“The impact of conversion on market share in Indonesian Islamic banks”

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THE IMPACT OF CONVERSION ON MARKET SHARE IN INDONESIAN ISLAMIC BANKS

Abstract

The process of converting a conventional bank into a fully-fledged Islamic bank is becoming a popular alternative solution, alongside spin-off, for smaller banks. Two Indonesian banks, Bank of Aceh Sharia and Bank of NTB Sharia, completed this conversion in 2016 and 2018, respectively. This study uses a mixed-methods approach to examine the impact of this conversion on market share, using both quantitative regression with a dummy variable and qualitative analysis through focus group discussions with executive management and in-depth interviews with the Sharia supervisory boards of the two converted banks. The study found that the conversion positively impacted market share, with the default rate and level of capital also playing a role. Prior to conversion, the Indonesian sharia banking industry had less than a 5% market share, but after the conversion, it reached 6.7%. The two converted banks were able to increase their market share to 7% and 2%, respectively. These results suggest that converting into a full-fledged Islamic bank is a viable alternative solution for smaller conventional banks, rather than opting for spin-offs or mergers.

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INTRODUCTION

In Indonesia's Islamic banking industry, regulations allow conventional banks to have Islamic units, which led to the opening of many Sharia units to explore new markets. However, many conventional parent banks need to focus more on developing their Sharia units. Consequently, Law No. 21 of 2008 was introduced, which includes a spin-off policy to encourage conventional banks to develop their Sharia units. Five banks have undergone spin-offs since the policy was introduced, but the market share of Islamic banking has not exceeded 5 percent. Previous research suggests that spin-offs have a negative impact on the performance of spin-off banks. Therefore, for small banks, a conversion strategy could be a better alternative to spin-offs.

The Bank of Aceh decided in 2016 to convert fully into a sharia commercial bank instead of pursuing a spin-off strategy for its sharia unit. This move helped the Islamic banking industry in Indonesia reach a market share of more than 5 percent. Following this, the Bank of NTB also underwent full conversion to a sharia commercial bank in 2018. Recently, in August 2022, the Bank of Riau Kepri was granted permission by the financial service authority to convert to an Islamic bank. Bank Nagari is currently preparing to convert from a conventional bank to an Islamic commercial bank.

The conversion to Islamic banking is observed in many countries, with varying underlying reasons. For example, in Libya, the entire banking system was converted to sharia in 2013, but challenges arose due to the absence of conversion guidelines (El-Brassi et al., 2018). According to Alani and Yaacob (2012), in the Middle East region, the low-risk nature with high profits of Islamic banks is a motive for conversion. In Bangladesh, lower reserve requirements provide an incentive for conventional banks to convert to Islamic banks (Suzuki et al., 2020). Meanwhile, Al Harbi (2020) suggests that conversion can improve the performance of Islamic banks in GCC countries.

While many studies have explored the conversion of Islamic commercial banks, a comprehensive examination of conversion to Islamic banks is still lacking. This paper focuses on parent conventional banks that decide for full conversion into Islamic banks, as opposed to spin-offs of their Islamic units. The full conversion strategy may be a preferable alternative to the Islamic unit spin-off. The main research question is whether the conversion strategy leads to increased market share for converted banks.

1. LITERATURE REVIEW

Conversion of conventional banks into Islamic banks is not unique to Indonesia. Iran, for instance, has completely transformed its banking system into Islamic banking, while Libya followed suit in 2013, as reported by El-Brassi et al. (2018). Furthermore, several banks in Middle Eastern countries have also undergone conversion to Islamic banks (Alani & Yaacob, 2012), and as have some banks in Bangladesh (Suzuki et al., 2020). The main reason for this conversion trend is that Islamic banks adhere to the principles of alfalah maqashid sharia, as noted by Bakhouche et al. (2022). This rationale is based on the religious beliefs of Muslim customers, as previously indicated by Al-Atyat (2007), Mamun (2007), and Mustafa (2006). Additionally, the decision to convert into an Islamic bank is motivated by the resilience of Islamic banks in times of crisis, such as the Covid-19 pandemic, according to Ghouse et al. (2022) and Rizwan et al. (2022). Conventional banks, as reported by Bilgin et al. (2021), are more vulnerable to instability in countries with greater religiosity and higher profit-loss sharing contracts. Finally, it is worth noting that the profitability of Islamic banks, as evidenced by Siraj and Pillai (2012) and Al-Tamimi (2010), is another compelling factor driving the conversion trend.

