

Impact Of Spin-Off Policy On The Asset Growth On Indonesian Islamic Banking Industry

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Abstract

The purpose of this paper is to analyze the impact of spin-off on asset growth on Islamic banking in Indonesia. This research used panel regression with random effect. The variable used in this paper is spin-off which is used as a dummy variable, and also included the internal factor of industry such as deposit and efficiency ratio (measured by BOPO). Besides the internal factor, this research also included the external factor such as inflation rate, economic growth rate, and net interest margin from conventional banking. The result shown that only deposits that had impact on asset growth of Islamic banks from spin-off result. The spin-off decision on this model doesn't have an impact on asset growth. There are three reasons why spin-off policy doesn't have yet an impact on asset growth: first, the Islamic banks that result from spin-off still use the facility on the parent's bank. Second, the Islamic bank needs a lot of capital to expand the facility. Third, Islamic banks resulted from spin-off still doing internal consolidation after the spin-off.

Keywords: spin-off, asset, panel regression

JEL: C33, G21, G39

Introduction

The development of Islamic banks in Indonesia is quite rapidly after 1998, after the birth of Law No. 10 of 1998. In this law is a refinement of Law No. 7 in 1992. If in the law of 1992, Islamic bank only recognized as the profit sharing banks. So in the law of 1998 has recognized the existence of Islamic banks in the banking system in Indonesia which stated as bank with Islamic principles. After application of the law in 1998, began to be recognized in the implementation of the dual banking system

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(conventional bank and Islamic bank) in Indonesian banking system. Table 1 shows the development of Islamic banking network in Indonesia.

Table 1. Islamic banking network

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--------------------------|------|------|------|------|-------|-------|-------|------|------|
| Islamic banking | | | | | | | | | |
| Islamic full pledge bank | 3 | 3 | 5 | 6 | 11 | 11 | 11 | 11 | 11 |
| Islamic business unit | 20 | 26 | 27 | 25 | 23 | 23 | 24 | 23 | 23 |
| Islamic rural bank | 105 | 114 | 131 | 138 | 150 | 154 | 158 | 163 | 163 |
| Number of Offices | | | | | | | | | |
| Islamic full pledge bank | 349 | 401 | 581 | 711 | 1.215 | 1.349 | 1.745 | 1998 | 2139 |
| Islamic business unit | 183 | 196 | 241 | 287 | 262 | 300 | 517 | 590 | 425 |
| Islamic rural bank | 105 | 185 | 202 | 225 | 286 | 362 | 401 | 402 | 429 |

Source: Islamic banking statistics, Bank of Indonesia

On July 16, 2008, has established the Law No. 21 of 2008 concerning Islamic Banking in Indonesia. This law provides the legal basis and on Indonesian Islamic banking industry. After the enactment of this law the development of Indonesian Islamic banks industry hope to accelerate greater than before. One of the crucial issues in this law is related to the spinoff Islamic business units into Islamic full pledge banks. The spinoff criteria on this law if the asset of Islamic business unit has reached 50% of the parent bank's assets or 15 years after the Act No. 21 of 2008 applied. Although no single Islamic business units fulfill the spinoff criteria, regulator (Bank of Indonesia) imposed some Islamic business units to spinoff and become Islamic full pledge banks.

After the enactment of Law No. 21 of 2008 appeared a new trend establishment of Islamic banks through acquisition and conversion of conventional banks into Islamic full pledge banks. Implementation can be done through three approaches, namely: *First*, conventional commercial banks that already had Islamic banking unit acquires a relatively small bank then convert it into an Islamic full pledge banks and release the Islamic banking unit with the newly converted bank. *Second*, the conventional banks that don't had the Islamic banking unit, acquired a relatively small bank and convert it into an Islamic full pledge banks. *Third*, the conventional bank spinoff the Islamic business units, and the Islamic business unit become Islamic full pledge banks.

In the period of 2008-2014, there are a lot of Islamic business unit decided to spinoff, and become the Islamic full pledge banks. One of the reasons why they are decided to spinoff is to be independent in management. From 12 spinoff banks that established

from pure spinoff are only Bank of Jabar Banten and Bank of BNI Shariah. The rest is become from acquisition and conversion process.

