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Spin-Off as a Strategy to Accelerate Islamic Banking Growth in Indonesia: Assessing the Readiness of Sharia Business Units

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Abstract

Islamic banking in Indonesia has grown significantly in recent years, supported by legal mandates encouraging structural separation between conventional and Sharia banking. This study aims to assess the readiness of Sharia Business Units (UUS) to implement the 2023 spin-off policy. A qualitative research approach was employed, with data collected through documentation and literature review. The study examined 20 Sharia Business Units, including one unit from a State-Owned Enterprise (Bank Tabungan Negara), 13 units under Regionally-Owned Enterprises (BUMD), and six units affiliated with private banks. The findings show that 50% of the assessed Sharia Business Units are not prepared to separate from their parent banks, particularly in terms of asset size, capital adequacy, and overall institutional health. Most UUS lack sufficient capital readiness, infrastructure, and qualified human resources to operate independently. When viewed holistically—across financial, operational, and HR dimensions—the majority of UUS included in this study were not ready for the 2023 spin-off. These findings provide valuable insights for regulators and stakeholders in the Islamic banking industry, particularly in shaping future policies and support mechanisms for Sharia Business Units transitioning toward independence.

Keywords: Financial Performance; Human Resources; Islamic Banking; Operational Readiness; Sharia Business Unit; Spin-off

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Introduction

Islamic banking in Indonesia has experienced rapid growth, particularly following the enactment of Law No. 10 of 1998 on Banking, which permitted the implementation of a dual banking system. This legal framework facilitated the parallel development of both conventional and Islamic banking, as reflected in the annual increase in assets, third-party funds, and financing disbursed by Islamic banks. Government support became more evident with the passage of Law No. 21 of 2008 concerning Sharia Banking. Article 68, paragraph 1 of this law mandates that if a conventional commercial bank has a Sharia Business Unit (UUS) whose assets constitute at least 50% of the parent bank's total assets—or if 15 years have passed since the law's enactment—the UUS must be separated into a standalone Sharia Commercial Bank.

The spin-off is one of the policies implemented by regulators to enhance the performance of Islamic banks (Nur Rianto Al Arif et al., 2018). It is mandated by the legislation concerning Sharia Banking (Law No. 21 of 2008), which requires a minimum paid-up capital of IDR 500 billion, increasing to IDR 1 trillion within ten years of receiving a license to establish a Sharia Commercial Bank.

The spin-off policy serves as a strategic initiative to increase the efficiency and effectiveness of the Sharia banking sector in Indonesia. By separating from their conventional parent banks, UUS entities are expected to focus more intensively on developing innovative financial products and services. This independence enables greater market outreach and contributes to broader financial inclusion and inclusive economic growth.

Previous studies indicate that the spin-off policy aims to reinforce the role of Islamic banking in financial intermediation and economic development (Trinugroho et al., 2021). Sharia banks are encouraged to innovate and improve the quality of their products and services, while also enhancing transparency in financial reporting and improving the competence and professionalism of their human resources.

In addition to performance enhancement, Islamic banks are expected to uphold strong Sharia compliance, which supports ethical business conduct and prevents fraud or manipulation involving banks, customers, or other stakeholders (Stefanelli et al., 2020; Hamid et al., 2019). Islamic banking is inherently governed by Sharia principles (Abedifar et al., 2013; Trinugroho et al., 2021), which serve as foundational norms guiding financial practices in accordance with Islamic ethics

(Widyastuti et al., 2020; Hassan et al., 2023; Platonova, 2013; Williams & Zinkin, 2010; Dusuki & Abdullah, 2007; Brammer et al., 2007; Beekun & Badawi, 2005; Rice, 1999). Islamic banks operate as intermediary institutions that mobilize and distribute funds based on principles prohibiting gambling *(maysir)*, excessive uncertainty *(gharar)*, and unjust gains *(riba)* (Nugroho et al., 2019; Nugroho et al., 2020; Khan, 2010).

