because of economies of scale that exist in Sharīʿah business units. The risk of high growth rates will have an impact on Islamic banks. Fourthly, there are different opinions among bankers on the 15 years criteria. Some bankers said that this period is enough to prepare the spin-off. Others said that the spin-off should not be restricted by the period, but should be based on the condition in each Sharīʿah business unit. The maximum time to do the spin-off will be different for each Sharīʿah business unit.

Based on the interviews with policy makers, several results can be obtained. First, spin-offs must be done before July of the year 2023. The spin-off must still be done following the mandate of the Islamic Banking Act. One of the reasons for the spin-off Act

is based on a Bank of Indonesia survey in 2001 that said most of the people are still not convinced of the adherence to Islamic principles in Sharīʿah business units. Second, the preparation of the spin-off criteria is not based on an in-depth academic study. The idea behind the 50% assets market share target is only because it represents a majority share i.e. if the Sharīʿah business unit has achieved the 50% assets market share then it must make the spin-off. This target is hard to achieve for Sharīʿah business units. Besides that, the 15 year period was also set as a criteria only using rational reasoning and not in-depth academic study.

Third, parent banks should support the development of spin-off banks. In practice, some of the parent banks give full support to their subsidiary banks. However, other parents are less helpful in the development of affiliates. In fact, there are some parent banks that consider its subsidiaries as a competitor. This reason is discussed by Tubke (2004, p. 35) and Lindholm-Dahlstrand (2000, p. 228) who said that one factor that determines a successful spin-off is the relationship between the parent company and its subsidiaries. Klepper and Thompson (2010, p. 526) found that companies that have a better performance before the spin-off would also have a better performance after the spin-off. According to this, the Sharīʿah business unit must have a better performance before they make the spin-off so that they can have a better performance afterwards. Thus, the parent banks should support the Sharīʿah business unit to have a better performance before they make the spin-off.

Fourth, the size of the Sharīʿah business unit should be the one to be considered in the spin-off decision. Achyar Iljas and Subarjo Joyosumarto (the former Governor Deputy of Bank of Indonesia) said that the primary consideration in deciding the spin-off should be the size of the Sharīʿah business unit. Company size will be the primary consideration in determining the target market. Lindholm-Dahlstrand (2000, p. 228) said that there are several successful growth factors for a spin-off company, such as: company size; parental support; parent's behavior; innovation in the spin off; the relationship between the parent and spin-off just after the spin-off; and the relationship between parents and its spin-off company after 10 years of the spin-off. Hite and Owers (1983), and Johnson, Brown, and Johnson (1994) said that one factor that determines the success of the spin-off process is the parent company's size. The larger the size of the parent, the spin-off process would have a better probability of success rather than the spin-off that is done by the smaller companies. Most of the remaining Sharīʿah business units are owned by regional development banks. These Sharīʿah business units have a small size. This can cause problems when they decide to do a spin-off. Haribowo (2017, p. 53) found that the Sharīʿah business units owned by regional development banks couldn't achieve the 50% assets share of the parent.

These aforementioned studies recommend several strategies that can be used by policy-makers and government, parent banks or the Sharīʿah business units. The strategies that can be used by the regulator are to: (i) create fair competition between the Islamic banking and conventional banking industry; (ii) government policy should seek to further promote the Islamic banking industry (iii) raising the status of Islamic banks that are subsidiaries of state-owned banks into separate state-owned bank entities.

The strategies that can be used by the parent banks are to: (i) support the growth of the subsidiary units through a clean book policy; (ii) subsidiary banks can use the facilities owned by their parent banks; (iii) subsidiary banks can use the information technology that is held by their parent banks.

Meanwhile, the strategies that can be used by the Sharīʿah business units are: (i) increasing funding resources from the current accounts and saving accounts (CA-SA), which will lower the cost of funds; (ii) develop innovative products; and (iii) offer more competitive financing margin.

The other strategies that can be used relating to the spin-off policy are: (1) conversion of parent banks to become fully-fledged Islamic banks can be another alternative for small conventional banks. (2) Besides, parent banks can change their Sharīʿah business units into Islamic rural banks. (3) Sharīʿah business units can be sold to larger Islamic banks; and (4) Release the Sharīʿah business unit to a larger Islamic bank, and convert the assets into shares in the larger Islamic bank.

5. Conclusion

From the research done by using difference-in-difference analysis and descriptive qualitative analysis, we evaluated the spin-off policy in Indonesian Islamic banking. The first result shows that there are no differences in assets and deposit fund growth in the treatment banks between the period before and after the spin-off, but there is a difference in financing growth. The second result shows that there are no differences in assets, deposit funding, and financing growth between different types of spin-off.

These findings have several implications for the growth of Islamic banking in Indonesia. First, policy makers should be careful about this spin-off plan. Only Sharīʿah business unit that has good performance should be allowed to undertake the spin-off. Second, parent banks should increase the size of their subsidiary banks (Sharīʿah business units), so that they can maintain independence after the spin-off process. Third, policy makers should pay particular attention to Sharīʿah business units to increase their size, so that they are ready to make the spin-off before July 2023. The policy implications of this research are: firstly, the spin-off decision should be dictated by business strategies for Islamic banks and not for legislative reasons. Secondly, Islamic banks should continuously increase the bank's product quality. Thirdly, Islamic banks should continuously look to develop more innovative products. Fourthly, parent banks should look to fully support the operations of their subsidiaries.

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فصل الخدمات الإسلامية في المصارف التقليدية: دروس من تجارب المصرفية الإسلامية الإندونيسيّة

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المستخلص. يفرض قانون المصرفية الإسلامية الإندونيسي لعام ٢٠٠٨م على البنوك التقليدية أن تفصل وحدات أعمالها الشرعية إذا توافرت الشروط المطلوبة، وهي أن يصل حجم أصولها إلى خمسين في المائة (٥٠٪) من أصول البنوك الأم أو بلغ عمرها خمسة عشر عاماً بعد دخول القانون في حيز التطبيق. مما يتيح المجال لبعض الوحدات الشرعية أن تتحوّل إلى مصارف إسلامية مستقلة. وقد قامت بعض وحدات الأعمال الشرعية بعملية الفصل على الرغم من أنها لم تستوف الشروط المذكورة في القانون. تهدف هذه الورقة إلى تحليل هذه المصارف المنفصلة ومقارنة أدائها قبل وبعد عملية الفصل، كما تفحص الورقة أيضا أنواع عمليات الفصل ومدى تأثير كل نوع على أداء المصارف. ولتقييم الأداء ترتكز الورقة على ثلاثة أشكال من المؤشرات، وهي: الأصول، والتمويل، وصناديق الإيداع. وتُشير النتائج إلى ضرورة إعادة النظر في سياسة الفصل لأسباب عدّة، من أهمّها أنه من المستبعد جدًا أن المصارف الإسلامية في إندونيسيا يمكن أن تحقق ٥٠٪ من أصول البنوك الأم. وتبين أيضاً أنّ عملية الفصل لم تؤثر كثيراً على نسبة الأصول وصناديق الودائع في هذه البنوك على الرغم من أن التمويل الإجمالي قد شهد تحسناً كبيراً. كما تُظهر أنّ نوع الفصل لم يكن له تأثير فعال على أداء المصارف.

الكلمات الرئيسية: فصل أنشطة الشركات؛ الخدمات المصرفية الإسلامية؛ تحليل الفروق.