# ABSTRACT

*The banking industry in Indonesia is one of the pillars driving the economy. The role of banking is not just a financial institution that functions as a savings and loan tool for customers or corporations, but also as a financial intermediary. Along with developments, banks adjust the potential and needs of the market by creating Islamic Banking which is a financial institution by implementing sharia principles in its business activities. On February 1, 2021, three state-owned Islamic banks with the most dominant assets in Indonesia, namely PT Bank Syariah Mandiri (BSM), PT Bank BRIsyariah Tbk (BRIS), and PT Bank BNI Syariah (BNIS) merged. This study aims to analyze the impact of the merger of three Islamic banks with dominant assets on the level of competition in the Islamic banking industry sector, seen from the pre-merger and post-merger conditions, as well as the influence of their determinants.*

*The method used in this study is the Panzar-Rosse Model (H-stat) to determine the level of competition and the changes after the merger, using research data on banking financial records for the 2016-2020 and 2021-2022 period. This study uses the output price of credit or revenue as a proxy for the ratio of gross interest income to total assets (P), the input price for savings as a proxy for the ratio of interest expense to total savings and money market funding (W1), labor input prices as a proxy for the ratio personnel expenses to total assets (W2), and the price of equipment inputs or fixed capital as a proxy for the ratio of other operating expenses and administrative expenses to total assets (W3).*

*The results show that the Islamic banking industry in Indonesia has a monopolistic market shape, both in pre-merger conditions and post-merger projections. The impact after the merger is a decrease in the level of competition in the industry. The results of the regression using H-stat show that the input price of savings and the price of labor input have a significant and positive relationship to the variable output price of credit or revenue, meanwhile the price of input for equipment or fixed capital have a significant and positive relationship to the variable output price of credit or revenue.*

***Keywords**: Islamic banking industry, merger, Panzar-Rosse Model.*