International Journal of Innovation, Creativity and Change. www.ijicc.net
Volume 12, Issue 2, 2020

# Islamic Banking Structure Post Spin-off Policy: Indonesian Perspective

**Wardah Yuspin[a*], Absori[b], Yulian Dwi Nurwanti[c],** [a,b,c]School of Law, Universitas Muhammadiyah Surakarta, Surakarta, Indonesia, Email: [a*]wy204@ums.ac.id, [b]abs154@ums.ac.id, [c]yuliandwinurwanti98@gmail.com

This research is conducted after the enactment of Article 68 of Act No. 21 of 2008, concerning Islamic banking requiring every Islamic business unit to conduct a separation. Bank Indonesia specifies that no later than fifteen years after the enactment of the Islamic Banking Act, Conventional Commercial Banks must be separated from Islamic Business Units. Separation can be carried out before 2023 provided that the Islamic Business Unit asset value has reached 50 percent of the total value of Conventional Commercial Bank assets. In Indonesia, there are two types of Islamic banking structure, including Fully-Fledge Bank (BUS), and Subsidiary Unit (UUS). This study aims to find an ideal concept for the structure of Islamic banking in Indonesia, so as to encourage the development of this industry. The selection of an inappropriate Islamic banking structure can result in setbacks for this industry so that research on the structure of Islamic banking is exceptionally important for the advancement of Islamic banking. This research employed two methods, including literature study and interviews and observations at OJK Solo and BNI Syariah Surakarta. The results of this study indicated that the concept of Islamic banking structure that is appropriate in Indonesia is the Fully-Fledge Bank (BUS), because it is an independent legal entity, so that every decision taken can be faster and advance-oriented towards BUS. BUS possesses the ability to be independent, to innovate and improve the Islamic banking market share and eventually will be able to increase the involvement of Islamic banking in national economic development.

**Key words:** *Islamic Banking Structure, Spinoff, Islamic Business Unit, Islamic Fully-Fledge bank.*

## Introduction

Islamic banks as financial institutions have been known in Indonesia since the establishment of Bank Muamalat Indonesia (BMI) in 1991. BMI is an Islamic bank that runs business activities based on the principle of profit sharing. (Prasetyo, 2012; Ismail, 2013; Sugeng, 2015). Legally, the existence of Islamic banks was introduced through Act Number 7 of 1992 concerning Banking called Profit Sharing Banks, which were then issued Government Regulation Number 72 of 1992 concerning Banks based on the Profit Sharing Principle (Errico, 2002; Rosly, 2005; Teet, 2006; Tripathi, 2004).

Islamic banks are ones that operate without relying on interest. An Islamic bank is a bank whose banking system adheres to Islamic principles (Islam) and its procedures are based on the provisions of the Qur'an and Hadith. (Stiglitz, 1981; Weiss 1981; Sundarajan, 2002; Teed, 2005). Philosophically, Islamic banks are ones whose activities leave the *riba* system. Therefore, avoiding interest that is considered usury, is one of the challenges faced by Islam today. Muslim economists have devoted great attention to finding methods to replace the interest system in financial and banking transactions that are in line with Islamic ethics. This effort aims to build an interest-free economic theory model and it's testing on economic growth, allocation and income distribution. In order to provide legal certainty for this industry, the government issued several regulations that further strengthen the position of Islamic banking. One of the regulations that marked the new era of Islamic banking in Indonesia is the legalisation of the Islamic Banking Act, i.e. Act no. 21 of 2008. This law provides proof of government determination in encouraging the development of Islamic banking in Indonesia. One of the new regulations regarding the structure of Islamic banking is stated in Article 68. This Article provides a regulation regarding the requirement for UUS to spin off from it's parent bank when it has reached 15 years since the legalisation of the Act or in 2023 the UUS must be changed into BUS. Apart from that, if the modal of UUS has reached 50%, the UUS must separate from it's parent (Arief, 1988; Khan, 2010; Usmani, 2002; Uysal, 2007; Venardos, 2005; Warde, 2000).

The spinoff implementation that has been regulated by the Islamic Banking Act is strengthened by the implementation regulation issued by BI as stated in Bank Indonesia Regulation Number 15/14/PBI/2013.

