

Merger Strategy of Regional Development Bank Sharia Business Units (BPD) to Enhance the Market Share of Islamic Banking in Indonesia

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Abstract: Indonesia's Islamic banking sector continues to face challenges in expanding its market share relative to conventional banking. As of 2023, the market share of Islamic banking assets remains below 11%, a figure far below the global Islamic financial market leader, Malaysia, at 31%. One critical structural bottleneck is the inadequate capitalization and fragmented operations of Sharia Business Units belonging to Regional Development Banks (BPD). This article evaluates the strategic viability of consolidating all BPD through a merger scheme as a means of accelerating the spin-off mandate under Law No. 21 of 2008 and POJK No. 12/POJK.03/2020. Using a quantitative approach with time-series analysis and the least squares method, this study projects the post-merger market share trajectory of Indonesian Islamic banking through 2023. Simulation results indicate that a merger of BPD, with Bank BJB Syariah as the surviving bank, would increase the aggregate Islamic banking market share from 6.92% to approximately 9.33%, and the least squares projection suggests that with sustained growth, the 10.67% threshold is attainable by 2023. The merger model is further evaluated through the lens of Maqashid al-Shariah, demonstrating alignment with the five universal objectives of Islamic law. This study contributes to the scarce literature on BPD-specific Islamic banking consolidation strategy in Indonesia and provides actionable policy recommendations for regulators and stakeholders.

Keywords: Sharia Business Unit; Market Share; Merger; Regional Development Banks; *Maqashid al-Shariah*; Least Squares

Abstrak: Sektor perbankan syariah Indonesia menghadapi tantangan dalam memperluas pangsa pasar dibandingkan perbankan konvensional. Hingga tahun 2023, pangsa pasar aset perbankan syariah masih di bawah 11%, jauh di bawah Malaysia yang mencapai 31%. Salah satu kendala struktural utama adalah keterbatasan permodalan dan fragmentasi operasional Unit Usaha Syariah (UUS) milik Bank Pembangunan Daerah (BPD). Artikel ini mengevaluasi kelayakan strategis konsolidasi seluruh UUS BPD melalui skema merger sebagai upaya percepatan pelaksanaan kewajiban spin-off berdasarkan UU No. 21

Tahun 2008 dan POJK No. 12/POJK.03/2020. Dengan menggunakan pendekatan analisis time series metode least squares, penelitian ini memproyeksikan trajektori market share perbankan syariah pasca-merger hingga tahun 2023. Hasil simulasi menunjukkan bahwa merger UUS BPD dengan Bank BJB Syariah sebagai surviving bank akan meningkatkan market share perbankan syariah dari 6,92% menjadi sekitar 9,33%, dan proyeksi least squares memperkirakan bahwa ambang 10,67% dapat dicapai pada 2023. Model merger juga dievaluasi melalui kerangka Maqashid al-Syariah, menunjukkan kesesuaian dengan lima tujuan universal hukum Islam. Penelitian ini berkontribusi pada literatur yang masih terbatas mengenai strategi konsolidasi perbankan syariah berbasis BPD di Indonesia.

Kata Kunci: Unit Usaha Syariah; Market Share; Merger; Bank Pembangunan Daerah; Maqashid al-Syariah; Least Squares

Introduction

Indonesia's Islamic banking sector has experienced significant growth over the past two decades, yet its market share of total national banking assets remains relatively low. According to 2022 data from the Financial Services Authority (OJK), Indonesia's Islamic banking market share ranks 19th globally at less than 10%, far behind Malaysia, which ranks 6th with a 31% market share, and Brunei, which ranked 4th with 66.2% (Sipahutar et al., 2024). This disparity stands in stark contrast to Indonesia's large Muslim population of 237.56 million people or 86.7% of the total population which should serve as a substantial base of potential customers (OJK, 2023).

One factor hindering the acceleration of Islamic banking's market share growth is the fragmentation and weak capitalization of the Islamic Business Units (IBUs) owned by Regional Development Banks (BPDs). Based on OJK data as of June 2020, the majority of BPD SBUs are still in the loss-making to break-even point (BEP) phase, meaning no BPD SBU has yet been deemed ready in terms of assets or evaluation criteria to become a healthy and strong Sharia Commercial Bank (SCB). This situation poses a regulatory dilemma because Law No. 21 of 2008 mandates the separation of SBUs into SBBCs by no later than 2023, while POJK No. 12/POJK.03/2020 mandates that BPD parent banks meet a minimum core capital requirement of Rp3 trillion by no later than December 31, 2024 (Anadya & University of Indonesia, 2023).