One of the methods for creating Islamic banks in Indonesia is by converting conventional commercial banks, as noted in previous studies (Nurhadi, 2019; Adha et al., 2020). The current trend of conversion is unique to Indonesia, as it serves as an exit strategy for small banks, as opposed to spinning off their Sharia units. The spin-off process requires significant capital investment of IDR 3 trillion for the parent bank and IDR 1 trillion for the resulting bank, this created difficulties for small regional banks. In contrast, full conversion into Islamic banks has emerged as the most strategic choice for them. Additionally, the region's predominantly Muslim population and religiosity can have a positive impact on Islamic banks' savings behavior, as observed in previous studies.

Previous studies have shown that the spin-off policy negatively impacts the performance of banks that undergo this process. The profitability and efficiency of Islamic banks have been found to decrease after they go through spin-off, as noted in various studies by Poerwokoesoemo (2016) and Hosen & Rahmawati (2016). Spin-off banks exhibit lower levels of efficiency compared to non-spinoff banks (Al Arif & Nabilah, 2022). Small-sized banks, especially regional banks, are particularly vulnerable to the negative impacts of spin-off policy, as stated by Haribowo (2017). The parent bank also loses the benefits of diversification after the spin-off process, as pointed out by Prasetyo et al. (2019). Additionally, the spin-off process increases financing risk, as observed by Trinugroho et al. (2021). On the other hand, Hasan and Risfandy (2021) found that Islamic windows are more stable than full-fledged Islamic banks. It should be noted that the spin-off strategy requires conventional holding banks to have a core capital of IDR 3 trillion, while Islamic banks resulting from spin-off must have a capital of IDR 1 trillion. This requirement presents a significant challenge for regional banks in meeting capital requirements.

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The Bank of Aceh and Bank of NTB have chosen to convert into Islamic banks instead of opting for a spin-off of their sharia business units. This approach is similar to that of other banks. The Bank of Aceh's conversion to an Islamic commercial bank aims to increase the satisfaction of Acehnese people in adhering to Islamic law. Similarly, the Bank of NTB's full conversion into an Islamic commercial bank is due to the predominantly Muslim population of NTB and the increasing demand for Islamic banking services. Islamic banks are reputed to have strong shariah capabilities. Several studies have cited these factors as the main reasons for the conversion of these banks (Rohman, 2019; Rahmawati & Putriana, 2020; Yoefoef & Khairisma, 2020; Alamsyah & Amri, 2021; Ullah et al., 2023; Trisnawati & Wagian, 2021).

Ramdan et al. (2020) found that the Bank of NTB Sharia experienced an annual 40% increase in deposit funds after fully converting to an Islamic bank. The promising market opportunities in the Islamic banking industry are one of the key reasons why many conventional banks are converting into Islamic commercial banks (Damanuri, 2012). Yoesoef and Khairisma (2020) observed that the conversion of Acehnese banks into Islamic commercial banks positively impacted the welfare of the local community. Full conversion into an Islamic commercial bank is an effective way to manage financing risks (Al Kautsar et al., 2019; Pambuko & Pramesti, 2020), and there is a difference in financial performance before and after the conversion into a sharia commercial bank at the Aceh bank (Budianto & Sofyan, 2021).

The decision of Bank of Aceh and Bank of NTB to convert to Islamic banks resulted in an increase in the market share of the Islamic banking industry (Pambuko & Pramesti, 2020). This conversion strategy played a significant role in helping the Islamic banking industry exceed the 5 percent threshold. Nonetheless, other factors, such as default rates, operational efficiency rates, profit sharing yields, and conventional interest rates, can also influence market share (Al Arif & Rahmawati, 2018). Additionally, the number of offices, deposit funds, and promotional costs can impact market share in the Indonesian Islamic banking industry, as reported by Hanafi (2021).