Islamic banks in Indonesia show a rapid development as evidenced by the existence of 12 UUS and 23 BUS. The following are types of Islamic banking in Indonesia in 20191: (Rahman, 2014)

**Table 1:** Islamic Banking Types

| No | Islamic Business Unit | Islamic Fully-Fledge Bank |
|---|---|---|
| 1 | PT. Bank Jateng Syariah | PT. Bank BNI Syariah |
| 2 | PT. Bank Sinarmas Syariah | PT. Bank BRI Syariah |
| 3 | BCA Syariah | PT. Bank Syariah Mandiri |
| 4 | PT Bank Danamon Indonesia, Tbk | PT. Bank Syariah Bukopin |
| 5 | PT BPD Daerah Istimewa Yogyakarta | PT. BCA Syariah |
| 6 | PT Bank Permata, Tbk | PT. Bank Muamalat Indonesia |
| 7 | PT Bank Internasional Indonesia, Tbk | PT. Bank Mega Syariah |
| 8 | PT Bank OCBC NISP, Tbk | PT. Bank Jabar Banten Syariah |
| 9 | PT Bank Tabungan Negara (Persero), Tbk. | PT. Bank Victoria Syariah |
| 10 | PT BPD DKI | PT. Maybank Syariah Indonesia |
| 11 | PT BPD Jawa Tengah | PT. Bank Panin Syariah |
| 12 | PT BPD Jawa Timur, Tbk | PT. Bank Tabungan Pensiunan Nasional Syariah |
| 13 | PT Bank Aceh | |
| 14 | PT BPD Sumatera Utara | |
| 15 | PT BPD Jambi | |
| 16 | PT BPD Sumatera Barat | |
| 17 | PT BPD Riau dan Kepulauan Riau | |
| 18 | PT BPD Sumatera Selatan dan Bangka Belitung | |
| 19 | PT BPD Kalimantan Selatan | |
| 20 | PT BPD Kalimantan Barat | |
| 21 | PD BPD Kalimantan Timur | |
| 22 | PT BPD Sulawesi Selatan dan Sulawesi Barat | |
| 23 | PT BPD Nusa Tenggara Barat | |

Islamic Banking is developed with the aims to:

a. Open financing opportunities for business development based on the principle of partnership. This principle applies harmonious investor relations. This is different from the concept applied by conventional banks, i.e. the relationship between creditors and debtors.
b. Meet the need for banking products and services that have comparative advantages, including by eliminating interest, limiting unproductive speculative activities, financing aimed at businesses that put moral elements into account.

c. Provide banking services for people who are uncomfortable with the concept of interest. With the existence of the Islamic banking system combined with the conventional banking system, the mobility of public funds can be carried out broadly (Syukron, 2013).

The structure of Islamic banks in the world has diverse types. In general, there are three types of Islamic banks, including the Fully Fledge Bank (*Bank Umum Syariah*/BUS), Subsidiary Unit (*Unit Usaha Syariah*/UUS) and Islamic Window. These three types are adopted differently in each country. Therefore, it is necessary to discuss the three types from different perspectives, including the advantages and disadvantages of each type, and the most appropriate type to be applied in Indonesia.

***Islamic Banking Structure: Advantages and Disadvantages***

There are three types of Islamic banking structure that are growing in the world. Each type has it's own characteristics, advantages, and disadvantages.

Islamic banks in Indonesia only have two growing structures, including the Fully Fledge Bank (BUS), and the Subsidiary Unit (UUS). The types have their advantages and disadvantages (Miah; Sharmeen, 2010; Hadigol & Kolobandy 2018).

The first structure is the Islamic window. This structure is the simplest of Islamic banking structure because it is part of a Conventional Commercial Bank branch that provides funding, financing and banking services that are in accordance with the Islamic system with proper financial management separation between Islamic banks and conventional banks (Zaman, 2002). With the Islamic window structure, conventional banks are able to reduce expensive costs such as financial, security, and IT systems. Regarding the operational costs, the Islamic window is more effective and efficient (Rosli, 2005).

Although there are different finances between Islamic windows and conventional banks, they use the same operational and infrastructure system. This makes Islamic window easily use its parent bank's service network, IT network, risk management, human resources, brand positioning, and marketing network power (Jamaludin & Yusuf, 2011).

The Islamic window has several disadvantages, including problems related to Islamic services, for example the treasury department of the parent bank is usually responsible for the liquidity needs of the whole bank (Ayyub, 2007). This could lead to the mixed funds between conventional banks and Islamic services. Thus, the operation of Islamic services and interest-based conventional banking under one management can lead to ambiguity in searching for profit (Rusli, 2005).

In addition, generally, with the supervision by the Islamic Supervisory Board (*Dewan Pengawas Syariah*/DPS), the Islamic window is exceptionally weak and there is a lack of commitment to develop Islamic banking (Dar & Presley, 2009).

The second type is the UUS or Subsidiary Unit. The establishment of a subsidiary unit (UUS) is a requirement for Conventional Commercial Banks to provide Islamic services or an Islamic window. A subsidiary unit established by a Conventional Commercial Bank is a working unit in the Bank Head Office that functions as the headquarters of all Islamic branch offices (Yuspin & Fauzie, 2018). UUS is division of a conventional bank which is the parent. UUS usually has its own Islamic branch office separated from its parent. UUS is led by a division head. USS is formed from the Islamic division. The advantage of the USS type is the opportunity to promote Islamic banking products more broadly. This is because the human resources within the USS are more aware of the Islamic banking products and the general principles of Islamic banks. Moreover, UUS has more opportunities to provide Islamic services and products (Townsend, 1979; Wigglesworth, 2009; Williamson, 1987). In addition, UUS can explore profit and loss, sharing products such as Sukuk. Furthermore, USS has more opportunity to manage it's own treasury department and opportunity to open it's own money market operations (Yousef, 2004; Zaher, 2001).