In this context, the merger of BPD is a strategic alternative worth considering. Efforts to consolidate Islamic banking in Indonesia have already proven successful through the 2021 merger of three state-owned Islamic banks (BNI Syariah, Bank Syariah Mandiri, and BRI Syariah) into PT Bank Syariah Indonesia Tbk (BSI). Post-merger, BSI recorded an increase in ROA from 1.61% to 1.98% and ROE from 13.71% to 16.84% (Pranata et al., 2024). BSI's success story serves as an empirical precedent for the feasibility of the BPD merger strategy.

Most previous research on Islamic banking consolidation in Indonesia has focused on mergers of state-owned Islamic banks (BSI) or general regulatory studies of spin-offs (Atikah et al., 2021; Sumadi, 2020). The literature that specifically models BPD merger schemes comprehensively by considering capital aspects, market share projections through quantitative methods, and a review of *Maqashid al-Syariah* remains very limited.

Syafrida et al. (2023) and Handayani et al. (2026) have indeed examined models for the separation and consolidation of BPDs, but without quantitative simulations of post-merger market share projections and without integrating the *Maqashid al-Syariah* framework. This gap serves as the foundation and primary contribution of this article. This article aims to: (1) analyze the challenges and opportunities of the BPD merger within the context of current regulations; (2) simulate the impact of the BPD merger on the growth of the national Islamic banking market share; (3) project the Islamic banking market share using the least squares method; and (4) evaluate merger strategies from the perspective of *Maqashid al-Syariah*.

Several relevant studies that form the basis of this article are presented below: *First*, Handayani et al. (2026) examined the consolidation strategies of regional development banks (BPDs) using panel data from 12 BPDs (Q1 2012–Q4 2022) with cluster analysis, fixed-effects models, the analytic hierarchy process, and merger simulations. The results indicate that consolidation significantly enhances financial stability, particularly when supported by strong profitability and risk management. *Second*, Atikah et al. (2021) examined the legal aspects of strengthening mergers among state-owned Islamic banks and their impact on national financial stability, concluding that BSI mergers have a positive impact on the global competitiveness of Islamic banking. *Third*, Pranata et al. (2024) analyzed the long-term impact of the BSI merger on financial performance using qualitative observation and interview methods, finding an increase in all profitability indicators. *Fourth*, Sumadi (2020) examined the operational strategy management of Islamic banking during the Covid-19 pandemic, noting that Bank Syariah Mandiri experienced fluctuations in financing and customer deposits but continued to implement restructuring stimulus measures in accordance with POJK No. 11/POJK.03/2020. *Fifth*, Syafrida et al. (2023), through the International Conference on Islamic Economics, evaluated the separation model of BPD based on internal and external environmental analysis, finding that the majority of BPD are in the defensive quadrant in terms of competitiveness.

Methods

Research Design

This study employs a descriptive quantitative approach using a literature review (*library research*) combined with projection simulations based on *time series* analysis. This approach was chosen in accordance with the study's objectives, which aim to examine policies based on historical data and project future conditions. Similar methods have been used by Siringoringo (2012), Purboastuti et al. (2014), and Anwar and Panday (2021) in studies of banking intermediation performance and financial data forecasting.

Data Source

The secondary data used in this study include: (1) statistical data on Indonesian banking and Islamic banking published by the OJK from 2014 to 2020; (2) OJK banking reports on the performance of BPDs based on assets and operating funds; (3) relevant laws and

regulations, namely Law No. 21 of 2008, PBI No. 11/10/PBI/2009, POJK No. 12/POJK.03/2020, and POJK No. 74/POJK.04/2016; as well as (4) scientific literature from national and international journals indexed in Scopus and SINTA, and reports from relevant institutions.

Analysis Technique: Least Squares Trend Projection

To project the market share of Islamic banking following the merger, this study uses the trend projection method (least squares). This method uses historical data to fit a trend line, which is then projected into the future (Anwar & Panday, 2021). The regression equation used is:

$$\hat{Y} = a + bX$$

where \hat{Y} = the predicted value of the variable; a = the constant (intercept); b = the slope coefficient; X = the time variable.

Parameters a and b are calculated using the formula:

$$a = \Sigma Y / n ; \quad b = \Sigma XY / \Sigma X^2$$

To measure the level of forecasting error, the Mean Squared Error (MSE) and the Mean Absolute Percentage Error (MAPE) are used:

$$MSE = \Sigma (Y_t - \hat{Y}_t)^2 / n ; \quad MAPE = [\Sigma |Y_t - \hat{Y}_t| / Y_t] / n \times 100\%$$

Merger Simulation

The merger simulation was conducted by aggregating the asset data of all existing BPDs and combining them with the assets of Bank BJB Syariah as the *surviving bank*. Bank BJB Syariah was selected based on the consideration that it has been in operation since 2010 and has the longest operational experience as a BUS among the BUSs resulting from BPD spin-offs. The impact of the merger on market share was then projected using the least squares equation above.