Sharia principles implemented in Islamic banking are derived from DSN-MUI fatwas and are harmonized with regulations issued by the Financial Services Authority (OJK) to ensure regulatory compliance (Widyastuti et al., 2020). Conformity with Sharia principles in financial products and services is critical to increasing customer satisfaction and loyalty (Hafasnuddin & Majid, 2022). Sharia-compliant institutions have demonstrated significant growth in both number and performance (Hassan et al., 2023). The spin-off policy represents a key avenue for improving the performance and expansion of the Islamic banking industry in Indonesia (M. Al Arif et al., 2017), as mandated by Law No. 21 of 2008.

However, many Sharia Business Units remain unprepared for the spin-off. Despite the legal mandate requiring spin-off implementation within 15 years, a substantial number of UUS entities have not yet separated from their conventional parent banks. This study aims to assess the readiness of Sharia Business Units in meeting the 2023 spin-off requirement.

Literature Review

The Spin-Off of Islamic Banks in Indonesia

A spin-off is defined as the process of separating a company's asset management operations into a distinct entity, resulting in the formation of a new subsidiary or independent (Chemmanur et al., 2014; Feldman, 2016). Typically, a spin-off allows the newly formed company to further develop a business concept that originated within the parent organization. These new entities often rely on alliances and support from larger, established firms to enhance their performance (Hagedoorn et al., 2018). Additionally, spin-offs enable the new companies to focus more intensively on product innovation, which can contribute to long-term stability and competitiveness (Pearce & Patel, 2022).

The spin-off of Islamic banks in Indonesia was introduced through Law Number 40 of 2007 concerning Limited Liability Companies (UUPT) (*Law of the Republic of Indonesia No. 40 OF 2007*, 2007). A Limited Liability Company is a legal entity that is

a capital partnership established based on an agreement, conducts business activities with authorized capital, which is entirely divided into shares, and meets the requirements stipulated in this law and its implementing regulations (Agustina, 2018). Spin-offs separate a business from one Conventional Commercial Bank into two or more business entities based on the provisions of laws and regulations (Law No. 21 of 2008, 2008). A spin-off in the banking industry is to make the holding company focus on its core business, leaving the subsidiary with greater independence to focus on its area of expertisenan (Nabilah & Al Arif, 2022; Al Arif et al., 2017).

Empirical studies investigating the impact of spin-off policies on bank operational efficiency show that spin-off policies affect operational efficiency (Nur Rianto Al Arif et al., 2018). Another study investigating the effects of spin-off policies on performance, efficiency, and risk showed that the performance and efficiency of full Islamic banks were lower than the Islamic windows of conventional banks (Trinugroho et al., 2021). Previous research also stated that Islamic banks contribute positively to the stability of the banking sector (Rizvi et al., 2020).

Research on the practice of bank business unit spin-offs, which evaluates two aspects, financial performance and operational efficiency, indicates that almost all parent Sharia Business Units (UUS) within Conventional Commercial Banks were not ready to implement spin-offs in 2023 (Rasyid, 2016). This reflects the unpreparedness of parent banks to manage changes brought about by the spin-off policy, which can impact their performance and operations. Research by Al Arif (2015) found a decrease in efficiency following the implementation of the spin-off policy, suggesting that this policy change had a negative impact on the operational performance of Islamic banks. This finding is further supported by research from Haribowo (2017) and Al Arif et al. (2017), which showed that the spin-off policy actually reduced the overall performance of Islamic banks. Consequently, they suggested re-evaluating this policy to ensure it positively impacts the Islamic banking sector. However, research by Al Arif et al. (2020) presents a different perspective. Their findings indicate that the practice of spin-offs in the banking industry had a positive impact, resulting in an increase in the number of Islamic banks, a decrease in market concentration, and enhanced competition within the sector.

