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Impact of the merger decision of Islamic bank on Islamic capital market reaction in Indonesia

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Abstract

One way to strengthen the banking industry is to expand externally through mergers. The expected impact on the capital market due to the merger is a positive change in price fluctuations and trading volume of shares on the market, in which the merger makes banking performance more developed. This study aims to determine the reaction of the Indonesian Islamic capital market to the decision to merge Islamic banks owned by state-owned enterprises in Indonesia, namely Bank Syariah Indonesia, which is a bank resulting from a merger between PT Bank BRI Syariah Tbk, PT Bank Syariah Mandiri, and PT Bank BNI Syariah. This type of research includes quantitative research and an independent t-test as a statistical approach to comparative analysis. The results of the study show that there is a positive reaction from the capital market to the decision to merge state-owned Islamic banks. This can be seen from price activity, trading volume and stock returns. This research can provide an overview of the market reaction to an event, especially a merger event, to the condition of the stock market in question.

Keywords: merger; Islamic banking; Islamic capital market reaction.

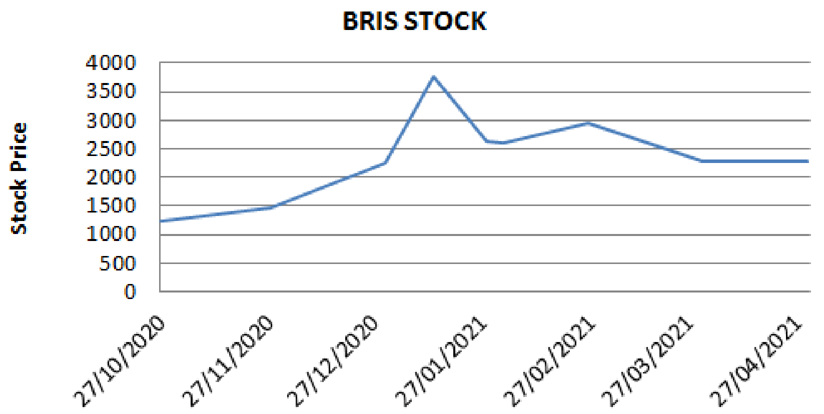
Introduction

Today, the development of the banking world is increasing, especially in terms of service quality, product variety, and technology. The activities and existence of the banking world can determine the economic progress of a country. In addition, banks have an essential role in the development and growth of the national economy. One of the efforts that can be made to become an effective and broader company is to implement business expansion (Swandari, 2002). The business's growth is divided into internal development and external expansion. Internal expansion is carried out by improving the quality that already exists in a company.

One way to strengthen the banking industry is to carry out external expansion, namely merger. Merger is the merging of two or more industrial companies engaged in the same company's industrial unit into one new company industry or maintained one of the company's industries to strengthen the position of a company's industry. In contrast, external expansion is carried out by combining two or more business ventures.

So far, the study of Islamic bank mergers, has mostly referred to the analysis of aspects of the capital market reaction to the occurrence of Islamic bank mergers. This study has become the focus of research in the past year regarding the effect of merger decisions on capital market reaction. Starting February 1, 2021, three Islamic banks have officially merged, namely PT Bank BRI Syariah Tbk. (BRIS), PT Bank Syariah Mandiri (BSM), and PT Bank BNI Syariah (BNI Syariah), to become PT Bank Syariah Indonesia Tbk. (BSI). According to Abdul Moin, a merger is a merger of two or more companies, then only one company continues to exist as a legal entity, and the others cease to be active (Moin, 2010). The merger of the three Islamic banks formed a national Islamic commercial bank with strong capital. This bank merger has the vision of national Islamic banking and will become one of the ten largest Islamic banks based on global market capitalization in the next five years. The literature shows many reasons for mergers between organizations, where the combined businesses receive higher marks than each company (Georgios & Georgios, 2011). It can reduce new ventures, maximize shareholder wealth, achieve economies of scale and scope, reduce costs and increase return on equity (Gattoufi, Al-Muharrami, & Al-Kiyumi, 2017).

