

ABSTRACT

Islamic banking in Indonesia holds significant potential in supporting national economic development, yet it still faces challenges such as low market share and limited institutional independence. The spin-off policy, as mandated by Law No. 21 of 2008, the Financial Sector Development and Strengthening Law (PPSK) No. 4 of 2023, and OJK Regulation No. 12 of 2023, requires Islamic business units (UUS) to separate into full-fledged Islamic commercial banks (BUS). However, the effectiveness of this policy remains debated, as previous studies have shown mixed results. Therefore, this study aims to analyze the impact of implementing the spin-off policy on the market share and financial performance of full-fledged Islamic commercial banks in Indonesia.

This research applies a quantitative method using the Difference-in-Differences (DiD) approach. The analysis employs panel data from Islamic banks' annual reports and OJK publications covering the 2010–2024 period. The sample consists of BUS formed through spin-offs as the treatment group and UUS that have not undergone spin-offs as the control group. The dependent variables are market share (MS), Return on Assets (ROA), Non-Performing Financing (NPF), Financing to Deposit Ratio (FDR), and Operating Expenses to Operating Income ratio (BOPO). The independent variable is the spin-off policy, with control variables including macroeconomic indicators and bank size. Robustness checks were conducted to ensure the reliability of the results.

The findings indicate that the spin-off policy has a significant negative effect on market share, indicating the potential for increased competitiveness among full-fledged Islamic commercial banks (BUS) after separation from the parent bank. The policy does not significantly affect ROA, showing no conclusive evidence of profitability improvement. For NPF, spin-offs exhibit signs of improved financing quality in the robustness checks, although results remain inconsistent. The impact on the FDR is significantly negative, while the BOPO tends to be significantly positive in the main model, but the results are inconsistent in the robustness check. Overall, this study suggests that the spin-off policy has not consistently enhanced the financial performance of Islamic banks sustainably. These findings highlight the need for regulators to reassess the design of the spin-off policy and encourage managerial strategies that focus on efficiency to strengthen the growth of the Islamic banking industry.

Keywords: *Difference-in-Differences, Financial Performance, Islamic Banking, Market Share, Spin-off.*