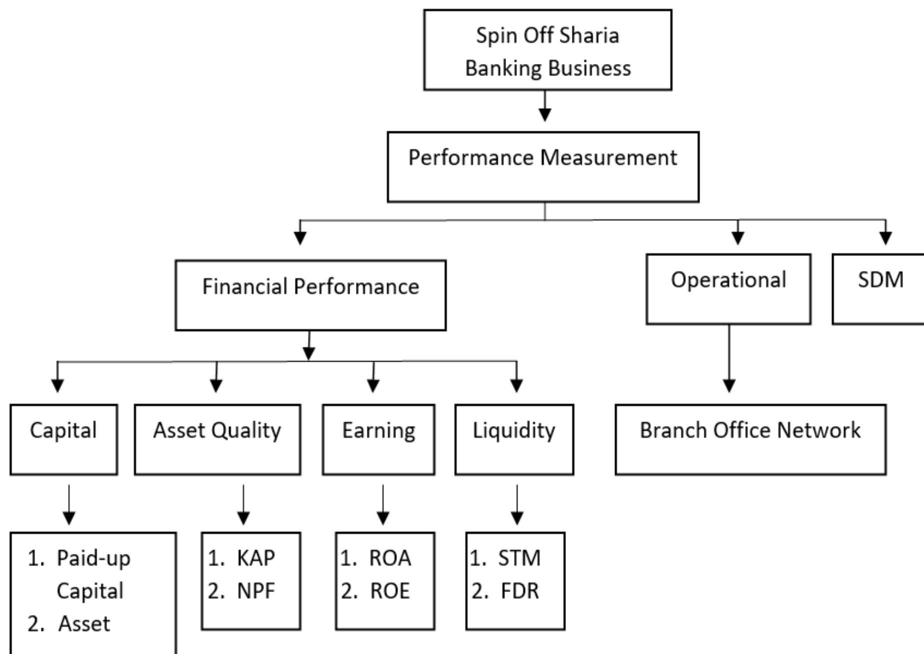
The difference in the results of the study needs to be reviewed to find out the extent of readiness of Sharia Business Units to face spin-offs. One of them is by measuring the performance of Sharia business units that will spin off. To measure

the performance of Islamic banks, the General Council for Commercial Banks and Financial Institutions has published six criteria (Ascarya & Yumanita, 2009). The requirements are: (1) Quality and composition of assets; (2) Capital structure; (3) Profitability; (4) Efficiency; (5) Liquidity; and (6) Growth. Previous research on spin-off performance measurement only measured financial and operational performance.

Meanwhile, this study uses three criteria to measure performance, namely from the aspects of financial, operational, and human resource performance. First, Financial performance is usually measured using Return on Assets (ROA), Return on Equity (ROE), Price to Earnings (PER), Operating Expenses to Operating Income (BOPO), Capital Adequacy Ratio (CAR), Financing to Deposits (FDR), Third Party Funds (DPK), and Non-Performing Financing (NPF) (Mursyid et al., 2021). In addition, it can also use conventional analysis tools such as CAMELS, EVA, and FRA. Second, the operational performance of an Islamic bank refers to how effective and efficient an Islamic bank is in carrying out its operational activities. Operational performance is shown by the readiness of the branch office network consisting of KPO/KC, KCP/UPS, and KK. Third, Human Resources cannot be separated from the implementation of a series of activities to achieve organizational goals. Human resource theory refers to the Resource *Dependence Theory* (RDT) theory where it is explained that one of the company's dependence on parties outside the company is dependence on Human Resources. *"Resource Dependence Theory is a theory of organization that seeks to explain organizational and inter-organizational behaviour in terms of those critical resources which an organization must have to survive and function* (Johnson, 1995)*".*

The rationale for using these three criteria is that they are standard benchmarks used to assess the growth and readiness of banking institutions for spin-offs. The growth indicators include asset growth, deposit growth, and financing growth. These criteria are based on the growth indicators published by Bank Indonesia (M. Al Arif et al., 2017). The following is the theoretical framework related to the spin-off policy, measured through financial performance, operational performance, and human resources (HR).

Figure 1. Theoretical Framework of the UUS Banking Spin-Off



Methods

This study adopts a qualitative research approach. Data were collected through documentation techniques and a review of relevant literature. The analysis follows the model developed by Miles & Huberman (1984), in which data processing is categorized into three stages: data reduction, data display, and conclusion drawing.

In the data reduction phase, the researcher summarizes, selects, and focuses on key and relevant information. Emerging themes and patterns are then identified to provide a coherent and comprehensible depiction of the findings. Data were sourced from the official website of the Financial Services Authority of Indonesia (https://www.ojk.go.id/).

The data are presented in the form of concise descriptions, charts, and tables. Subsequently, the data are analyzed, and conclusions are drawn. In qualitative research, conclusions often constitute new findings that have not been previously identified in existing literature.