Figure 1. Bank Rakyat Indonesia Syariah (BRIS) stock price chart



	27/10/2020	27/11/2020	30/12/2020	13/01/2021	28/01/2021	02/02/2021	26/02/2021	31/03/2021	30/04/2021
Saham BRIS	1235	1470	2250	3770	2620	2610	2940	2290	2280

Source: https://finance.yahoo.com

The estimated impact on the capital market with the merger is a positive change in market fluctuations in the price and trading volume of shares, which the merger makes banking performance more developed, especially for the sharia economy. Ahmad defines that in general, the capital market is an abstract market as well as a concrete market where the goods traded are abstract market participants and the concrete form is securities on the stock exchange (Kamaruddin, 2004). The capital market is a form of financial market, where market participants who have excess funds invest in securities offered by issuers. Investment is an investment for one or more assets owned and usually for a long period of time with the hope of getting profits in the future (Sunariyah, 2000). With the merger, the quality of Islamic financial services has increased at a more affordable price so that it can affect the interest of investors to invest in the capital market.

This paper aims to respond to the lack of existing studies by focusing on price movements, trading volume and company stock returns so that the company's condition can be known after the merger. Previous studies on bank mergers' effect on stocks include: *First*, research conducted by Suci (2021), concludes that during the 10-day period before and after the merger, there were statistical differences in abnormal returns. However, there is no significant difference in stock trading volume activity because the value of its significance ranges above 0.05. *Second*, the research conducted by Safitri (2019) concludes that the announcement of the acquisition has a significant positive effect on the share price of the acquiring company, this is evidenced by the increase in the average pre-acquisition ARR from -0.0001 to 0.0098 if The technique used is to compare the different tests before and after the acquisition. *Third*, the research conducted by Maharani (2017) concludes that the events of mergers and acquisitions with trading volume activity indicators show significant differences in the period before and after the events of mergers and acquisitions. The result of the research is that there is a positive market reaction before and after the merger and acquisition event.

Based on some of the studies above, the researchers conducted further research to obtain conclusions that provide clarity regarding the effect of mergers on market reactions with indicators of price, trading volume and stock returns. This study compares prices, trading volume and stock returns before and after the merger decision in a state-owned enterprise (SOE) Islamic banks.

Literature review

Capital market

The capital market is a meeting place for sellers and buyers of marketable securities to obtain capital or long-term investment, where sellers and buyers who carry out transactions in the capital market are individuals, private companies or government institutions (Karmila & Ernawati, 2018). The capital market is an activity related to securities trading and public offering between public companies dealing with securities that are issued and institutions and professions related to securities (Presiden Republik Indonesia, 1995). In addition, the capital market is a market whose activities are trading various kinds of financial instruments in the form of securities; these instruments are in the form of capital such as shares, bonds or derivatives.

Merger

The merger is a part of the strategy that the company will achieve in developing and expanding the company's movement; the larger the company will have access to a large capital market as well (Coyle, 2000). A merger can be defined in a broad or narrow sense. Generally, a merger is the acquisition of two companies by another party within the scope of one business. In a narrow sense, a merger is a combination strategy or unification of resources from one company with another company.

Stock price

The stock price is the price that occurs on the stock market at a certain period which can be determined by the shareholders and is influenced by the demand and supply of shares in the capital market (Hartono, 2008). Stock prices are constantly changing; this is due to market fluctuations. The company's performance can influence the high and low stock prices; the better the company's performance, the relatively higher stock prices will be. The stock price will always decline if the company's performance worsens (Zuliarni, 2013).

Stock trading volume

The market shows a reaction of stock trading volume due to a merger (company merger) change in the number of shares traded. When there is information about company mergers, investors can interpret and evaluate whether the information is favourable or unfavourable (Tandelilin, 2010). Stock trading volume can be interpreted as one of the parameters used to determine the extent of stock trading activities on the reactions in the capital market at the time of stock price announcements.

Stock return

Stock return is the profit obtained by stock investors from the difference between the purchase price of the stock and the excess selling price of the shares traded on the capital market (Arista & Astohar, 2012). Returns are divided into two, namely realized returns that they're occurred and calculated through historical data and expected returns that have not yet happened, which are the expectations of stock investors in the future (Pratiwi, Dwipradnyana, & Diatmika, 2021). Return is the result obtained by stock investors in investing in the capital market; the higher the selling price of securities acquired by stock investors from the purchase price, the higher the return expected by stock investors.