According Tübke (2004) there are several factors that affect the separation process (spinoff). First, the factors associated with the business activity, the first factor is related to the size of the company and the business sector differences between the parent company to its subsidiaries. If the first factor is associated with the Islamic business unit can be positioned as a conventional bank subsidiaries and parent company. Second, the factors associated with the organization and management of the company. Third, factors associated with relationships and support. There are three patterns of relationships that may be created between the parent company with subsidiaries which perform the separation, namely the relationship market (market-Relatedness), the relationship of the product (product Relatedness), and the relationship of technology (technology-Relatedness). Fourth, transfer factor or transfer such transfer of experience from the parent company to its subsidiaries. Fifth, factors associated with motivation. Sixth, the factors associated with the business environment in the form of the characteristics of the regional business environment and legal framework

Bank of Indonesia had issued the blue print of Indonesian Islamic banking industry in 2002 and the revised edition in 2005. Beside that the Bank of Indonesia also had issued the accelerated program in 2007, where on this accelerate program focused on 5% market share target of Islamic banking industry to the national banking industry on 2008. But this target can't be achieved in 2008, so the target had revised into 3.5% market share target in 2009 and 4.75% target in 2010. To accelerate and achieve this target, Bank of Indonesia imposed some Islamic business unit to spinoff, and become Islamic full pledge banks. The data shows that until 2014 this target still can't be achieved by the Indonesian Islamic banking industry.

From the explanation above, we can said that the spinoffs policy that imposed by the regulator still not show a significant effect to accelerate the market share of Indonesian Islamic banking industry. Based on this fact, the spinoffs policy should be evaluated. This research is going to evaluate the spinoff policy on the asset growth of four spinoff banks.

There are several things that make these studies are so important, such as: *first*, the spinoffs of Islamic business units become an Islamic full pledge banks first occurred in the Islamic banking industry in Indonesia. *Second*, the research about spinoffs in Islamic banking industry is still limited.

Literature Review

Until now there has not been a lot of theories or research found associated with the spin-off in Islamic banks. This is due to the spin-off of Islamic banks firstly practiced in Indonesia. Therefore, theories or models of the spin-off will be done with the model of spin-offs are applied to industry in general.

Nasuha (2012) conducted a study related to differences in the performance of some spinoff banks pre and post spinoff by using the Wilcoxon test. The result showed that the performance difference pre and post spinoff only occurs in assets, financing, and deposits. While on the other variables, CAR, FDR, ROA, and ROE showed no difference in performance between 1 year before and 1 year after the spin-off.

Al Arif (2014) conducted a study about the impact of spin-off policy on the growth of Islamic banking industry, which one the growth indicator is asset growth. This research uses the data on Islamic banking statistics from Bank of Indonesia and Financial Service Authority. The result shows that all the independent variables such as spin-off dummy variable, one-month time deposit, operational efficiency ratio (BOPO), and profitability ratio (ROA) had an impact on the asset growth on Islamic banking industry in Indonesia.

Siswantoto (2014) analyze the performance and the strategy of Islamic bank after the spinoff decision. Most Islamic banks that have been converted in the full-pledge scheme could optimize some source of funding such as capital injection and increasing temporary investment deposit.

Hamid (2015) analyze the impact of spinoff policy on profitability ratio in Indonesian Islamic Banking Industry. The result showed that the spinoff policy had a positive impact on profitability ratio in Indonesian Islamic banking industry. From this study, the regulator should stimulate the Islamic business unit to make a spinoff decision.

According Elfring and Foss (1997) there are two types of spin-off, namely: *first*, in terms of its parent company, in which the parent company for some reason is not able or not able to exploit the opportunities that come by. The *second* type is related to organizational units as an individual, in this second type is the type most widely performed, in which the subsidiary is not the same as its parent company. This second type contained in the spin-off of the Islamic banking units in conventional banks in Indonesia.