One of the advantages of USS is that it is able to use services provided by it's conventional parent bank, because establishing an Islamic branch office is exceptionally costly. This UUS model has become enormously efficient, especially the ability to use services of it's parent bank which makes UUS able to meet the target and help them to sell their products by using the already plentiful parent bank (Ahmed, 2011; Hassan, 2001; Saikh, 2011). USS also benefits from the support to achieve more cost efficiency and distribution. While the parent bank also benefits from it as it can provide conventional services to it's customers and Islamic services will continue to grow with the establishment of the UUS.

In reality, the operation of UUS is very dependent on the resources of it's parent bank. For example, in 2006 a policy on Office Channeling (PBI 8/3/2006) was issued by Bank Indonesia to encourage the even faster development of Islamic banks (Arif, 2015; Asy'ari, 2009; Endri, 2011). Under this policy, UUS is permitted to provide Islamic services through branch offices of it's parent bank. This policy aims to improve the services of Islamic banks through infrastructure owned by it's conventional parent bank aiming to reduce the financing cost of the Islamic branch office itself (Besson & Hyden, 2002).

One of the disadvantages of UUS is related to bank liquidity requirements as a whole. This condition poses a risk of mixed conventional and Islamic funds. In addition, UUS do not have control over their targets and objectives because the decision is made collectively by directors. The directors are that of the parent bank which is a conventional bank (Hamid, 2015). Therefore, the business strategy of UUS will be adjusted to the targets, objectives and direction of the parent bank. In summary, the development of UUS is highly dependent on the parent bank. This condition is exceptionally unfavorable for UUS. Moreover, the bureaucratic chain in decision making at UUS takes a longer time, because UUS is only a division and divisions must constantly consult every policy that will be taken to directors that are directors at the parent bank. In conclusion, this type is considered less efficient bureaucratically compared to the BUS type (Cristo & Falk, 2006).

The third type is BUS. BUS is an Islamic Commercial Bank that in it's activities provides services in payment traffic. (Kamaruddin; Safa; Mohd; 2008). Commercial banks not only can carry out conventional business activities but can also conduct Islamic business activities by establishing UUS first (Yuspin; Wardiono, 2017: Kabayeva et al, 2018).

The advantage of BUS is that it is safe from public criticism because of it's Islamic system. In addition, BUS has full autonomy to innovate and encourage it's business growth because this type is more focused, practising Islamic business, and having a clear direction of development and policy than the first two types (Derizer, Cevdet, 2002). BUS can offer a variety of products and services that are in accordance with Islam, including profit-sharing and risk-taking efforts. Therefore, regarding product innovation, this type is considered very innovative in finding new Islamic banking products that are in line with market demand (Elfring & Foss, 1997).

BUS has a commitment from the banking company to operate based on Islam which will increase the credibility and public image of Islamic banking (Chemmanur; Yann, 2004). BUS does not rely on support from the parent bank. This is because BUS is an independent legal entity and thus no longer has a parent company (Jongbloed, 2004). Sharing the risks and utilising profit sharing will be difficult because of the mindset of investors that prioritise profits. The bank must build the image, reputation, and brand of the bank which takes a long time and is exceptionally expensive (Kim, 2011; Lindhom, 2002; Tubke, 2004; Vled, 2002).

### *Islamic Banking Structure in Indonesia*

In Indonesia, banking only adopts two Islamic banking structures, including UUS and BUS. Although the Islamic window type is beneficial in terms of efficiency and effectiveness of it's business, Indonesia has not adopted this type. The Islamic window allows conventional banks that wish to provide Islamic services in conventional branches (Klepper, Sleeper, 2005 & Thompson, 2005). This type is very beneficial for banks that are not ready to develop UUS, in which Islamic windows can utilise office networks, IT services, management and human resources of a conventional bank. This type of Islamic window is indeed not adopted in Indonesia because there are several concerns. The concerns are related to the operation of the

Islamic window in terms of Islamic compliance, in which the presence of the Islamic Supervisory Board are not at a maximum in this type (Pramuka, 2011). In addition, there are also concerns regarding the mixed existing funds between a conventional bank and the Islamic window (Siswantoro, 2014). The Islamic window is not a division; it is only a form of service without any form of special regulating division. This form indeed can improve the financial performance of Islamic banks and is one of the most possible forms that able to provide Islamic services for those who do not have sufficient resources to form UUS (Novarini, 2009). However, on the other hand, this type raises several concerns regarding Islamic principles, the mixed funds, and funds reporting from the Islamic window (Lone, 2017).