Pambuko and Pramesti (2020) report that the conversion of Bank of Aceh to a sharia commercial bank has led to improvements in the level of non-performing financing but a decline in profitability. On the other hand, Fahdiansyah (2021) found that the financial performance of Bank of NTB improved after its conversion to a sharia commercial bank, although further improvements are needed. According to Al Kautsar et al. (2019), the stability of the bank after the conversion process is expected to be better than when it was a conventional commercial bank. Budianto and Sofyan (2021) found differences in financial performance before and after the conversion of Bank of Aceh. However, non-Muslim customers of Bank of NTB received the conversion process positively (Nasution et al., 2021). Suhail and Nurzaman (2020) suggest that Islamic business units are less efficient compared to full-fledged Islamic banks.

The process of full conversion into a conventional commercial bank requires careful preparation. At each stage of the conversion, it is important to increase the motivation of human resources and ensure that the process will lead to positive results in the development of the bank's employees (Ramdan et al., 2020). The same holds true for Libyan banks, where the availability of qualified human resources is crucial (Abdalla et al., 2015). Similarly, when converting to a sharia commercial bank, it is important to take into account the characteristics of the customers and the areas being served. A haphazard conversion process can create more complex problems (Shafii et al., 2016; Afrida et al., 2020). Some studies have highlighted the lack of a comprehensive framework as a major issue that prevents the conversion to Islamic banking (Rafay & Sadiq, 2015; Arshad et al., 2016; Zaed et al., 2016).

Converting conventional commercial banks into Islamic commercial banks not only improves performance but also creates governance-related problems. According to Zaki and Hussainey (2015), conventional banks that convert into Islamic banks must adhere to sharia law, which poses a challenge from the governance perspective. Shafii et al. (2016) identified poor-quality and unreliable human resources as a significant issue during the conversion process. Issues related to regulations and Islamic banking products are also problematic.

Adha et al. (2020) confirmed that converting conventional commercial banks to Islamic banks can result in less effective corporate governance. Moreover, the conversion process may cause problems related to the efficiency and stability of assets, as well as the low qualifications of human resources.

According to Bensaadi et al. (2021), the efficiency of banks decreased after being converted into full-fledged Islamic banks. Hasan and Risfandy (2021) found that Islamic windows are more stable than full-fledged Islamic banks. Al Harbi (2020) suggests that the conversion process and management competencies of banks are critical factors in the conversion decision. The management of converted banks should communicate to customers the positive impact of the conversion decision on bank performance, as customers may not be aware of the differences between full-fledged Islamic banks and Islamic windows (Ratnasari et al., 2021).

Based on the previous studies above, the conversion strategy is an alternative strategy that can be pursued by conventional parent banks, especially for small-sized banks. Findings from previous research indicate that the conversion strategy has an impact on the performance of Islamic banks after conversion. However, the conversion process to become an Islamic bank requires a complex process, especially in the aspect of increasing the competence of human resources.

Comprehensive studies regarding the impact of conversion on market share are still very limited. Therefore, this study aims to test whether there is an impact of conversion on market share in converted banks. There are two converted banks observed in this study, namely Bank of Aceh Sharia and Bank of NTB Sharia.

2. METHODS

In answering the research objective of this manuscript, this study will use the panel regression technique. The period chosen in this study is from 2014 to 2021. Several techniques are used to estimate the model parameters in regression with panel data. First is the ordinary least square; second is the fixed-effect model; third is the random effect model. The proposed mathematical equation is:

$$MS_{it} = a + b_1 D\_Conv_{it} + b_2 NPF_{it} + \\ + b_3 ROA_{it} + b_4 BOPO_{it} + b_5 CAR_{it} + e_{it}, \tag{1}$$

where *MS*: market share; *D_Conv*: dummy variable for conversion policy; where: 0 = before conversion; 1 = post conversion; *NPF*: non performing financing; *ROA*: profitability ratio measured by return on asset; *BOPO*: operational efficiency ratio; *CAR*: capital adequacy ratio.