The study examines 20 Sharia Business Units (UUS), consisting of: one UUS from the State Savings Bank (a State-Owned Enterprise or *BUMN*), thirteen UUS from Regionally Owned Enterprises (*BUMD*), and six UUS from private banks. The table below lists the research objects included in the study:

Table 1. UUS BUMN, BUMD, and Private Banks

State-Owned Enterprises (SOEs)	
No.	Company Name
1.	Bank Tabungan Negara (Persero)
Regional Owned Enterprises (BUMD)	
No.	Company Name
1.	Bank Daerah Istimewa Yogyakarta
2.	Bank DKI
3.	Bank Jambi
4.	Bank Jawa Tengah
5.	Bank Jawa Timur
6.	Bank Kalimantan Barat
7.	Bank Kalimantan Selatan
8.	Bank Kalimantan Timur
9.	Bank Sumatera Barat
10.	Bank Riau Kepulauan Riau
11.	Bank Sulawesi Selatan dan Sulawesi Barat
12.	Bank Sumatera Selatan dan Bangka Belitung
13.	Bank Sumatera Utara
Private Banks	
No.	Company Name
1.	CIMB Niaga
2.	Bank Danamon Indonesia
3.	OCBC NISP
4.	Bank Permata
5.	Bank Sinarmas
6.	Bank Maybank Indonesia

Source: OJK

Result and Discussions

This section presents an overview of the development of the Islamic banking industry in Indonesia and evaluates the financial and operational readiness of Sharia Business Units (UUS) to implement the spin-off policy mandated by Law No. 21 of 2008. Data are drawn from the Financial Services Authority (OJK) and processed to assess institutional performance indicators such as capital, asset quality, profitability, liquidity, branch office networks, and compliance with regulatory readiness criteria.

Table 3 presents the results of the financial and operational performance assessment. Financial performance is measured using several indicators, including paid-up capital, total assets, credit asset quality (KAP), non-performing financing (NPF), return on assets (ROA), return on equity (ROE), statutory reserve requirements (STM), and the financing-to-deposit ratio (FDR). The operational aspect is evaluated based on the branch office network, which consists of Head Offices/Branches (KPO/KC), Sub-Branches/Service Units (KCP/UPS), and Cash Offices (KK).

Financial Performance

The first component that significantly influences the readiness of Sharia Business Units (UUS) for spin-off is total assets and paid-up capital. The findings of this study indicate that almost all UUS were not ready for the 2023 spin-off when assessed based on these two indicators. The analysis suggests that asset growth is closely linked to the extent of support provided by the parent (conventional) bank to its Sharia unit.

The second influential component is Short-Term Mismatch (STM). The analysis shows highly positive results, with 19 UUS receiving a "very strong" assessment for this indicator. This strong performance reflects effective liquidity risk management by UUS, reducing their short-term financial dependence on their parent banks (BUK). This suggests gradual progress toward financial autonomy.

The third component is the Financing to Deposit Ratio (FDR), a key metric in evaluating UUS readiness for spin-off. The analysis reveals that 12 out of 20 UUS received "weak" or "very weak" ratings in this category. These poor FDR scores imply that many UUS still rely heavily on financial support from their parent banks, signaling insufficient independence in managing intermediary functions.

Table 2. Development of Sharia Banking in Indonesia (2007-2021)

Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Number of Banks	-	163	169	184	190	193	197	197	197	200	201	201	198	197	197
BUS	3	5	6	11	11	11	11	12	12	13	13	14	14	14	12
UUS	25	27	25	23	24	24	23	22	22	21	21	20	20	20	20
BPRS	114	131	138	150	155	158	163	163	163	166	167	167	164	163	165
Number of Offices	142	1,02	1,22	1,76	2,10	2,66	2,99	2,94	2,75	2,65	2,62	2,72	2,92	3,05	3,10
BUS	-	581	771	1,22	1,40	1,75	1.99	2,15	1,99	1,87	1,83	1,88	1.92	2,03	2,04
UUS	-	241	287	262	336	517	590	354	311	332	344	354	381	392	407
BPRS	-	202	225	286	364	401	402	438	446	453	453	495	617	627	648
Human Resources		11,75	15,44	20,26	27,66	31,58	42,59	49,41	60,92	59,97	60,37	59,39	61,55	62,29	57,65
Total Assets (Rp billion)	36,54	51,25	68,05	100,26	148,99	199,72	248,11	268,27	296,26	356,50	424,18	466,80	524,56	593,95	619,08
Asset Growth	9,76%	35.7%	32,8%	47,3%	48,6%	34,0%	24,2%	12,3%	9,00%	20,28%	18,97%	12,57%	9,93%	18,97%	15,8%
Financing Growth	28,79%	36,8%	22,9%	44,9%	50,0%	43,4%	24,8%	9,80%	6,85%	16,41%	15,24%	12,21%	10,89%	15,24%	7,35%
Deposit Growth	12,23%	33,4%	41,5%	45,1%	51,4%	28,0%	24,4%	18,7%	6,11%	20,84%	19,83%	11,14%	11,94%	19,83%	16,54%