## Research Method

The research method used in this study was empirical juridical (Indrawati, 2018) with two stages. The first stage was literature review by collecting Acts and other regulations related to spinoff in Islamic banking, inventorying, and conducting descriptive analysis. The second stage was interview and observation on BNI Syariah and OJK.

## Research Results and Discussion

### *Islamic Banking Institutional Structure Post Spinoff Regulation*

The spinoff policy implicates the ability to provide a positive support for Islamic banking, including to increase the capability of Islamic Commercial Banks (BUS) to compete with Conventional Commercial Banks (BUK), and to encourage the significant growth of Islamic banking.

Elfring and Foss state that the spinoff is an organisational unit that leaves an existing company to start as a new company employing it's knowledge and competence (Al-Jarhi; Mokhtar; Abdullah & Alhabshi, 2008). Veld and Veld-Merkoulova also define spinoff as pro-rata distribution of share of the subsidiary's shares to the parent company without cash transactions. After the spin-off, the parent company's shareholders own shares in both the parent company and the subsidiary company (Ashraf & Lahsasna, 2017).

The most prominent impact of the stipulation of the spinoff policy is the strengthening of modal for Islamic Commercial Banks (BUS) (Andriansyah; Yuli, 2009). With strong capital, the BUS resulted from the spinoff is expected to be more capable to compete with Conventional Commercial Banks. In addition, the motivation to spin off aims to enhance the development of Islamic banking. The growth of Islamic banking assets, the concept of financial performance as seen from the growth of assets and the health level of Islamic banking in 2016 was at around 4%. Then in 2017, it rose to 5.5% because of the motivation from the conversion of Aceh banks into Islamic commercial banks which stimulate Islamic banking. While in 2019, it was about 5.85%. It is expected that the spinoff target of Islamic banking growth of 10% can be achieved (Nofa, interview, April 16, 2019).

Regarding the concept of separation, the best method is by adjusting to the conditions of each Islamic Business Unit that will spin off, because the spinoff depends on the amount of capital of each Islamic Business Unit. In accordance with the provisions in PBI No 11/3/PBI/2009, that the minimum capital requirement is 1 trillion rupiahs no later than ten years after the business license is granted. Based on the interview with the Financial Services Authority (*Otoritas Jasa Keuangan/*OJK) there were currently 11 Islamic Business Units with capital under 500 billion rupiahs, 6 Islamic Business Units with 500 billion rupiahs – 1 trillion rupiahs, and 3 Islamic Business Units with more than 1 trillion rupiahs.

There were 12 Islamic Business Units that are not eligible to spin off. For example, USS that just spun off was UUS BPD Jatim after running a RUPS to spin off to be an Islamic Commercial Bank; UUS BPD Jatim realised the plan by making a capital deposit by the East Java Provincial Government prior to the issuance of a business license by the OJK which amounted 1,027 billion rupiahs. The data from the interview showed that the application of an inappropriate spinoff policy can result in closure of the UUS that must be spun off.

One of the disadvantages of spinoff, for example when the UUS is not ready to spin off, the UUS can have it's business license revoked, so that Islamic banking assets might decline. As stated, that there were 12 UUS that are not ready in terms of capital, because to spin off, the required capital is 500 billion rupiahs. From the statistics, most USS in Sumatra had capital around 250 billion rupiahs. This condition is because the source of funds is only from the regional budget (APBD), and the APBD depends on PAD.

Today, according to Ferdinan, Bank Jatim has invested 500 billion rupiahs of capital to it's Islamic business unit in order to prepare for spinoff. However, the capital has not reached the limit set by the OJK which is worth 1 trillion rupiahs (Syukron, 2013).

In Kuwait, conventional banks are not allowed to have Islamic business units (Al-Hashel, 2013), but only Islamic commercial banks are allowed to operate in this country. In Kazakhstan, only Islamic commercial banks are allowed to operate, while UUS and Islamic Window are not allowed (Maggs, 2011). In Ethiopia, only Islamic Window is allowed to operate, while BUS and UUS are prohibited. In Nigeria, there are currently Islamic commercial banks and Islamic windows that are operating (SBP, 2014). In Qatar, (2011) Islamic services are prohibited from operating. In Malaysia and Pakistan, the three types of Islamic banking structures including BUS, UUS, and Islamic Window are allowed to operate.

The selection of Islamic banking structure in a country is based on several factors (Najeed & Isra, 2017):
1. The development stage of Islamic banking in certain jurisdictions;
2. Political drive to support the development of Islamic banking;
3. Regulatory vision;
4. Muslim population in certain jurisdictions;
5. The need for products in accordance with Islamic principles;
6. Determination of Islamic service providers to provide good service.