Research methods

The type of research is quantitative research, which analysis process emphasizes data in the form of numbers that are processed by statistical methods (Fauzi, 2009). This research uses an event study technique. The event in this study is the merger event carried out by Islamic banking on February 1, 2021.

The population in this study is Islamic banking which has merged; there are three Islamic banks, namely PT BRI Syariah Tbk., PT Bank Syariah Mandiri, and PT BNI Syariah. Determination of the research sample using purposive sampling, the sample is carefully selected to be relevant. The sample standards used in this research are:

1. Information of the announcement date of the merger;
2. The number of outstanding shares published in the financial statements;
3. The company's stock price data used to determine stock returns.

This research uses the data analysis technique, independent t-test analysis with an analytical tool, namely SPSS version 26 for Windows. The stages of analysis are first to collect data and second to compare the data pra and post-merger. The data are prices, trading volumes, and stock return before and after the merger. The source of data in this study is secondary data, namely stock closing price data 60 days before the merger and 60 days after the merger, which was taken from Yahoo Finance (https://finance.yahoo.com). The data analysis method in this study will test whether the merger significantly affects prices, trading volume and stock returns at PT. Bank Syariah Indonesia Tbk. The data analysis step is to calculate BRIS stock returns with the formula (Dewi, Endiana, & Arizona, 2020):

$$R = \frac{Pt - Pt_{-1}}{Pt_{-1}}$$

Information

R : Return of stock

Pt : Stock price today

Pt_{-1} : Stock price yesterday

Results and discussion

The descriptive and statistical test results of stock price

The stock price is the closing price of the stock market during the observation period of each sample sampled, and investors observe its movement. Stock prices are formed through the capital market's mechanism of supply and demand (Sartono, 2011). If there is excess demand, the stock price will rise. On the other hand, if there is an oversupply, the stock price will tend to fall. From the results of stock price data processing before and after the bank merger, the following results show:

Table 1. Descriptive Statistical Test Results on Stock Prices

Event study	N	Mean	Std. Deviation
Before merger	60	2098.67	835.230
After merger	60	2574.00	227.359

Table 2. Independent t-Test Results on Stock Prices

	F	Sig.	T	df	Sig. (2-tailed)	Mean Difference
Stock price	84.684	.000	-4.253	118	.000	-475.333
			-4.253	67.696	.000	-475.333

Based on the results of statistical tests that have been carried out using SPSS version 26 for Windows, it can be seen that the stock price before the merger had a mean value of 2098.67 and after the merger had a mean value of 2574.00 while the standard deviations were 835,230 and 227,359. The results of the independent t-test above, with a significance value of <0.05, show that the merger event significantly affects the direction of the positive coefficient on stock prices. This means that the merger decision causes share prices to rise significantly.

Descriptive and statistical test results stock trading volume

Trading volume is the ratio between the number of shares traded to the number of shares outstanding at a certain time (Husnan, 2009). From the results of stock price data processing before and after the bank merger, the following results can be seen:

Table 3. Descriptive statistics test results on stock trading volume

Event study	N	Mean	Std. Deviation
Before merger	60	219167472.88	166325236.304
After merger	60	72430683.33	93642058.767

Table 4. Independent t test results on stock trading volume

	F	Sig.	T	df	Sig. (2-tailed)	Mean difference
Stock price	12.317	.001	5.955	118	.000	146736789.550
			5.955	92.988	.000	146736789.550

Based on the results of statistical tests that have been carried out using SPSS version 26 for Windows, it shows the stock trading volume before the merger had a mean value of 219,167,472.88 and after the merger had a mean value of 72,430,683.33 while the standard deviation was 166,325. 236,304 and 93,642,058,767. From the independent t-test above, the significance value is 0.001 < 0.05; it can be concluded that the merger event significantly affects a negative coefficient on stock trading volume. With the merger decision, the distribution of trading shares in BRIS decreased from hundreds of millions of shares to tens of millions of shares traded.