3. RESULTS AND DISCUSSION

Table 1 shows that the conversion of conventional commercial banks to Islamic commercial banks carried out at Bank of Aceh Sharia and Bank of NTB Sharia significantly increases asset market share for the Islamic banking industry as a whole. The coefficient value indicates that conversion to an Islamic commercial bank can increase market share by the coefficient value. The three models in this study showed the same results. A positive sign indicates that after conversion, there has been a significant increase in market share in the two converted banks.

Market share is an important metric for evaluating the performance of Islamic banks in comparison to their rivals, as highlighted by Adenan et al. (2021). Ribowo and Nurdin (2022) also found that converting to an Islamic commercial bank resulted in a noteworthy improvement in market share. Therefore, for small conventional holding banks struggling with capital, a complete conversion to an Islamic bank could be a suitable exit strategy. The conversion strategy is an exit strategy that regional banks can carry out because the problem they are experiencing is capital.

Converting conventional commercial banks into Islamic banks has resulted in a boost in the market share of the Islamic banking industry, surpassing the 5% target. Although the 5% target was expected to be achieved by 2008, it wasn't until 2015 that it was reached. However, after the Bank of Aceh Sharia's conversion in 2016, the market share of Islamic banking increased to 5.29%. As of December 2021, the market share of Islamic banking has risen to 6.70%. It is predicted that with the issuance of permission to operate Bank Riau Kepri as Bank Riau Kepri Sharia, the market share of

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Islamic banking will increase further. On the other hand, the merger of three Islamic commercial banks into Indonesian Islamic banks in October 2020 did not have a significant impact on the market share of the Islamic banking industry. Ahdizia et al. (2018) suggest that mergers may increase the business valuation of Islamic banks.

Table 1. Empirical result impact of conversion on market share

Variable	CEM	FEM*	REM
C	4.296290	7.077552	4.290534
	1.118025***	1.391676***	0.710554***
D_konversi	5.081213	5.318081	5.300516
	0.396586***	0.445185***	0.249711***
NPF	–0.839944	–1.348962	–0.538682
	0.410818**	0.364818***	0.253235**
ROA	0.000466	–0.000884	0.000531
	0.008805	0.007455	0.005579
BOPO	–0.003716	–0.02747	–0.001552
	0.016183	0.015636	0.010234
CAR	–0.142150	–0.292796	–0.160689
	0.026416***	0.026484***	0.016311***
R-square	0.801489	0.968480	0.810666
Adj R-squared	0.787704	0.926453	0.797517
F-stat	58.14006***	23.04422***	61.65594***

Note: *, **, and *** – significance level at 10%, 5%, and 1%.

The market share, which is still controlled mainly by conventional banks, is quite ironic, considering that most of the population is Muslim in Indonesia. Efforts must be made with all stakeholders to increase this market share. The government and regulators need to carry out affirmative activities to increase the contribution of Islamic banks in Indonesia, for example, by requiring state-owned enterprises (SOEs) to place some of their funds in Islamic banks. The Malaysian government has adopted this strategy to accelerate its Islamic banking industry. In addition, government policies related to policies for civil servant payroll need to be further expanded. There can be more Islamic banks that can serve civil servant payroll. Then, on the other hand, Islamic banks also need to make improvements to the products and services they have.

Table 2 shows that there was a significant increase in market share after the conversion process was carried out. A drastic increase occurred at the Bank of Aceh Sharia, where the market share of the Islamic banking industry before the conversion was below 1 percent and was able to increase above 7 percent after the conversion was carried out. The same thing happened to the Bank of NTB Sharia, where the market share increased from 0.5 percent before conversion to above 2 percent after conversion. Based on an interview with Mr. Amal Hasan (Director of Compliance at the Bank of Aceh Sharia), the conversion strategy was able to increase market share both in terms of assets, deposit funds, and financing above 40 percent.

Expanding the market share of Islamic banks is a challenging task (Eliana et al., 2020). Several factors contribute to the low market share of Islamic banks, such as the lack of understanding in the community about the differences between Islamic and conventional banks. The support from religious leaders also needs improvement, as some of them have misconceptions about Islamic financial institutions. In addition, there is a shortage of human resources in the field of Islamic economics and finance. Furthermore, effective support from the government and regulators is necessary through affirmative policies that can facilitate the growth and development of the Islamic banking industry in Indonesia.