Bchini (2012) stated that there are three forms of spinoff in Tunisia, such as the project spinoff, the outsourcing spinoff, and extrapreneurship. Each type leads to growth and entrepreneurial success, but the most successful form from this study is extrapreneurship. Beeson and Hyden (2002) stated that if a lot of company done the spin-off to increase the competitiveness of the company and create the value for the shareholders by focused on it primary business. Christo and Falk (2006) showed that the key factor of spin-off is the focused of the industry. From these result and we related to this research, we can stated that the spin-off decision that had been done by several Islamic banking unit can give a value for the parents company and also for the shareholders. Because the parents company can focused on his primary business, and the subsidiary company can focused to develop.

Chu, et.al (2010) highlights two issues, such as: *first*, spinoff performance is likely to be enhanced if its operations are linked to those of the parent, and if the CEO has a long history of involvement with the parent. *Second*, a spinoff performs better during its initial stages if it is an internal venture spun out from the parent company with its technology researched and developed within the parent. Klepper and Sleeper (2005) support the basic premise of the model that spinoffs inherit knowledge from their parents that shapes their nature at birth. Elpida, et.al (2010) found that spinoff ventures are seen as a vehicle for transferring knowledge into application in society. Entrepreneurship or more specifically the entrepreneurial action is seen as the core process in the development of spinoff ventures.

Veld and Veld Merkoulova (2002) doing the research in 156 spin-off in Europe since 1987 until September 2000, the result showed that there is an increasing of abnormal earning is about 3.57% for company that focused on its core business, and only 0.76% for company that not focused on its core business. Herzeca (1996) stated that spinoff has been successfully used to facilitate the achievement of the company's strategic objectives, with allow to focus on its core business. Herzeca further argued that the spinoff has been able to effectively separate the business capital of the businesses that have high growth. In addition to the spin-off can eliminate the conflicts that exist in two different businesses.

Chemmanur and Yan (2004) developed a new rationale for corporate spin-offs, and for the performance and value improvements following them. The firm has two divisions, and current management has differing abilities for managing these two divisions. Spin-

offs can enhance firm management. In addition, on their analysis demonstrates that in addition to positive abnormal stock-price return on the announcement day, spin-offs also lead to positive long-term abnormal stock returns (on average) for parent spin-offs combination reporting subsequent takeover activity.

Method

The data used are quarterly data from 2005 to 2014, by including four Islamic banks spinoff (such as BNI Syariah, BRI Syariah, Bukopin Syariah, and BJB Syariah). Statistical data comes from the financial statement of Islamic Bank and Bank of Indonesia. To answer the goal of this research which to analyze does any the spinoff had an impact on the asset growth in Indonesian Islamic banking is using the panel regression. To estimate the parameter of the model using panel data regression, there are several techniques that can be used, such as: *First*, ordinary least square. *Second*, fixed effect model. *Third*, random effect model. On these research is using panel regression with random effect model, because we assume that the intercept is not constant. The mathematical equation proposed in this research is:

$$Y_{it} = \alpha + \beta_1 D_{it} + \beta_2 Dep_{it} + \beta_3 BOPO_{it} + \beta_4 Inf_t + \beta_5 Int_t + \beta_6 Grw_t + \varepsilon_{it}$$

where:

Y_t = Asset;

D_t = Dummy variable for spin-off

Which is: 0 before spin-off, 1 after spin-off

Dep = deposits

BOPO = operational efficiency ratio

Inf = inflation rate

Int = net interest margin from conventional banks

Grw = economic growth of Indonesia

Result And Discussion

The estimation result from panel regression with random effect shown that the variables that affect the asset growth on Islamic banks that result from spin-off is dummy variable of spin-off, operational efficiency ratio (BOPO), interest rate, and growth rate

variables. Intercept give a positive and significant result, these things shows that if all variables on this model are assumed zero, the Islamic banks still can have an asset value as an intercept of coefficient value.