The descriptive and statistical test results of stock return

Return is the result obtained from the investment (Hartono, 2008), while Ang stated that return is the profit level enjoyed by investors on an investment they make (Ang., 1997). From the results of data processing of the average stock return before and after the bank merger, the following results shows:

Table 5. Descriptive statistical test results on stocks return

Event Study	N	Mean	Std. Deviation
Before Merger	60	14531093.92	62270481.139
After Merger	60	-3445096.27	30396782.223

Table 6. Result of independent t -test on stocks return

	F	Sig.	T	df	Sig. (2-tailed)	Mean Difference
Stocks Price	9.449	.003	2.009	118	.047	17976190.18
			2.009	85.607	.048	17976190.18

Based on the results of statistical tests that have been carried out using SPSS version 26 for Windows, the research shows that stock returns before the merger had a mean value of 14,531,093.92 and after the merger had a mean value of -3,445,096.27 while the standard deviation was 62,270. 481,139 and 30,396,782,223. From the results of the independent t-test above, with a significance value of 0.003 <0.05, conclude that the merger event significantly affects the direction of the negative coefficient on stock returns. This means that the merger decision does not have a good impact on returns for BRIS shareholders.

Effect of merger on stocks price

This research has shown that merger has a significance value of 0.000 <0.05 so it can be concluded that the merger event significantly affects the positive coefficient on stock prices. This means that the merger decision causes share prices to rise significantly. This is in accordance with the statement of (Evrina, Rozi, & Silalahi, 2021) which states that the merger decision causes share prices to rise significantly. Furthermore, the results of this study are in line with research conducted by (Kurniati & Asmirawati, 2022) which states that merger events show a significant positive difference in stock prices.

Investors give high trust so that prices soared along with the merger decision made by the state-owned enterprise (SOE) sharia bank; of course, the positive response would continue to move due to other factors so that this event affects prices but it does not become a permanent guarantee for no price declines in the future. If observed for now (May 2022) the stock price of BRIS fell in the range of Rp. 1,500.00. It was very far from the price after the merger which was in the price range of Rp.2,500.00.

Effect of merger on trading volume

The results of the research using the independent t-test have obtained a significance value of 0.001 <0.05; it shows that the merger event significantly affects a negative coefficient direction on stock trading volume. With the merger decision, the distribution of trading shares in BRIS decreased from hundreds of millions of shares to tens of millions of shares traded.

This research is in line with previous research by Ayu et al., which states that there was no difference in stock trading volume before and after the merger event (Pratiwi et al., 2021). The results of this study are also in line with research conducted by Wairooy, which states that the merger announcement shows no significant evidence of stock trading volume (Wairooy, 2018).

The trading volume of BRIS shares, which had dropped after the merger, seemed to indicate that investors were being cautious about making transactions, both buying and selling; the large trading volume occurred when the merger issue was buzzing, in the sense that investors were good at seeing opportunities, so they flocked. - flocked to buy BRIS shares before the merger took place so that later when the price soared, they would get the value of the difference in the transaction price.

Effect of merger on stock return

The results of the research using the independent t-test have obtained a significance value of 0.003 <0.05; it shows that the merger event significantly affects the direction of the negative coefficient on stock returns. This means that the merger decision did not have a good impact on returns for BRIS shareholders.

This study is in line with previous research by Susanti, which states that there is no significant difference in stock returns before and after the merger and acquisition event, so these events do not cause market participants to respond. As a result, stock returns do not experience significant changes (Susanti, 2019). Stock returns do not depend entirely on one event; technical fundamentals and analysis will influence how investors obtain stock returns. So, portfolio management remains an important thing to be able to get a good stock return or as expected.

Conclusion

The results of data analysis testing in this study through analysis in the period 60 days before and 60 after the occurrence of the merger decision event on BRIS shares show that the impact of the decision to merge Islamic banks owned by SOEs in Indonesia has a significant positive effect on the event. The negative coefficient direction after the merger of Islamic banks owned by the SOEs affects trading volume and stock returns significantly. So it can be interpreted that there is a significant reaction in the Islamic capital market to the decision to merge Islamic banks owned by

SOEs, which can be seen from price activity, trading volume and stock returns.

These results cannot be perfect, considering several limitations, such as the lack of variables and research data period. The further researches hope will be more varied in choosing variables and increasing the range time of research to prove the consistency of this research.

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