

ABSTRACT

This study analyzes the innovation of the Islamic banking industry market structure in Indonesia from 2018-2024 using the Structure-Conduct-Performance (SCP) approach with three primary hypotheses: traditional, differentiation, and efficiency hypotheses. The traditional hypothesis examines the concentrated market structure influencing bank performance through market power, the differentiation hypothesis explores product differentiation strategies to enhance competitive advantage, while the efficiency hypothesis focuses on operational efficiency and resource allocation to improve profitability.

The secondary data-based study reveals that the Islamic banking sector maintains a consistently high concentration ratio (CR4) above 40%. Analysis of key variables such as Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), and Non-Performing Financing (NPF) demonstrates complex changes in financial performance. CAR showed a positive impact during 2018-2020 but turned negative in 2021-2023, indicating potential inefficiencies in capital utilization. Mobile banking proved insignificant in affecting Return on Assets (ROA), while Non-Performing Financing (NPF) consistently demonstrated a negative impact, reducing ROA.

The research provides crucial insights into the structural transformation and performance dynamics of the Islamic banking industry in Indonesia. Findings indicate that Third-Party Fund (DPK) growth did not significantly influence financial performance. By integrating traditional, differentiation, and efficiency hypothesis perspectives, this study offers significant theoretical and practical insights for stakeholders in the banking sector, exploring the complexities of Islamic banking market structure and performance.

Keywords: Market Structure, Islamic Banking, SCP, Financial Performance, Merger, Traditional Hypothesis, Differentiation, Efficiency