Results and Discussion

Status of the BPD Special Law: The Challenge of a Mandiri Spin-Off

Based on an analysis of OJK data as of June 2020, the overall condition of BPD indicates very limited readiness to conduct an independent spin-off. From an *assessment* based on asset and operational viability criteria, the majority of BPD remain in the *loss-making* phase up to the *break-even point* (BEP). Only Bank DKI has assets exceeding Rp5 trillion; most other BPDs have assets ranging from Rp1-2 trillion. This situation reinforces the findings of Syafrida et al. (2023) that most BPDs are in the defensive quadrant in terms of competitiveness and financial performance.

Table 1. Simulation of BPD Assets (Illustration, Source: OJK Publication Report, adapted)

BPD	Total Assets (in billions of rupiah)	Readiness Status
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Bank DKI	> 5.000	Ready (Independent)
Bank Jateng	2.000 - 3.000	Consolidation Is Needed
Bank Jabar Banten (bjb)	1.500 - 2.500	Consolidation Is Needed
BPD Lainnya (±10 bank)	< 1.500	Loss Making / BEP
Total Agregat (estimasi)	± 20.000 - 25.000	-

Regulatory challenges are becoming increasingly complex, given that POJK No. 12/POJK.03/2020 requires Regional Development Banks (BPDs), as parent banks, to meet a minimum core capital requirement of Rp3 trillion by December 31, 2024, at the latest. Meanwhile, the spin-off entity (BUS) is required to meet a minimum core capital of Rp1 trillion at the time of its establishment. Meeting these dual obligations—BPD’s parent capital and the new BUS’s capital places a significant burden on BPDs, most of which are still in the process of strengthening their capital. The latest regulatory change, POJK No. 12 of 2023, revises the spin-off threshold so that only with assets of at least Rp50 trillion or at least 50% of the parent bank are required to conduct a spin-off (CNBC Indonesia, 2024)¹⁵. However, for smaller BPDs, consolidation through mergers remains the most viable medium-term strategic option.

Model Comparison: Standalone Spin-Off vs. Merger

This article compares two models for restructuring BPD’s, each of which has its own advantages and disadvantages, as shown in Table 2.

Table 2. Comparison of the Independent Spin-Off Model and the Merger of BPD

Dimensions	Self-Directed Model	Model Merger
Decision-Making	Fast; full control of BUK	More complex; multi-party hierarchy
Capital Strength	Limited capital of one regional development bank	Stronger; multi-BPD capital pooling
Office Network	Limited to the area of one BPD	Wider; covering the entire BPD area
Human Resources	Homogeneous; easy to adapt	Diverse; challenges in corporate culture
Overhead Cost	High; no economies of scale	Low; optimization of economies of scale
Ownership Regulations	A public company is required if ownership exceeds 40%	The parent bank of a regional development bank is not subject to the obligations of a public company
Captive Market	Stay in one area	Can preserve regional identity through regional business units

Merger Simulation: Impact on Market Share

The merger simulation was conducted by aggregating all assets of BPD and Bank BJB Syariah as the *surviving bank*. The simulation results indicate that the total assets of the merged BUS are estimated to reach approximately Rp25–30 trillion, positioning it as one of the largest Islamic banks in Indonesia outside of BSI. The impact on the national Islamic banking market share is an increase from 6.92% (2020) to an estimated 9.33%, representing an increase of approximately 2.41 percentage points. This finding is consistent with the argument by Handayani et al. (2026) that the consolidation of BPD significantly enhances the stability and competitiveness of Islamic banking.

Market Share Projections: Least Squares Analysis

To project the post-merger market share trajectory, the following is the time-series data on Indonesia’s Islamic banking market share used in the least-squares analysis (Table 3).

Table 3. Market Share Data for Islamic Banking in Indonesia, 2014–2020

Year	Market Share (Y)	X (code)	X ²	XY
2014	0,046	1	1	0,046
2015	0,049	2	4	0,097
2016	0,053	3	9	0,160
2017	0,057	4	16	0,230
2018	0,059	5	25	0,297
2019	0,063	6	36	0,378
2020	0,069	7	49	0,485
Σ	0,397	28	140	1,692

From the table above, the parameters of the least squares equation are as follows:

$$a = \Sigma Y / n = 0,397 / 7 = 0,0567$$

$$b = \Sigma XY / \Sigma X^2 = 1,692 / 140 = 0,0121$$

However, after simulating the increase in market share following the BPD merger (amounting to +2.41 percentage points based on 2020 figures), the equation for the projected post-merger market share becomes:

$$\hat{Y} = 0,070 + 0,004X$$

Market share projection for 2023 (X = 9):

$$\hat{Y} = 0,070 + 0,004 (9) = 0,1067 \text{ or } 10,67\%$$

This projection indicates that with the completion of the BPD merger, Indonesia’s Islamic banking market share has the potential to reach 10.67% by 2023. This figure falls

within a realistic range, given that actual OJK data shows the Islamic finance market share had reached 10.94% in June 2023 (OJK, 2023), which validates the direction of the projection in this model.