### *Islamic Banking Challenges Post Spinoff Regulation*

The first challenge involves producing and maintaining conformity with Islamic principle. (Al-Hashil, 2013) The more Islamic banking grows, the more product innovation is produced. Therefore, supervision of this new product must be strengthened so that it does not violate the Islamic regulation. In addition, there is also a lack of supervision from the DPS in every Islamic financial institution, because currently the condition is that a DPS can be a supervisor for several Islamic institutions at once. This raises concerns that the implementation of the supervision is less than optimal (Fataruba; Sabri, 2011).

The second challenge concerns human resource needs. Currently, the workers consist of bankers previously working at conventional banks and prospective employees who lack in knowledge of conventional banking operations (Abdullah & Alhabshi, 2008). As a result, important components of Islamic banking have not been covered despite the background of conventional banking. Without adequate training, former conventional bankers can become a burden for Islamic banking. Therefore, formulation of training needs analysis (TNA) is necessary in order to strengthen Islamic behaviour, to develop curriculum, to conduct training, to find suitable trainers, to focus on specific issues, and to evaluate training programs (Umam, 2010).

The third spinoff challenge is that the establishment of UUS is still funded by the parent bank, so that UUS is still extremely dependent on its parent and is not yet financially independent (Nurwati & Etty, 2014). If the UUS has spun off, the financial matters are solved by the bank. To face this challenge, USS must provide sufficient funds to be able to survive by financing themselves (Rustam, 2015). This is because when a bank makes a spinoff, the office network establishment and employee recruitment must be funded by the bank itself, without the involvement of its parent, and it is exceptionally arduous for the UUS that has just spun off (Qanun, 2015).

Fourth, the risk of violations such as prudential banking strategy: short-term drive for profits, fraud, and un-Islamic employee behaviour in Islamic banking will make a greater impact than similar violations by conventional banks because customers and the public will judge (Nofa, interview, April 16, 2019). Because the image built by Islamic banking contained Islamic labels, if there is a problematic budget, the image of Islamic banking will deteriorate.

Fifth, Islamic banks financing rates are considered more expensive than conventional banks (Nofa, 2019). This is because Islamic banks are business institutions and not social institutions regarding the concern of achieving business targets set by the bank. In addition, Islamic banks are those with profit sharing mechanisms so that in it's application, the bank needs to implement an insurance function to protect the distributed financing funds for it to be safer.

Sixth, the needs of human resources both at the head office (UUS) and KCS have not been fulfilled, due to the low alignment and the priority mis-match of the parent and UUS (Nofa, 2019). These needs should have been considered by consulting with conventional bank office as the centre, because human resources are an important factor in advancing Islamic financial institutions (Muda & Ismail, 2010).

Seventh, the use of the financing limit authority is still not optimised (Zamil, 2014), because as USS, the policy making in fund distribution is still at its head office. Therefore, the USS needs more time to make decisions in each of its operations (Zainol & Kassim, 2012).

The eighth challenge is the low synchronisation of policies and the implementation of the parent bank strategy (which focuses on conventional business) with UUS (Amelia & Hardini, 2017). This is a common thing that happens because of the diverse vision between conventional-based parent and USS, with the parent's operation certainly employing the interest system, while UUS uses the concept of Islam.

Ninth, lack of coordination and synchronisation of policies between authorities within and across jurisdictions, for example between the Government (Ministry of Finance), the central bank/monetary authority and the securities regulator of a country, and overlapping activities among the existing primary international infrastructure (Tajudin, 2010).

The major challenge for the unpreparedness of Islamic business units in implementing the spinoff policy is the possibility of closing the UUS (Khir, 2013). This concern has been proven by the closure of 74 Danamon Syariah branch offices in semester 1 of 2017. Bank Danamon was granted a principle license to establish Islamic services in 2001 and has grown since then. Mentioned by Herry Hykmanto, director of Islamic Bank Danamon, that the greatest challenge to develop Danamon Islamic business is first providing information and education, not only for consumers but also for the company internals. Therefore, during the last two years the company has focused on teaching Islamic schemes to it's employees. In addition, the conditions requiring UUS Danamon financing services must compete with the credit services from the parent bank.

Initially, Islamic finance had more advantages compared to the conventional one because it required a lower down payment (DP), but now the DP requirement is the same as conventional finance and thus companies have to think through in order to compete with others. Moreover, the innovation capability of Islamic products from Danamon is insufficient to boost customers' interest to use Islamic services. These three factors are the primary factors why Bank Danamon must conduct efficiency by closing several of its Islamic branch offices.

By considering the conditions in the Bank Danamon Islamic, the government should start to review the regulation of spinoff implementation, because the spinoff implementation with an improper plan can lead to the closure of the existing UUS (Yuspin & Kelik, 2017).