Table 2. Market share of converted banks

Year	Bank of Aceh Sharia	Bank of NTB Sharia
2012	0.78%	0.11%
2013	0.69%	0.12%
2014	0.76%	0.14%
2015	0.94%	0.31%
2016	7.38%*	0.26%
2017	7.85%	0.49%
2018	7.29%	2.22%*
2019	7.17%	2.47%
2020	6.42%	2.62%
2021	6.16%	2.66%

Note: * Conversion year.

According to Hidayat and Trisanty (2020), increasing market share in the Islamic banking industry requires a three-pronged approach that involves internal sharia banks, regulators, and the public. Improvements in regulatory and governance aspects are necessary, including alignment of vision and better coordination between government and authorities. Additionally, the regulation and supervision of Islamic banking should be enhanced, and the government should provide more support for developers in the industry. The National Committee for Islamic Economy and Finance (KNEKS) has played a positive role in the development of the Islamic economy and finance sector in Indonesia.

In the internal elements of Islamic banks, strategies that can be carried out are improving and optimizing products, capital, service office networks, information technology, human resources, and governance. Products that are designed must be innovative products and not just imitate the products that already exist in conventional banks. In addition, Islamic banks need to continue increasing their promotional costs to accelerate market share (Budhijana, 2019; Hanafi, 2021).

To improve the Islamic banking industry, the quality of human resources must continuously be developed. The conversion process to Islamic banks in GCC countries requires competent bank management, which is a success factor (Al Harbi, 2020). The conversion process also highlights the importance of human resource competency (Shafii et al., 2016). Currently, there is still a misconception that bankers in Islamic banks are lower-tiered employees. To overcome this, human resource training needs to be extended to ensure the work culture reflects that of the Islamic finance industry. Therefore, the Islamic banking industry must continue to improve the quality of human resources through education and training. El-Brassi et al. (2020) suggest that a training program can increase the knowledge of Libyan bankers following the conversion process. Developing human resources is essential to increase the market share of the Islamic banking industry (Budhijana, 2019).

Based on the results of an interview with the Chairman of the Sharia Supervisory Board of Bank of NTB Sharia, H. Rubai Ahmad Munawar explained that "the biggest challenge during the conversion process was the paradigm shift of employees from conventional business patterns to sharia. The Sharia Supervisory Board has an active role in socializing and educating all employees regarding this paradigm shift." Sharia compliance is one main factor to do the conversion. Al Atyat (2007) states that the primary motivation for the conversion of banks in Jordan is to increase sharia compliance and maximize profitability. Mustafa (2006) shows that almost 47% of conventional banks in Saudi Arabia that converted into Islamic banks were motivated to comply with shariah principles.

Then the aspect of society in general, market conditions in Indonesia are divided into two: the religious community and the realistic community (Hidayat & Trisanty, 2020). The treatment of these two elements of society must be different. If the community is religious, the approach that can be expanded is regarding the education and socialization of Islamic banking, including its relation to the fatwa of the Indonesian Ulema Council. Ratnasari et al. (2021) state that most Muslim customers favor full-fledged Islamic banks rather than Islamic windows due to sharia compliance. However, for realistic elements of society, what must be done is product and service innovation owned by Islamic banking. Strengthening of interest-free based products needs to be further strengthened in Islamic banks (Adebola et al., 2011).

To improve the market, share of Islamic banks, it is suggested that financial literacy among customers should be enhanced. Financial literacy measures a person's understanding of financial concepts and the ability to make appropriate decisions to manage personal finances (Fathony et al., 2022). To achieve this goal, stakeholders in the Islamic banking industry should develop an effective Islamic financial literacy model that can increase the market share of Islamic banking in Indonesia. Three strategies can be implemented to increase the market share of Islamic banks. The first strategy is to improve financial literacy among the public by increasing awareness and understanding of financial institutions, products, and services. The second strategy aims to foster a wise financial attitude and behavior to create a community with strong financial resilience in various financial conditions. The third strategy is to increase access to finance to expand the number of users of financial products and services in the community (Fathony et al., 2022).

