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Analysis of the Readiness of Sharia Business Units to Become Sharia Commercial Banks: Study of Regional Government Banks in Indonesia

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Research article

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Abstract: Article 68 Law no.21 of 2008 states that conventional commercial banks with sharia business entities with assets of at least 50% of the parent bank's or 15 years after the enactment of this law, namely in 2023, are required to separate themselves or become sharia commercial banks. However, most of the sharia business units owned by BPD are not ready to be spin-off. The purpose of this study is to analyze whether UUS BPD is ready to split in 2023 in terms of capital, total assets, and level of solvency. Readiness analysis can be seen from forecasting results based on information published by OJK and the banks concerned. An analysis of the readiness of the BPD UUS spin-off shows that not a single UUS is ready to split in 2023.

Keywords: Spin-off; capital; total assets; non-performing financing.

1. Introduction

The expansion of the national Islamic banking sector has a stronger legal foundation thanks to the Sharia Banking Law No.21 passed in 2008, which also encourages faster economic growth. Article 68 of Law Number 21 of 2008 states that Conventional Commercial Banks that have Sharia Business Units with an asset value of at least 50% of the total asset value of their parent bank or 15 years from the enactment of this Law, namely in 2023, require conventional commercial banks to spin-off or convert into Islamic banks. This not only provides legal certainty for the development of the Islamic banking sector, but also strengthens the government's commitment to increase financial inclusion and promote Islamic economic principles in Indonesia. With a strong legal foundation, the Islamic banking sector is expected to continue to grow and play a greater role in supporting the national economy. The spin-off policy for Sharia Business Units (Unit Usaha Syariah: UUS) owned by Conventional Commercial Banks is believed to have a positive impact on the development of Islamic banking because it facilitates UUS competition, flexibility in business decision making in the future, and implements Islamic banking promotion practices effectively that prioritize sharia principles without disturbing the policies of conventional banks as their parent (Rongiyati, 2015).

According to the Director of Sharia Financial Services, the National Committee for Sharia Economy and Finance (Komite Nasional Ekonomi dan Keuangan Syariah: KNEKS) said that the majority of Sharia Business Units that are not ready to spin-off are business units owned by Regional Government Banks (Bank Pembangunan Daerah: BPD) (Andika &; Aldi, 2020). The pandemic requires conventional banks as parent banks to reserve credit restructuring results that have the potential to be converted into non-performing loans after the relaxation period ends, thus making conventional commercial banks unprepared for spin-off. Therefore, conventional commercial banks find it difficult to deposit funds to Sharia Business Units that will implement separation in 2023.

One example related to spin-offs is PT BPD Riau and Riau Islands. Nesneri et al. (2020) stated that there are several challenges, especially in the financial aspect of the spin-off process carried out by PT. BPD Riau and Riau Islands in 2018. In 2020, PT. BPD Riau and Riau Islands experienced an increase in total assets of up to 11.47% compared to 2019. Nevertheless, the performance of the Sharia Business Unit of PT BPD Riau and Kepri has experienced good development, but still requires additional funds to increase its total assets. These additional funds can come from the parent bank or from investors. The acquisition of additional funds will be crucial in strengthening the financial position of the Sharia Business Unit, so that it can contribute optimally to supporting regional economic growth and improving Islamic financial services in the region. In this context, close cooperation between the parent bank, regulators, and related parties is key in addressing the financial challenges faced and ensuring a smooth ongoing spin-off process.

The existence of a law regulating spin-off policies is a very important research basis in the context of increasing understanding of the readiness of sharia business units to separate from conventional commercial banks or convert into sharia commercial banks. This research not only provides an in-depth understanding of aspects such as minimum capital, total assets, and health level in Sharia Business Units owned by Regional Government Banks (BPD), but also provides valuable insights for government policies, regulators, and other stakeholders in optimizing the spin-off process of the Islamic banking sector. Through this research, obstacles and challenges faced by sharia business units can be identified, as well as appropriate strategies to facilitate effective and efficient separation or conversion. In addition, this research also has the potential to make a significant contribution in the basis of developing a better regulatory framework, which can increase legal certainty and create a conducive environment for the growth of the Islamic banking sector. Thus, research on spin-offs in Islamic banks is not only relevant for academic purposes, but also has major practical implications in strengthening the Islamic banking ecosystem and promoting inclusive and sustainable economic growth.