Table 2. Estimation With Random Effect Model

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|-----------------------|-------------|--------------------|-------------|----------|
| C | 2020491. | 920989.3 | 2.193827 | 0.0298 |
| D_SPINOFF | 164154.0 | 156244.7 | 1.050622 | 0.2951 |
| DEP | 1.177119 | 0.018467 | 63.74336 | 0.0000 |
| BOPO | -1351.988 | 2055.765 | -0.657657 | 0.5118 |
| INF | 1033130. | 1715362. | 0.602281 | 0.5479 |
| INT | -288016.5 | 169120.2 | -1.703029 | 0.0906 |
| GRW | -8497.305 | 95006.61 | -0.089439 | 0.9289 |
| Effects Specification | | | | |
| Period random | | | 0.000000 | 0.0000 |
| Idiosyncratic random | | | 660532.1 | 1.0000 |
| Weighted Statistics | | | | |
| R-squared | 0.983046 | Mean dependent var | | 4123887. |
| Adjusted R-squared | 0.982363 | S.D. dependent var | | 4739869. |
| S.E. of regression | 629475.4 | Sum squared resid | | 5.90E+13 |
| F-statistic | 1439.890 | Durbin-Watson stat | | 1.766161 |
| Prob(F-statistic) | 0.000000 | | | |
| Unweighted Statistics | | | | |
| R-squared | 0.983046 | Mean dependent var | | 4123887. |
| Sum squared resid | 5.90E+13 | Durbin-Watson stat | | 1.766161 |

Dummy variable spin-off doesn't have an impact on asset growth in four Islamic banks are becoming observation. This result show that the spinoff decision that imposed by the regulator is still have an impact on performance of spinoff banks. The only one variable that had an impact on asset growth is deposits. The significance result on deposits variable indicates that the higher the deposits that can be collected by Islamic

banks, it will increase the asset value of spinoff banks. Based on this estimation, showed that the only variable that affects the asset growth of spinoff banks is only deposits.

Other independent variables such as dummy variables separation, the level of operational efficiency (ROA), the rate of inflation, interest rates of conventional banks, and economic growth rate has no effect on the growth of Islamic commercial bank assets in the separation results. The value of determination coefficient shows by the value of R^2 0.9830 and the value of adjusted R^2 0.9823. This result shows that fixed effect model can explain the model in about 98.23% and 1.77% is explained by other variables outside the model. The value of F statistics show significant results, so that it can be said that simultaneously all variables affect the dependent variable of deposits in Islamic banks.

Next we will try to look at Hausman’s test, as seen in Table 3. The hypothesis on Hausman test is:

H_0 = there are no differences between fixed effect and random effect

H_a = there are differences between fixed effect and random effect

The value of Hausman’s test is not significant, so it can said that the null hypothesis is don’t reject. The result shows that there are no differences between fixed effect and random effect. If the null hypothesis is don’t reject show that with pooled OLS model, fixed effect model, and random effect model are consistent.

Table 3. Hausmann-test

| Correlated Random Effects - Hausman Test | | | | |
|---|-------------------|--------------|------------------|--------|
| Equation: Untitled | | | | |
| Test period random effects | | | | |
| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. | |
| Period random | 0.543597 | 3 | 0.9092 | |
| ** WARNING: estimated period random effects variance is zero. | | | | |
| Period random effects test comparisons: | | | | |
| Variable | Fixed | Random | Var(Diff.) | Prob. |
| D_SPINOFF | 220543.3146 | 164154.0033 | 59469701268.1176 | 0.8171 |
| DPK | 1.182408 | 1.177119 | 0.000083 | 0.5625 |
| BOPO | -2196.3321 | -1351.988117 | 2128574.901634 | 0.5628 |

Period random effects test equation:

Dependent Variable: ASET

Method: Panel Least Squares

Sample: 2005Q1 2014Q3

Periods included: 39

Cross-sections included: 4

Total panel (balanced) observations: 156

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|-----------|-------------|------------|-------------|--------|
| C | 476173.1 | 236213.2 | 2.015861 | 0.0462 |
| D_SPINOFF | 220543.3 | 289624.1 | 0.761481 | 0.4479 |
| DPK | 1.182408 | 0.020602 | 57.39378 | 0.0000 |
| BOPO | -2196.332 | 2520.862 | -0.871262 | 0.3854 |
| INF | NA | NA | NA | NA |
| INT | NA | NA | NA | NA |
| GRW | NA | NA | NA | NA |