The concern that customers will shift to conventional banks is a common obstacle in the conversion process of Islamic banks (Abduh et al., 2013). Product offering is a major factor that influences

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a person's decision to choose a bank, regardless of whether it is Islamic or conventional (Abduh et al., 2013). Therefore, Islamic banks must strengthen their product offerings to compete with not only other Islamic banks but also conventional banks, although competition may affect bank profitability (Sukmana & Ibrahim, 2021). To attract deposit funds, product innovation is crucial for Islamic banks (Sulistyawati et al., 2020). Purba (2017) reveals that religious, economic, and informational factors positively impact interest in saving at Aceh sharia banks. Wiliasih and Shadrina (2017) identify promotion, service, institutional credibility, and compliance with sharia, the location of the institution, and the environment where the customer lives as the six dominant factors that encourage customers to save at Islamic banks. Therefore, Islamic banks should formulate an effective business strategy that targets these six factors to enhance their market share. Additionally, product innovation can play a significant role in attracting more deposit funds in Islamic banks (Ramdan et al., 2020).

The decision to convert to Islamic commercial banks in the two banks is part of the best company strategy compared to the spin-off (separation) option. If shareholders choose the spin-off option, they must provide sufficient capital for both conventional and Islamic commercial banks. Based on the rules, conventional parent banks must have a core capital of 3 trillion. The spin-off bank must have a core capital of at least 500 billion, which must be increased to 1 trillion within ten years after the separation. Suzuki et al. (2020) also found the same result in Bangladesh. The different reserve requirement regulation between conventional and Islamic banks gives a higher incentive to do the conversion process. In Indonesia, the conversion strategy is an alternative strategy that can be done in addition to the option of separating sharia business units (Al Arif et al., 2020). In addition, the policy of full conversion into a sharia commercial bank is a reasonable step that can be taken by shareholders (Damanuri, 2012).

Budianto and Sofyan (2021) found several facts related to changes in performance in Aceh Sharia banks after conversion. From the aspect of the risk profile using non-performing financing indicators, it shows a difference between before and after the conversion. Different results were found in the financing-to-deposit ratio (FDR), which showed no difference between before and after conversion. Hosen and Muhari (2017) show that Islamic banks face a high risk if core depositors withdraw money rashly and become the default.

Al Kautsar et al. (2019) also stated that changing the business model to sharia at Bank of Aceh will change the company's financial performance and risk accepted. Their findings also show a decrease in the level of non-performing financing after the conversion process. In addition, the level of risk of bankruptcy after conversion decreased in Aceh Sharia banks. The argument they put forward for this phenomenon is that Islamic bank customers will be more religious than conventional bank customers, so the risk of default will decrease.

Fahdiansyah (2021) concludes that two years after the conversion at Bank of NTB Sharia, there has been an increase in financial performance at Bank of NTB Sharia, although it has not been maximized. This is possible because the economic condition of the people of NTB had not recovered after the earthquake in 2018 when the conversion was carried out. Therefore, there need to be even more strenuous efforts to improve the financial performance of the Bank of NTB Sharia after conversion.

Alani and Yacoob (2012) analyzed some reasons underlying the transformation of the conventional banking system into Islamic banking. They show that risk and profit are the leading indicators for banks to switch to the Islamic banking system. The finding accompanying this is that the success of Islamic banking in meeting customer needs through a partnership relationship is considered safer and far from banking risks. The customer's alignment with the sharia banking system is also a strong reason for banks to be able to provide sharia financial services to meet customer needs.

According to Shafii et al. (2016), the conversion of conventional banks to Islamic banks is a complicated process that involves a change from the conventional banking system to the Islamic banking system. This conversion process requires a comprehensive framework for policies related to sharia compliance, resistance to conversion, human resources, sharia financial products, and regulation and legislation of legal products. The most important issue in this conversion process is the recruitment of employees who have technical banking experience and sufficient knowledge of the operational principles of Islamic banking. The study also found that several factors influence the policy process of converting conventional banks to Islamic banks, including low-qualified and unreliable human resources in Islamic banking activities, resistance from management organizations to conversion policies, low sharia compliance, regulatory and legislative support, and problems related to the development of sharia banking products. Meanwhile, Budianto and Sofyan (2021) found no significant difference in the governance (GCG) aspects of the Bank of Aceh before and after its conversion to an Islamic bank.