2. Literature Review

2.1. Previous Study on Spin-offs at Islamic Banks

Several previous researchers have studied spin-offs in Islamic banking. Like Anadya's (2023) research which discusses the development of Islamic banking through spin-offs, facing challenges in capital, funding structure, and human resources, which hinder its progress in Indonesia. Other studies, such as Yulyanti and Juniwati (2022) on spin-off and consolidation policies in Islamic banking that show various impacts on market share and performance, influence companies' strategic actions for growth in Indonesia. Wiyon & Iskatrinah's (2022) research discusses the legal obligations and challenges faced by Sharia Business Units (UUS) that switch to Islamic Commercial Banks (Bank Umum Syariah: BUS) through spin-offs, emphasizing financial readiness and necessary government support. Usman et al.'s (2020) research on selected Islamic Banks in Indonesia after the Spin-Off evaluates financial performance using Risk Profile, Good Corporate Governance, Profit, and Capital indicators, which show positive results. Research by Taga et al. (2019) and Kahfi (2023) discussing spin-offs in Islamic banking reveals significant differences in financial performance before and after spin-offs, especially in assets, profits, and third-party funds.

2.2. Spin-Off

Spin-off in the context of Islamic banking can be defined as the division of business activities of conventional commercial banks into two or more business units in accordance with applicable regulations. This definition has been regulated in Article 1 Paragraph 13 of Bank Indonesia Regulation No. 15/14/PBI/2013. This separation becomes mandatory if the wealth of the sharia business unit of a conventional commercial bank reaches 50% of the wealth of its parent bank. Thus, spin-offs become an important instrument in regulating and managing the transformation of the conventional banking sector towards a more integrated and sustainable Islamic banking. Through this separation, Islamic banks can optimize services and asset management in accordance with Islamic economic principles, thereby making a greater contribution in supporting sustainable and inclusive economic growth. Therefore, a deep understanding of the spin-off concept and the regulations governing it are key in ensuring the smooth and successful transformation process of the banking sector towards a more sharia direction.

2.3. Capital

Capital is the right or part of the wealth of business entity owners recorded in the position of capital, surplus, and profit (Munawir, 2014). In the context of Islamic banking, capital has a very important role in determining the sustainability and stability of bank operations. The main source of capital for Islamic banks is the core capital of bank owners, which consists of capital paid up by shareholders, funds, and accumulated profits. This core capital is the basis for Islamic banks to carry out their operational activities and bear the risks that may arise in the process. The existence of adequate and strong capital is the main indicator for the financial stability of Islamic banks, as well as a guarantee for relevant stakeholders of the bank's ability to fulfill its obligations. Therefore, a good understanding of the concept and management of capital is crucial for Islamic bank management in maintaining financial health and ensuring business continuity. With sufficient capital and well managed, Islamic banks can make a significant contribution in supporting economic growth and wider financial inclusion in the community.

2.4. Total Assets

The definition of assets not only refers to the tangible assets of the company, but also includes unallocated costs on future income and other intangible assets (Munawir, 2014). In the context of Islamic banks, assets are the main indicator in measuring the financial health and operational performance of banks. The greater the assets owned by Islamic banks, the better the performance has been carried out by the bank (Firdiyanti et al., 2021). Asset growth can be achieved by increasing the number of deposits both at Bank Indonesia and at other banks (Pertiwi, 2021). Larger assets also provide greater flexibility and resilience for Islamic banks in facing risks that may arise in their operations. Therefore, effective, and efficient asset management is key in maintaining financial stability and increasing the capacity of Islamic banks in providing better financial services to the public. Thus, a good understanding of assets and their management strategies is important for Islamic bank management in achieving the operational and financial objectives that have been set.

2.5. Non-Performing Financing

To measure the profitability of Islamic banks, the Non-Performing Financing (NPF) ratio is used, which interprets valuations on productive assets especially in non-performing financing (Popita, 2013) and directly affects bank profitability (Effendi et al., 2017). NPF is an important indicator in assessing the quality of a bank's financing portfolio, including Islamic banks. A high NPF value illustrates the level of risk of Islamic banks to financing that has been disbursed (Damanhur et al., 2018). The higher the bank's NPF ratio, the greater the bank's burden to manage the risk of non-performing financing (Arinda et al., 2022). Therefore, credit risk management is the focus for Islamic banks in an effort to maintain financial health and operational stability. By paying close attention to the NPF ratio, Islamic banks can identify and manage potentially problematic financing more effectively, thereby improving financial performance and strengthening the trust of shareholders, customers, and other stakeholders.

