# CHAPTER V

# CONCLUSION, RECOMMENDATIONS AND LIMITATIONS

## 5.1 Conclusion

This study examined the impact of the merger of three state-owned Islamic banks—Bank Syariah Mandiri, BNI Syariah, and BRI Syariah—into Bank Syariah Indonesia (BSI) on the profitability of the Indonesian Islamic banking industry. Using panel data regression across both pre- and post-merger periods (2018Q1–2023Q4) and incorporating a merger dummy variable, several key conclusions can be drawn:

1. Market structure (competition and concentration) was not a significant determinant of profitability. Neither the Herfindahl-Hirschman Index (HHI) nor the Concentration Ratio (CR) significantly affected ROA in either period. This suggests that structural dominance or reduced competition did not directly translate into higher profitability.

2. Internal efficiency and intermediation capacity were the primary drivers of profitability. The Financing-to-Deposit Ratio (FDR) consistently showed a significant positive effect, indicating that effective liquidity transformation remains vital for bank performance. The Operating Expense Ratio (BOPO), by contrast, exhibited a strong and significant negative impact on profitability across both periods. Importantly, while the negative effect of BOPO persisted, its magnitude was reduced post-merger, suggesting modest gains in efficiency due to consolidation.

3. The merger improved model predictability but created short-run challenges. The adjusted explanatory power of the regression increased from 33.8% pre-merger to 95.6% post-merger, showing that profitability dynamics became more systematically explained by internal financial variables. However, the merger dummy variable was negative and marginally significant, indicating that the immediate post-merger period was associated with a temporary decline in profitability, likely driven by integration costs, system harmonization, and transitional inefficiencies.

In summary, while the merger reshaped the structural landscape of Indonesian Islamic banking, long-term profitability remains contingent on internal operational efficiency and financing effectiveness, rather than market concentration or merger status alone. The persistence of BOPO's negative effect underscores that the long-term success of consolidation will depend on achieving genuine efficiency gains through innovation, governance, and cost management.

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## 5.2 Recommendations

### 5.2.1 For Regulators and Policymakers

1. Strengthen oversight of efficiency improvements. Regulators should ensure that consolidation delivers real operational synergies, not merely larger market share.

2. Preserve competitive discipline. Even in a concentrated market, competition should be encouraged to foster innovation and prevent complacency.

3. Support liquidity intermediation. Regulatory incentives can reinforce prudent deposit mobilization and strengthen the positive contribution of FDR to profitability.

### 5.2.2. For Islamic Banks

1. Prioritize cost efficiency as a strategic imperative. The negative effect of BOPO demonstrates that inefficiency remains the greatest obstacle to profitability. Islamic banks should focus on reducing operating expenses relative to income as a long-term survival strategy.

2. Enhance financing quality and intermediation. The strong positive role of FDR highlights the importance of effective deposit mobilization into financing activities, particularly in sectors that can generate sustainable returns.

3. Manage integration challenges strategically. Merger success depends on harmonizing systems, governance structures, and organizational culture to minimize transitional inefficiencies.

### 5.2.3. For Future Research

1. Refine data grouping. Future studies should classify banks by capital strength, including Islamic business units (windows), to capture a more representative competitive landscape.

2. Account for macroeconomic shocks. External events such as the COVID-19 pandemic should be explicitly modeled, as they may confound the observed merger effects.

3. Incorporate qualitative perspectives. Areas such as customer satisfaction, employee adaptation, and innovation post-merger would complement quantitative findings.

4. Extend the observation period. Longer-term data will help assess whether efficiency gains eventually outweigh the short-run decline in profitability.

### 5.3 Limitations of the Research

This study is subject to several limitations that should be acknowledged.

First, banks were grouped based on their institutional status (Islamic commercial banks), excluding Islamic business units (Unit Usaha Syariah) and smaller peer institutions. While this ensured consistency, it does not fully capture the diversity of the sector. Grouping banks by capital tiers—across both full-fledged Islamic banks and Islamic windows—would allow for a more accurate analysis of competition and profitability dynamics.

Second, the study did not explicitly address the impact of COVID-19, which coincided with the merger period. The pandemic disrupted economic activity, financing quality, and banking operations, potentially influencing profitability trends. Some of the observed effects may therefore be attributed to pandemic-related shocks rather than the merger alone.

Third, the study may be subject to multicollinearity problems among the explanatory variables. Although diagnostic checks were performed, the presence of correlation between variables such as market concentration (HHI, CR) and efficiency measures could bias coefficient estimates and reduce the precision of statistical inferences. This limitation suggests that caution is required when interpreting the relative impact of each independent variable. Future research could apply techniques such as variance inflation factor (VIF) analysis, principal component regression, or structural equation modeling to minimize this issue.

In light of these limitations, future research is encouraged to refine data classification, incorporate macroeconomic controls, and adopt advanced econometric techniques to better isolate the true effects of consolidation on Islamic banking profitability.