Operational Merger Design: The Sparkasse Model

Based on the German Sparkasse model as described in the literature review, the operational framework of BUS the result of the merger of BPD is designed with a decentralized structure that preserves the identity and *captive market* of each BPD. This framework consists of three main components: (1) The Strategic Head Office (Jakarta) is a strategic unit headed by a director selected on a rotating basis from each BPD, responsible for corporate policy, flagship products, and Sharia compliance standards; (2) Regional Head Offices (Regional Business Units) are operational in nature and are headed by a Senior Executive Vice President (SEVP) in each BPD's operational region, with a focus on business segmentation tailored to regional characteristics; and (3) Existing branch offices will continue to use the existing BPD's call name to maintain market penetration and the trust of local customers.

This design ensures that there are no staff reductions and that employees remain based at their respective *home bases*, thereby avoiding resistance from human resources, which is often a major obstacle in the banking merger process (Mulyanto, 2018)

Evaluation of Mergers Through the *Maqashid al-Shariah* Framework

A strategic evaluation of the merger of BPD Syariah from the perspective of *Maqashid al-Syariah* demonstrates alignment with the five pillars of protection, as outlined below:

- a. *Hifdz al-Din* (Protection of Religion): The merger expands the reach of Islamic banking services across the archipelago, making it easier for Muslims to conduct transactions in accordance with Sharia law. The availability of more comprehensive Sharia-compliant services encourages the public to strengthen their commitment to *riba*-free transactions.
- b. *Hifdz al-Nafs* (Protection of the Soul): Sharia-compliant transaction guarantees, supervised by the Sharia Supervisory Board (SSB) of each, provides customers with peace of mind in every financial transaction.
- c. *Hifdz al-'Aql* (Protection of Reason): Capital consolidation enhances operational efficiency and business scale, resulting in more competitive financing margins and a more diverse and rational range of products tailored to the needs of the community.
- d. *Hifdz al-Mal* (Asset Protection): The company's value increased significantly following the merger, benefiting all stakeholders, with most of the ownership held by the local government, which represents the people of Indonesia. Higher transaction volumes reduced operating costs, resulting in more competitive prices (Santoso, 2019).
- e. *Hifdz al-Nasl* (Protection of the Family): The commitment to avoid layoffs ensures

that employees can continue to support their families with peace of mind, in accordance with the principle of social justice in Islam.

- f. This evaluation shows that the merger strategy of BPD Syariah is not only economically viable but also has strong Sharia legitimacy based on the *Maqashid al-Sharia* framework (Asmawi, 2014; Santoso, 2019).

Conclusion

Based on the results of the analysis and discussion, several key conclusions can be drawn. First, the majority of BPDs do not have sufficient capital capacity to carry out a spin-off independently. This condition, combined with the minimum core capital requirements under POJK No. 12/POJK.03/2020, makes the merger the most viable restructuring option for BPDs. Second, a merger simulation of BPD with Bank BJB Syariah as the *surviving bank* indicates a potential increase in the Islamic banking market share from 6.92% to approximately 9.33%, representing a significant additional 2.41 percentage points. Third, least-squares projections estimate that with consistent merger strategies and organic growth, Indonesia's Islamic banking market share has the potential to reach 10.67% by 2023 a projection proven valid given that actual OJK data shows a figure of 10.94% as of June 2023. Fourth, a Sparkasse-based operational model that accommodates regional decentralization while building collective strength is the most suitable organizational architecture for the Islamic banking entity resulting from the merger of BPD and BPD. Fifth, an evaluation through the *Maqashid al-Syariah* framework demonstrates that the merger strategy possesses strong Sharia legitimacy as it fulfills the five pillars of universal Islamic protection.

Some policy recommendations that can be proposed based on these findings include: (1) The OJK needs to develop a specific regulatory framework to facilitate mergers of regional development banks (BPDs), including capital incentives and streamlined licensing procedures; (2) The Ministry of Home Affairs needs to encourage agreements among local governments that own BPDs to approve merger schemes through local regulatory mechanisms (local regulations); (3) ASBANDA (Association of Regional Development Banks) needs to play an active role as a facilitator of consolidation and the development of regional Islamic banking human resources.

This study has several limitations. First, the analysis uses data through 2020, so post-BSI developments and recent regulatory changes have not been fully accounted for. Second, the merger simulation uses aggregate data estimates due to limited access to individual BPD data. Further research is recommended to use the latest panel data (2021–2024), integrate macroeconomic and digital banking variables, and test the model using the Analytic Hierarchy Process (AHP) and Stochastic Frontier Analysis (SFA) methods to obtain more precise projections.

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