3. Research Methods

The type of research used in this study is descriptive-quantitative. Using this method, the author explains the readiness of UUS BPD to meet the spin-off requirements in 2023, which is estimated from the amount of core capital, total assets of UUS to total assets of its parent bank, and the level of Health proxied by the NPF ratio.

The type of data used in this study is quantitative data obtained from 12 research objects, namely Sharia Business Units owned by Regional Government Banks based on time series from 2013 to 2022. The source of data used in this study is the financial statements of each BPD UUS.

The population used in this study consists of the sharia business units of conventional banks. The sampling criteria used in this study are sharia entities owned by Regional Government Banks registered with the Financial Services Authority (Otoritas Jasa Keuangan: OJK) and publishing financial statements for 2013-2022 on the official website of each bank. The selection of UUS BPD as a sample is because BPD acts as a *regional champion* who is expected to make a maximum contribution to the regional economy. In addition, BPD is seen as an example of a bank with excellent capitalization.

The readiness analysis is carried out through forecasting the total assets and NPF ratios that can be achieved by each BPD UUS in 2023 to assess the readiness of the UUS to separate or spin-off into Islamic banks.

4. Results and Discussion

4.1. Paid-in Capital

The amount of paid-up capital owned by each BPD UUS until 2022 is as follows:

Table 1. Paid-in Capital

No.	Sharia Business Unit of BPD	Paid-in Capital	
1.	PT BPD DKI (DKI)	IDR	500,000,000,000
2.	BPD Yogyakarta (Yogyakarta)	IDR	500,000,000,000
3.	PT BPD Jawa Tengah (Jateng)	IDR	1,000,000,000,000
4.	PT BPD Jawa Timur (Jatim)	IDR	1,000,000,000,000
5.	PT BPD Jambi	IDR	1,700,000,000,000
6.	PT BPD Sumatera Utara (Sumut)		-
7.	PT BPD Sumatera Barat (PT Bank Nagari)	IDR	1,600,000,000
8.	PT BPD Sumatera Selatan dan Bangka Belitung (Sumsel		-

No.	Sharia Business Unit of BPD	Paid-in Capital	
	Babel)		
9.	PT BPD Kalimantan Selatan (Kalsel)	IDR	500,000,000,000
10.	PT BPD Kalimantan Barat (Kalbar)	IDR	500,000,000,000
11.	BPD Kalimantan Timur (Kaltim)		-
12.	PT BPD Sulawesi Selatan dan Barat (Sulselbar)	IDR	16,000,000,000

Source: BPD Financial Statements and processed BPD Publication Reports

To be able to spin-off, the capital deposited by Conventional Commercial Banks as the parent bank of the Sharia Business Unit is IDR 1 trillion. Based on data obtained from the financial statements published by each BPD, it shows that in 2022, out of 12 UUS BPD, only 3 UUS have sufficient capital to separate with their capital of IDR 1 trillion.

4.2. Total Assets

In general, assets owned by sharia business units are part of the total assets of its parent bank. The total assets of the sharia business unit to the total assets of its parent bank can provide an idea of the proportion of assets managed by the sharia business unit to the total assets of the bank. The following is the amount of UUS's total assets to BUK's total assets until 2022.

Table 2. Total Assets of Sharia Business Unit to Total Assets of BPD (in percent)

Sharia Business Unit of BPD	Year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
DKI	7.34	8.74	8.96	9.89	8.18	10.67	11.13	10.73	10.11	10.03
Yogyakarta	4.82	4.70	5.74	5.83	6.91	7.30	7.01	9.26	9.58	11.06
Jateng	1.98	2.36	3.29	6.01	6.74	7.69	7.99	7.43	6.56	7.38
Jatim	1.23	3.28	4.05	4.91	4.86	3.67	3.19	3.79	3.92	3.05
Jambi	4.41	3.31	3.76	7.93	12.35	9.78	8.41	12.11	11.25	15.00
Sumut	9.29	8.25	7.04	8.94	9.57	10.26	9.77	9.45	8.66	8.31
Nagari	6.73	6.78	6.52	6.46	6.42	6.23	7.07	9.02	9.41	10.90
Sumsel Babel	5.85	5.91	7.08	10.24	11.26	11.34	12.00	8.89	12.31	11.70
Kalsel	5.69	5.43	5.63	7.10	10.15	10.91	13.87	13.87	15.12	13.04
Kalbar	9.64	10.70	10.04	10.49	9.54	10.24	9.62	9.38	6.90	9.61
Kaltim	4.12	4.10	6.03	7.51	10.52	10.72	7.30	7.06	7.71	7.44
Sulselbar	7.73	7.16	6.64	4.65	5.41	5.38	6.19	5.91	8.06	7.74

Source: Financial Statements published by BPD and OJK processed

The table above shows that the total assets of the sharia business unit have continued to grow significantly over the last ten years against the total assets of BPD as its parent. This shows that sharia business units have better performance every year.