Effects Specification

Period fixed (dummy variables)

| | | | |
|--------------------|-----------|-----------------------|----------|
| R-squared | 0.985717 | Mean dependent var | 4123887. |
| Adjusted R-squared | 0.980580 | S.D. dependent var | 4739869. |
| S.E. of regression | 660532.1 | Akaike info criterion | 29.86428 |
| Sum squared resid | 4.97E+13 | Schwarz criterion | 30.68540 |
| Log likelihood | -2287.414 | Hannan-Quinn criter. | 30.19778 |
| F-statistic | 191.8867 | Durbin-Watson stat | 1.679215 |
| Prob (F-statistic) | 0.000000 | | |

From the estimation using panel regression showed that the spin-off policy has not yet an impact on the asset growth in Islamic banks. This implies that the spin-off policy is contained in the Act No. 21 of 2008 related to the article governing the separation is still need an improvement to accelerate the asset growth of Islamic banks especially on Islamic banks of spin-off result. These findings are inconsistent with that made by Al Arif (2014) that seeks to look at the effect of the spin-off policy on the growth of Islamic banking industry in Indonesia, where in previous studies trying to look at the impact of spin-off policy towards the Islamic banking industry in general by using Islamic banking data from Islamic Banking Statistics from Bank Indonesia. In a previous study using the independent variable in the form of a dummy variable separation, the level of financing problems (NPF), a margin deposit 1 month, the value of the efficiency ratio (ROA), and the level of profitability (ROA). The results showed that all independent variables have a significant impact on asset growth on the Islamic banking industry in Indonesia.

Different results were obtained by Nasuha (2012), which conducts research related to differences in the performance of Islamic business unit who decided to spinoff (Bank of BNI Shariah, Bank of BRI Shariah, Bank of BJB Sharia, Bank of Bukopin Shariah, and Bank of Victoria Sharia) one year before and one year after spin off by using the Wilcoxon test. The result obtained from this study shown that the variables that have the difference between pre and post spinoff is only assets, financing, and deposits. The other variables such as CAR, NPF, FDR, ROA, and ROE don't have a difference between pre and post spinoff.

Shaikh (2014) examine the determinants of the growth of Islamic banking in Pakistan, where the results of the research showed that one of the variables are positively related to asset growth is only the deposits. Syafrida and Abror (2011) found that internal factors that affect the growth of Islamic banking assets are the number of the office, the FDR ratio, and promotion costs, while the NPF ratio and the amount of deposits have no effect on the growth of assets. While the external factors such as the number of office channeling and the money supply had no effect on the asset growth in Indonesian Islamic banking industry.

Indirani (2006) found the factors that affect the asset growth of Islamic banking in Indonesia is economic growth (GDP), real interest rates of conventional banks, inflation, ROA, NPF, and the number of bank offices. Mukhlisin (2010) conducted a study of the major determinants of growth assets of Islamic banks find that the number of branches, channeling, and the amount of human resources affect the growth of assets.

Conclusion

The estimation results to see the effect of segregation on the growth of assets in Islamic banks separation results show that the separation of the dummy variable has no effect on the asset growth. Variables that influence in affecting the asset growth of Islamic commercial bank that result from spin-off on this study only variables deposits. This suggests that the higher deposits, the higher the value of the assets of Islamic banks.

Several reasons may be arguments why on this study the spin-off policy has no effect on the asset growth on Islamic banks spin-off results are: *First*, the Islamic banks from spin-off result still use the facility of the parent conventional bank, such as ATM and still be able to make transactions through conventional parent bank. Therefore the growth of branches of Islamic banks after separation may not be too significant. *Second*, the Islamic bank from spin-off result needs a lot of capital to expand the facility, such

as the expansion of branch office, the ATM machine. Especially in the earlier periods of spin-off the operational efficiency values (BOPO) is very high. *Third*, Islamic banks resulted from spinoff still doing internal consolidation after the spin-off.

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