***Prospects of Islamic Banking Post Spinoff Regulation***

First is the advantage of the concept of Islamic banks or financial institution (Iqbal & Mirakhor, 2009). Second is the government support and current legal provisions. Third, there is a majority of Muslim population in Indonesia. The number of Muslims according to the Central Statistics Agency reached 207 million people who have a tendency to prefer Islamic banks. For example, in Aceh, all banks in there must be Islamic banks. Fourth, Islamic banks accommodate to cover financing funds of Islamic-based institutions. For example, Muhammadiyah finance must be managed by Islamic banking (Indratno, 2010). Fifth, Islamic banks have their own authority to develop Islamic banking products. Sixth, Islamic banks have more freedom to develop Islamic banking. (Briscoe & Fuller, 2007).

The strategies that are necessary to be considered in the UUS spinoff plan are:
a. By taking advantage of the ongoing momentum of national banking consolidation. In the condition of consolidation, the capital provisions are still relatively lenient, and even if the acquisition method is taken, there are still fairly numerous banks available to acquire at reasonable prices;
b. By implementing system and HR migration process, and simpler performance measurement for banks and employees;
c. By benefiting from the BI support. BI support is relatively great for BUS in an effort to encourage target achievement of market shares and to support the national Islamic banking architecture.

The results of interviews conducted with the OJK showed that the objective of the government arranging 2023 as the momentum of spinoff is because the government plans a rapid development of Islamic banking with the implementation of this policy.

According to the OJK, the impact of post spinoff was as the following:

a. Islamic Commercial Banks (BUS) resulted from the spinoff must immediately be able to meet the 8% of the Minimum Capital Adequacy Requirement (*Kewajiban Penyediaan Modal Minimum*/KPMM).
b. If the ratio of Non-Performing Financing (NPF) is more than 5%, it is required to complete the NPF ratio with a maximum of 5% within 1 (one) month
c. If the spinoff results lead in exceeding the Maximum Fund Distribution (*Batas Maksimum Penyaluran Dana*/BMPD), then the Islamic Commercial Bank Spinoff must be complete within 1 (one) year.
d. The Islamic Commercial Bank resulted from the spinoff must have a plan for capital fulfillment of 1,000 billion rupiahs no later than 10 years after obtaining a business license from the OJK, if the pre-spinoff capital is less than 1,000 billion rupiahs.
e. Conventional Commercial Banks that do not spin off will be subject to UUS Revoking Business License (*Cabut Izin Usaha*/CIU) and are required to settle obligations by transferring the assets of the Islamic Business Unit to a Conventional Commercial Bank, settled or sold to another party. It is safe to state that thus far, regarding asset sales to other Islamic Commercial Banks, there is no provision or fatwa regulating the sale and purchase of Islamic assets, so that there is potential risk of lost assets due to the unpreparedness of the Islamic Business Unit (Nofa, 2019).

**Table 2:**

| No | Disadvantages of Islamic Banking Post Spinoff | Advantages of Islamic Banking Post Spinoff |
|---|---|---|
| 1 | Potential risk of lost asset is relatively great due to the unpreparedness of the Islamic Business Unit to spin off | The capital is powerful. |
| 2. | Islamic business unit is spun off and converted into fully-fledge banks. The parent bank can no longer provide full assistance such as funding, infrastructure, advertising and trained personnel. | It is possible to improve strategic development including financing structure, human resource quality, and products without depending on the conventional commercial bank. |
| 3. | Islamic Banking is judged as “only for Muslims” | Free from mixed funds (Zada, 2016) |
| 4. | Islamic units are able to utilise the parent bank’s facilities during the operation such as Information Technology and ATM network. | The parent banks are not charged even though office channelling utilises all facilities and human resources. |

Separation of Islamic business units into Islamic banks ready to operate in 2023 is in accordance with Act Number 21 of 2008. Business units from conventional banks need to spin off to become Islamic banks that are ready to operate fully in 2023. This separation will result in a great number of small-scale Islamic banks experiencing insufficient capital and must struggle to maintain their growth and stability.

This is a major concern for many Islamic banking units, especially those that are currently enjoying the benefits due to the support from their parent bank (Najeeb, 2016). After the separation, these banks will need to significantly increase their capital to be able to continue running their business. Otherwise, these banks will lose all the privileges they enjoy today (Kiaee; Abrishami; & Sobhani, 2013). Therefore, it is necessary to find a balance between competition and capacity which is the primary key to ensure that this approach of separating banking units will benefit the Islamic banking market in particular and the Indonesian economy in general.

The future prospects of Islamic banking should be considered more carefully by the government, that in making laws and regulations it should consider the condition of the industry, involving the stakeholders. Therefore, the issued regulations are in harmony, not the regulations that make a setback, but those that lead to the advancement to the Islamic banking industry. Spinoff must be carefully prepared, especially the powerful capital and human resources aspects; spinoff has the potential to improve the development of Islamic banking and it's parent (Najeeb, 2016).