4.3. Non-Performing Financing

Below is the NPF ratio of UUS BPD from 2013 to 2022:

Table 3. Non-Performing Financing Ratio (in percent)

Sharia Business Unit of BPD	Year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
DKI	-	4.19	6.13	5.03	2.82	2.36	1.02	1.53	1.42	0.93
Yogyakarta	1.35	1.52	0.64	1.62	1.40	0.42	0.45	0.82	0.67	0.99
Jateng	-	-	0.72	1.01	0.87	0.68	2.30	3.26	4.95	5.71
Jatim	-	0.53	1.97	2.77	2.36	2.18	2.86	3.83	3.31	2.80

Sharia Business Unit of BPD	Year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Jambi	-	-	0.02	0.00	0.02	0.01	0.07	0.13	0.16	0.11
Sumut	8.09	13.90	16.59	15.61	15.31	10.97	16.13	14.11	10.78	7.41
Nagari	1.02	1.32	2.36	2.33	2.38	2.28	2.13	2.27	1.65	1.40
Sumsel Babel	-	9.14	7.18	1.25	7.58	5.00	3.13	6.26	4.68	3.89
Kalsel	4.21	11.59	8.81	6.61	6.86	4.75	5.16	3.88	2.68	2.27
Kalbar	0.71	1.93	0.01	0.48	0.65	0.64	0.18	0.20	0.29	0.18
Kaltim	10.35	7.76	7.91	4.94	4.50	4.39	3.43	2.96	1.99	0.79
Sulselbar	-	1.45	1.15	1.25	1.20	0.93	1.04	3.32	0.75	2.45
Keterangan:										
	Very Healthy									
	Healthy									
	Quite Healthy									
	Unhealthy									
	Unhealthy									

Source: Financial Statements published by BPD and OJK processed

From the table above, of the 12-sharia business units, only the sharia business units of BPD North Sumatra have the highest ratio value. This shows that the sharia business unit of BPD North Sumatra has a high risk of financing disbursed because a good NPF value is less than 5%.

4.4. Research Analysis Results

The following is the result of forecasting the readiness of the district development bank's shariah venture unit to carry out separation in 2023.

Table 4. Results of Forecasting the Readiness of the 2023 BPD UUS Spin-Off

Sharia Business Unit of BPD	Capital Adequacy		Total Assets of UUS to Total Assets Conventional Banks		NPF	
	IDR (in millions)	Description	%	Description	%	Description
DKI	500,000	Non-Compliant	11.05	Non-Compliant	0.67	Compliant
Yogyakarta	500,000	Non-Compliant	11.30	Non-Compliant	1.30	Compliant
Jateng	1,000,000	Compliant	6.45	Non-Compliant	6.45	Tidak Memenuhi
Jatim	1,000,000	Compliant	3.23	Non-Compliant	1.79	Compliant
Jambi	1,700,000	Compliant	15.96	Non-Compliant	0.17	Compliant
Sumut	-	-	8.41	Non-Compliant	0.84	Compliant
Nagari	1,600	Non-Compliant	11.32	Non-Compliant	1.46	Compliant
Sumsel Babel	-	-	13.17	Non-Compliant	4.30	Compliant
Kalsel	-	-	14.55	Non-Compliant	0.60	Compliant

Sharia Business Unit of BPD	Capital Adequacy		Total Assets of UUS to Total Assets Conventional Banks		NPF	
	IDR (in millions)	Description	%	Description	%	Description
Kalbar	500,000	Non-Compliant	7.82	Non-Compliant	0.87	Compliant
Kaltim	500,000	Non-Compliant	7.86	Non-Compliant	1.60	Compliant
Sulselbar	16,000	Non-Compliant	7.80	Non-Compliant	0.61	Compliant

Source: Reprocessed data

4.4.1. UUS BPD DKI

The core capital owned by UUS BPD DKI derived from the capital deposited by its parent bank is IDR 500,000,000,000. This shows that UUS BPD DKI does not meet one of the requirements for separation because the capital deposited by its parent bank is less than IDR 1,000,000,000,000. In addition, the ratio of total assets of UUS to total assets of BPD DKI is only 11.05%. So that in terms of total assets, UUS BPD DKI does not meet the separation criteria.