Source: OJK, 2021

Table 3. Financial and Operational Performance Assessment of Sharia Business Units (UUS)

No	Bank Name	Financial Performance								Operational
		Capital		Asset Quality		Earning		Liquidity		Branch Office Network
		Deposited	Nilai Aset	KAP	NPF	ROA	ROE	STM	FDR	
1	PT Bank Danamon Indonesia, Tbk	N/A	Not Ready	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Weak	Ready
2	PT Bank Permata, Tbk	N/A	Not Ready	Very Strong	Strong	Very Weak	Very Weak	Very Strong	Adequate	Ready
3	PT Bank Maybank Indonesia, Tbk	Not Ready	Not Ready	Very Strong	Strong	Very Weak	Very Strong	Very Strong	Weak	Ready
4	PT Bank CIMB Niaga, Tbk	N/A	Not Ready	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Adequate	Not Ready
5	PT Bank OCBC NISP, Tbk	N/A	Not Ready	Very Strong	Strong	Very Strong	Very Strong	Very Strong	Strong	Not Ready
6	PT Bank Sinarmas	N/A	Not Ready	Very Strong	Strong	Very Strong	Very Strong	Very Strong	Weak	Ready
7	PT Bank Tabungan Negara, Tbk	N/A	Not Ready	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Adequate	Ready
8	PT BPD DKI	N/A	Not Ready	Very Strong	Adequate	Very Strong	Very Strong	Very Strong	Weak	Ready
9	PT BPD Daerah Istimewa Yogyakarta	N/A	Not Ready	Very Weak	Very Strong	Very Strong	Very Strong	Very Strong	Weak	Not Ready
10	PT BPD Jawa Tengah	N/A	Not Ready	Very Weak	Very Strong	Very Strong	Very Strong	Very Strong	Weak	Ready
11	PT BPD Jawa Timur, Tbk	N/A	Not Ready	Very Strong	Very Strong	Weak	Adequate	Very Strong	Strong	Ready
12	PT BPD Sumatera Utara	N/A	Not Ready	Very Strong	Very Weak	Very Weak	Very Weak	Very Strong	Very Weak	Ready
13	PT BPD Jambi	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Not Ready
14	PT BPD Sumatera Barat	Not Ready	Not Ready	Very Strong	Strong	Strong	Very Strong	Very Strong	Very Weak	Not Ready
15	PT BPD Riau dan Kepulauan Riau	N/A	Not Ready	Very Strong	Adequate	Adequate	Very Weak	Very Strong	Very Weak	Not Ready
16	PT BPD Sumatera Selatan dan Bangka Belitung	N/A	Not Ready	Very Strong	Adequate	Adequate	Weak	Very Strong	Very Strong	Not Ready
17	PT BPD Kalimantan Selatan	N/A	Not Ready	Very Strong	Weak	Very Strong	Very Strong	Very Strong	Very Weak	Not Ready
18	PT BPD Kalimantan Barat	N/A	Not Ready	Very Weak	Very Strong	Very Strong	Very Strong	Very Strong	Very Weak	Not Ready
19	PT BPD Kalimantan Timur	N/A	Not Ready	Very Strong	Strong	Very Strong	Very Strong	Very Strong	Adequate	Ready
20	PT BPD Sulawesi Selatan dan Sulawesi Barat	Not Ready	Not Ready	Very Weak	Very Strong	Adequate	Very Strong	Very Strong	Very Weak	Not Ready

Source: Processed products

The fourth critical factor is the branch office network, which represents operational readiness. The analysis finds that 10 out of 20 UUS were classified as "not ready" in this area. This result indicates that many UUS continue to rely on the operational infrastructure of their parent banks. It is recommended that UUS expand their branch networks while still under the umbrella of their parent institutions. Doing so can help minimize the operational costs they will bear independently post-spin-off.