Rafay and Sadiq (2015) show that the transformation of conventional banking into Islamic banking is aimed at meeting the market share needs of Muslim customers. However, in practice, Islamic banking runs in a conventional financial system. The low stakeholder awareness of the importance of Islamic banking, differences in the views of schools of Islamic law in addressing Islamic banking issues, and ineffective regulations are some of the problems in developing the framework in the banking transformation process. The sharia banking framework's development in practice differs from sharia principles and the needs of public financial services. This condition shows that the development of Islamic finance is not in line with the objectives of compliance with sharia principles. Besides that, the prudential requirements in the supervision of banking activities, provisions for publication of information in financial reports, corporate governance and transparency, provisions for product development, and ethical behavior towards consumers. This fact is also the basis for the rejection of some groups for the implementation of the conversion of conventional banks to Islamic banks based on Qanun number 11 of 2018 (Alamsyah & Amri, 2021).

Moreover, it is important that the conversion of Islamic banks contributes to the welfare of the community. According to Yoesoef and Khairisma (2020), the conversion of Acehnese banks to Islamic commercial banks has had a positive impact on the community's welfare, indicating that the community has accepted this conversion. However, there is still room for improvement in terms of education and awareness about Islamic banking. The Qanun of Islamic financial institutions number 11 of 2018 has had a positive impact on the development of the Islamic banking industry, as noted by Rahmawati and Putriana (2020).

The conversion policy poses a challenge for an effective corporate governance model. Adha et al. (2020) found that the conversion of conventional banks to Islamic banks in Indonesia does not have a significant impact on corporate governance, bank operations, financial structure and performance, and human resources. Therefore, it is crucial for bank management planning to convert Islamic banks to fully prepare various governance aspects. Rahmawati and Putriana (2020) highlight the challenges of converting conventional banks to Islamic banks in Aceh, including the need for an acceleration of legal aspects, transferring all existing products, assets, and businesses to sharia, and transferring deposit funds from conventional banks to Islamic banks.

Ramdan et al. (2020) have found that the Bank of NTB Sharia has successfully carried out the conversion process with careful process management, taking into account aspects such as preparation, implementation, human resource development, Bank of NTB Sharia performance, and documentation. They also suggest that human resources should be motivated throughout the conversion stages through training, benchmarking, and collaboration with other institutions.

Trisnawati and Wagian (2021) point to several factors supporting the conversion at the Bank of NTB Sharia. First, the majority of the population of NTB are Muslims. This condition makes the level of customer acceptance when converting into a sharia commercial bank relatively high. Second is the halal industry's development, which is currently being developed by the central and regional governments in the province of West Nusa Tenggara. Third, acceptance of interfaith Islamic banking at Bank of NTB Sharia. Fourth, the number of remittances from migrant workers from NTB abroad is quite large each year. The conversion that was carried out at Bank of Aceh Sharia and Bank of NTB Sharia was then followed by Bank Riau Kepri, which received an operational permit to turn into a Sharia Commercial Bank in July 2022. Bank Nagari is one of the banks that has been in the process of being converted into an Islamic bank.

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CONCLUSION

This study aims to investigate the impact of converting to full-fledged Islamic banks on market share in the converted banks. The results indicate a significant increase in market share following the conversion, with both banks able to improve the overall market share of the Islamic banking industry. Previously, the industry struggled to surpass a 5% market share, but after the conversion of these two banks, the industry's market share rose to 6.7% by the end of 2021. Empirical evidence also shows an increase in market share in both converted banks compared to before and after the conversion. The study's findings have several policy implications, including the encouragement of small banks to convert rather than spinning off, regulations requiring state-owned companies to invest in Islamic banks, and the need for converted banks to develop innovative and competitive products, particularly those utilizing technology.

AUTHOR CONTRIBUTIONS

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