However, based on the level of health and the size of the ratio owned by UUS BPD DKI has met one of the requirements for separation because the value of the ratio owned is less than 5%, which is 0.67% with the predicate of very healthy health level.

Based on this explanation, it shows that in 2023 UUS BPD DKI does not meet the requirements for separation because it does not have adequate capital and the total value of UUS assets to the total assets of BPD DKI as its parent is less than 50%.

4.4.2. UUS BPD Yogyakarta

The core capital owned by UUS BPD Yogyakarta does not meet the requirements for separation because the capital owned is less than IDR 1,000,000,000,000. Similarly, the total assets of UUS against the total assets of BPD Yogyakarta are less than 50%, which is 11.30%.

However, the NPF ratio owned by UUS BPD Yogyakarta has met the requirements for separation because it is less than 5% or 1.30% with a very healthy health level.

Based on these results, it shows that in 2023 UUS BPD Yogyakarta does not meet the requirements for separation because it does not have capital and the total assets of UUS against the total assets of BPD Yogyakarta are less than 50%.

4.4.3. UUS BPD Jawa Tengah

In terms of capital, UUS BPD Central Java has a core capital in accordance with the separation requirements set by OJK to carry out separation, which is IDR 1,000,000,000,000.

Meanwhile, in terms of total assets of UUS to total assets of BPD Central Java and the ratio of NPF owned, UUS BPD Central Java does not meet the requirements for separation because the total assets of UUS are less than 50% and the NPF ratio owned is more than 5%.

Based on these results, it shows that in 2023 the Central Java BPD UUS does not meet the requirements for separation because the total assets of the Central Java BPD to the total assets of the Central Java BPD as its parent bank and the value of the NPF ratio owned does not meet the separation requirements.

4.4.4. UUS BPD Jawa Timur

UUS BPD East Java has a core capital that meets the requirements for separation into BUS, which is IDR 1,000,000,000,000. Apart from the capital side, the NPF ratio owned by UUS BPD East Java has also met the requirements for spin-off because the NPF value owned is 1.79% with a very healthy health level predicate.

Meanwhile, in terms of total UUS assets to total BUK assets, in 2023 it is estimated that the East Java BPD UUS will not meet the provisions set by the OJK because the total assets of UUS are 3.23% of BUK's total assets.

Based on these results, it shows that in 2023 the East Java BPD UUS does not meet the requirements for separation because the total assets of the East Java BPD against the total assets of the East Java BPD owned are not in accordance with the separation requirements.

4.4.5. UUS BPD Jambi

Until now, the core capital owned by UUS BPD Jambi is IDR 1,700,000,000,000. This means that the capital owned by UUS BPD Jambi has fulfilled one of the requirements for separation into a Sharia Commercial Bank. In addition to capital, UUS BPD Jambi also has an NPF value of 0.17% with a very healthy health level. That is, apart from the capital side, in terms of health level, the Jambi BPD UUS has met the requirements for a spin-off.

When viewed from the total assets owned by UUS BPD Jambi against the total assets of its parent bank is less than 50%. This shows that in terms of total assets UUS to total assets BUK is not eligible for separation because it is less than 50%.

Based on these results, it shows that in 2023 UUS BPD Jambi because the total assets of UUS against the total assets of BPD Jambi as its parent bank are not in accordance with the separation requirement of 50%.

4.4.6. UUS BPD Sumatera Utara

Based on the results of forecasting that has been carried out, in 2023 the total assets of UUS BPD North Sumatra to the total assets of its parent bank are 8.41%. This shows that in terms of total assets. UUS BPD North Sumatra does not meet the provisions for separation set by OJK, which is 50%.

However, if you look at the NPF value owned by UUS BPD North Sumatra which is 0.84%, it has met the requirements for separation because less than 5% with a very healthy health level.

Based on these results, it shows that in 2023 the North Sumatra BPD UUS does not meet the requirements for separation because it does not have the capital and total assets of the UUS against the total assets of the BPD in accordance with the separation requirements.

4.4.7. UUS BPD Sumatera Barat (Bank Nagari)

At the time of establishment, the core capital owned by UUS BPD West Sumatra was IDR 1,600,000,000. If until now the core capital owned by UUS BPD West Sumatra is still fixed, then in terms of capital UUS BPD West Sumatra does not meet one of the requirements for *spin-off*. Apart from the capital side, the total assets of UUS BPD West Sumatra to the total assets of its parent bank also do not meet the requirements for separation because it is still less than 50%, which is 11.32%.