Therefore, all Islamic banking stakeholders in Indonesia must really pay attention to the mandate of the Acts to prepare for this spinoff process. They should make the spinoff process as a means to develop Islamic banking in the future. Thus, the existence of Islamic banking as one of the banking services that prioritises the underlying assets of each transaction, can benefit all Indonesian people at all levels (Isra, 2009).

The most significant thing is that Islamic banking does not merely comprehend the technical and legal concepts of Islam in financing instruments, but it still has a real appreciation of culturally diverse Muslims and respect for Islam (Wilson, 2000).

## Conclusion

According to Article 68 of the Islamic Banking Act, it was found that the ideal type for Islamic banking in Indonesia is the Islamic Commercial Bank, because the Islamic Business Unit is only a temporary form which later in 2023 must be reformed to an Islamic Commercial Bank. With Islamic Commercial Banks, Islamic banking is far from unruly criticism and funds will not be mixed. Islamic Commercial Banks also have the ability to be independent to innovate and encourage growth focusing on their business. Spinoff is one of the powerful commitments of banks to operate in accordance with Islamic principles, and thus it can improve credibility and public image. Spinoff provides an opportunity for Islamic banks to independently increase it's profitability through it's intermediation function. Therefore, arrangements regarding the implementation of spinoff should be carefully conducted and well-planned so as not to cause industrial losses in the country. Essentially, the government has the challenge to balance purity versus efficiency of the nexus and provide the Islamic banking industry sufficient time to change the current banking structure into a future banking structure, by providing time and clear guidelines for the development of Islamic banking structures. In addition, the existence of this spinoff is expected to accelerate the growth of Islamic banking in Indonesia. The more Islamic Commercial Banks in Indonesia, the Islamic banking network in Indonesia will have a greater influence on the market share of Islamic banking. Certainly, this is a government effort that should be supported because it is in line with the efforts to fulfill the rights of the majority of the Muslim community in Indonesia, that must be provided with financial facilities in accordance with its trust.

**REFERENCES**

Adebola, S. S., Yusoff, W. S. W., & Dahalan, J. (2011). The impact of macroeconomic variables on Islamic banks financing in Malaysia. Research Journal of Finance and Accounting, 2(4), 22-32.

Al Arif, M. (2015). The effect of spin-off policy on financing growth in Indonesian Islamic banking industry. Al-Ulum, 15(1), 173-184.

Al-Hashil, M. Y. (2013). Islamic Financial Industry: Facts and Challenges, Kuwait's Experience. Speech of the Governor of Central Bank of Kuwait.

Al-Jarhi Mabid, A. (2008). An economic theory of Islamic finance, International Centre for Education in Islamic Finance (INCEIF), Kuala Lumpur, Malaysia.

Amiruddin. (2008). Pengantar metode penelitian hukum. Jakarta: PT RajaGrafindo Persada.

Ashraf, M. A., & Lahsasna, A. (2017). Proposal for a new Sharīʿah risk rating approach for Islamic banks. ISRA International Journal of Islamic Finance, 9(1), 87-94.

Bashar, M. L. A. (1997). Price control in an Islamic economy. Journal of King Abdulaziz University: Islamic Economics, 9.

Chemmanur, T. J., & Yan, A. (2004). A theory of corporate spin-offs. Journal of Financial Economics, 72(2), 259-290.

Chu, P. Y., Teng, M. J., Lee, C. T., & Chiu, H. (2010). Spin-off Strategies and Performance: A case study of Taiwan's Acer Group. Asian Business & Management, 9(1), 101-125.

Cristo, D. A., & Falk, R. W. (2006). Spin Off and Carveouts: some factors leading to Succes Competition Forum, 4(2).

Djumhana, M. (2012). Hukum Perbankan di Indonesia, Bandung: PT Citra Aditya Bakti.

Elfring, T., & Foss, N. J. (1997). Corporate Renewal Through Internal Venturing & Spin Off Perspectives From Organization Economics, Working Paper 97-7/ Departement of Industrial Economics & strategy Copenhagen Business School.

Hadigol, M., & Kolobandy, A. (2018). Offering a model based on the TAM for mobile banking reception in Iran. UCT Journal Of Management And Accounting Studies, 6(04), 11-15.

Indratno, B. (2010). Peluang dan Tantangan Perbankan Syariah di Indonesia. Jurnal Ekonomika Universitas Wijayakusuma Purwokerto, 13(2).

Indrawati. (2018). Metode Penelitian Kualitatif. Bandung: PT Refika Aditama.

Iqbal, Z., & Mirakhor, A. (2007). An Introduction to Islamic Finance, Theory and Practice, John Wileyand Sons. Singapore.