The fifth component is profitability, measured by Return on Assets (ROA). The analysis shows that 17 out of 20 UUS received positive evaluations for ROA, indicating that most units have demonstrated adequate capabilities in asset utilization to generate income. Similarly, Return on Equity (ROE) is another key profitability measure. Again, 17 UUS were assessed positively, reflecting effective and efficient management of equity to produce returns. These findings suggest that UUS management has been successful in optimizing internal resources for profit generation.

The sixth component is the quality of productive assets, measured by Kredit Aktiva Produktif (KAP). This indicator also plays a role in influencing profitability. The analysis reveals that 15 out of 20 UUS received positive evaluations for KAP, suggesting that most UUS maintain a satisfactory level of collectibility and asset quality.

The seventh and final component is Non-Performing Financing (NPF), which also affects profitability. The results show that 17 out of 20 UUS received positive assessments for this indicator. The low NPF levels reflect a high level of collectibility in financing provided by UUS, which contributes to minimizing credit risk and enhancing overall profit productivity.

Operational Performance

The results of the analysis in Table 3 regarding the operational readiness of Sharia Business Units (UUS) indicate that 50% (10 out of 20) of the UUS are considered "ready" in terms of their branch office networks, while the remaining 50% are "not ready." This finding suggests that, overall, many Sharia Business Units were not fully prepared to execute a spin-off in 2023. The lack of an independent operational infrastructure remains a significant obstacle to spin-off readiness.

Human Resources

The final component assessed in this study to determine the readiness of Sharia Business Units (UUS) for the 2023 spin-off is human resources (HR). Despite the rapid growth of the Islamic banking industry in Indonesia, the sector continues to face shortages in both the quantity and quality of its workforce. In 2020, it was estimated that at least 179,646 employees were needed: 165,274 sharia-competent staff for operational roles and 14,372 middle to high-level managerial personnel with sharia expertise.

In the short term, Islamic banking was projected to absorb approximately 50% of the available sharia-competent labor force—considered a realistic goal up to 2018. In the long term, ideal conditions could be achieved if a balance between labor supply and demand is established, allowing the industry to become more competitive and develop more rapidly.

Currently, many UUS face difficulties in securing qualified personnel due to a limited supply of professionals with strong sharia expertise. This shortage, especially among experienced and highly qualified professionals, poses a threat to the sustainable growth of Islamic banking in Indonesia. While the shortage of entry-level staff can still be addressed through the recruitment of fresh graduates, the demand for middle to high-level talent requires internal capacity development. This includes targeted training programs organized by Islamic banking education institutions to enhance the qualifications of existing employees according to their roles and responsibilities.

The challenges in meeting HR needs, combined with feedback from various stakeholders in the Islamic banking industry, led the Financial Services Authority (OJK) to re-evaluate the spin-off policy. Following this assessment, OJK decided not to mandate the spin-off of UUS from their parent banks in 2023. Consequently, the Financial Services Authority issued POJK Number 12 of 2023 concerning Sharia Business Units, which formally postponed the mandatory spin-off requirement.

Conclusion

The obligation to separate Sharia Business Units (UUS) from their conventional parent banks in 2023 is not fully feasible. Based on the analysis of financial performance, it can be concluded that more than 50% of UUS are not ready to undergo the spin-off. This is primarily due to insufficient capital preparedness, as many units have not yet reached the required level of financial maturity.

Additionally, in terms of infrastructure and the availability of qualified human resources, most UUS remain inadequately equipped to operate independently.

For future studies, additional financial ratios not covered in this research could be incorporated to allow for a more comprehensive and nuanced assessment. Researchers may also consider including evaluations related to risk management and sharia compliance to broaden the analytical scope. Furthermore, future research could explore a more detailed analysis of financial statements, including income statements, balance sheets, statements of changes in equity, cash flow statements, and accompanying notes, to gain deeper insights into the financial health and readiness of UUS.

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