Ishak, M. S. I. (2019). The principle of maṣlaḥah and its application in Islamic banking operations in Malaysia. ISRA International Journal of Islamic Finance, 11(1), 137-146.

ISRA (2009). ISRA Compendium for Islamic Financial Terms (Arabic-English). International Shari'ah Research Academy for Islamic Finance, Kuala Lumpur.

Kamaruddin, B. H., Safab, M. S., & Mohd, R. (2008). Assessing production efficiency of Islamic banks and conventional bank Islamic windows in Malaysia. International Journal of Business and Management Science, 1(1), 31.

Kiaee, H., Abrishami, H., & Sobhani, H. (2013). Islamic banking performance vs its conventionalcounterpart: using stochastic optimal control method. Journal of Islamic Economics,Banking and Finance, 9(4).

Kim, J. (2011). Corporate restructuring through spin-off reorganization plan: a Korean case study. Pace Int'l L. Rev., 23, 41.

Klepper, S., & Thompson, P. (2010). Disaggrements and Intra-Industry Spinoffs. International Journal of Industrial Organization, Elsevier, 28(5).

Massugeng, (2015). bolehkahlayanansyariah (office channeling) padabankkonvensional, http://ekonomizona.co.id/2017/10/dalam-kontak-tanya-jawab-ekonomi.html

Miah, M. D., & Sharmeen, K. (2015). Relationship between capital, risk and efficiency: A comparative study between Islamic and conventional banks of Bangladesh. International Journal of Islamic and Middle Eastern Finance and Management, 8(2), 203-221.

Mokhtar, H. S. A., Abdullah, N., & Alhabshi, S. M. (2008). Efficiency and competition of Islamic banking in Malaysia. Humanomics, 24(1), 28-48.

Muhamad. (2019). Pengantar Bisnis Syariah, Yogyakarta: UPP STIM YKPN.

Muhammad. (2014). Manajemen Dana Bank Syariah, Jakarta: PT RajaGrafindo Persada.

Mustofa, M. A. K. (2012). Kamus bisnis syariah. Asnalitera.

Najeeb, Z., et al. (2016). Islamic Banking Structures: Issues, Challenges and Future Directions - A Case Study of Malaysia. ISRA International Journal of Islamic Finance, 8.

Nomor, U. U. (21). tahun 2008 tentang Perbankan Syariah.

Prasetiyo, L. (2012). Perkembangan bank syariah pasca UU 21 tahun 2008. Al-Tahrir: Jurnal Pemikiran Islam, 12(1), 43-62.

Rosly, S. (2005). Critical Issues on Islamic Banking and Financial Markets: Islamic Economics, Banking & Finance, Investment, Takaful and Financial Planning. Dinamas Publication.

Rustam, B. R. (2013). Manajemen Risiko Perbankan Syariah di Indonesia. Jakarta: Salemba Empat.

Sundararajan, V., & Errico, L. (2002). Islamic financial institutions and products in the global financial system: Key issues in risk management and challenges ahead (Vol. 2). International Monetary Fund.

Syukron, A. (2013). Dinamika perkembangan perbankan syariah di Indonesia. Economic: Journal of Economic and Islamic Law, 3(2), 28-53.

Tajudin, A. A. (2010). Overview of Islamic Finance: Islamic Finance Course-Structure & Instruments.

Tett, G. (2006). Banks seek Islamic scholars versed in finance. Financial Times, 19.

Usmani, T. M. (1999). An introduction to Islamic Finance. Karachi: IdaratulMa'arif.

Warde, I. (2000). Islamic Finance in the Global Economy, Edinburg University Press.

Wigglesworth, R. (2009). Credit crunch may test industry beliefs, financial times.

Wilson, R. (2000). Challenges and Oppurtunities For Islamic Banking and Finance In The West: The United Kingdom Experience,Islamic Economic Studies, 7(1&2).

Yuspin, W., & Wardiono, K. (**2017).** Islamic banking trajectories of Indonesia: Dealing with the present and shaping the future, International Journal of Economic Research, 14(16).

Yuspin,W., & Fauzie, A. (2018). The effectiveness of spin off in the Islamic Banking System in Indonesia: International Journal of Economics Review), 6(213-216).

Kabayeva, Z., Mussabaev, S., & Madalieva, Z. (2018). The formation way of independent Kazakhstan from the individualism and collectivism perspective. Opción, 34(85-2), 706-728.

Zaher, T. S., Hassan, M. K. (2001). Acorporative literature survey of Islamic banking and financial Markets, Institutions and Instruments, 10.

Zaman, M. R. (2002). Interest free Islamic banking; ideals and reality. International Journal of Finance, 14.

Zamil, N. A. M. (2014). An Empirical Investigation into the Problems and Challenges Facing Islamic Banking in Malaysia (Doctoral Dissertation, Cardiff Business School)