Meanwhile, the NPF value owned by UUS BPD West Sumatra has met the provisions for separation because it is less than 5%, which is 1.46% with a very healthy health level.

Based on these results, it shows that in 2023 the West Sumatra BPD UUS does not meet the requirements for separation because it does not have capital and the total assets of the West Sumatra BPD UUS do not meet the separation requirements.

4.4.8. UUS BPD Sumatera Selatan dan Bangka Belitung

Based on the forecasting results, in 2023 the total assets of UUS BPD Sumsel Babel will be 13.17%. This means that the value of UUS assets to the total assets of its parent bank does not meet one of the requirements for separation because the total assets of UUS to the total assets of its parent bank are less than 50%.

The NPF value that can be obtained by UUS BPD Sumsel Babel in 2023 can reach 4.30%, which means that it has met the conditions for spin-off because based on the provisions set by the OJK, the highest NPF value is 5%.

Based on these results, it shows that in 2023 the UUS BPD South Sumatra and Bangka Belitung do not meet the requirements for separation because they do not have adequate capital and the total assets of UUS against the total assets of BPD South Sumatra and Bangka Belitung are less than 50%.

4.4.9. UUS BPD Kalimantan Selatan

Based on the results of forecasting that has been carried out, in 2023 the total assets of UUS BPD South Kalimantan to the total assets of its parent bank will be 14.55%. This shows that in terms of total assets. UUS BPD South Kalimantan does not meet the requirements for separation set by OJK, which is 50%.

However, if you look at the NPF value owned by UUS BPD South Kalimantan which is 0.60%, it shows that it has met the requirements for separation because less than 5% with a very healthy health level.

Based on these results, it shows that in 2023 the South Kalimantan BPD UUS does not meet the requirements for separation because it does not have the capital and total assets of the UUS against the total assets of the BPD in accordance with the separation requirements.

4.4.10. UUS BPD Kalimantan Barat

The core capital owned by UUS BPD West Kalimantan is IDR 500,000,000,000. This shows that UUS BPD West Kalimantan does not meet one of the requirements for separation because the capital deposited by its parent bank is less than IDR1 trillion. Apart from the capital side, in terms of total asset comparison, the West Kalimantan BPD UUS did not meet the requirements because it was less than 50%, which was 7.82%.

However, based on the level of health and the size of the ratio owned by UUS BPD West Kalimantan, it has met other requirements for separation because the value of the ratio owned is less than 5%, which is 0.87% with the predicate of very healthy health level.

Based on these results, it shows that in 2023 the West Kalimantan BPD UUS does not meet the requirements for separation because it does not have the appropriate capital and the total assets of the West Kalimantan BPD to the total assets of BPD as its parent bank are less than 50%.

4.4.11. UUS BPD Kalimantan Timur

The core capital owned by UUS BPD East Kalimantan does not meet the requirements for separation because the capital owned is only IDR 500,000,000,000. Similarly, the total assets of UUS against the total assets of BPD East Kalimantan are less than 50%. So it is not in accordance with one of the requirements to be able to separate into a Sharia Commercial Bank.

However, the large NPF ratio owned by UUS BPD East Kalimantan has met the provisions for separation because it is less than 5% or 1.60% with a very healthy health level.

Based on these results, it shows that in 2023 the East Kalimantan BPD UUS does not meet the requirements for separation because it does not have capital and the total assets of the UUS against the total assets of the BPD owned are only 7.86%.

4.4.12. UUS BPD Sulawesi Selatan dan Barat

The capital owned by UUS BPD South and West Sulawesi at the time of establishment was IDR 16,000,000,000. If until now the core capital owned by UUS BPD South and West Sulawesi is still fixed, then in terms of capital UUS BPD South and West Sulawesi does not meet one of the requirements for spin-off.

Apart from the capital side, the total assets of UUS BPD South and West Sulawesi to the total assets of the parent bank also do not meet the requirements for separation because the total assets of UUS to the total assets of UUS BPD Sulselbar are 7.80%.

Meanwhile, the NPF value owned by UUS BPD South and West Sulawesi has met the provisions for separation because it is less than 5%, which is 0.61% with a very healthy health level.

Based on these results, it shows that in 2023 the South and West Sulawesi BPD UUS does not meet the requirements for separation because they do not have adequate capital and the total assets of the UUS against the total assets of the South and West Sulawesi BPD are only 7.80%.

5. Conclusion

The results of the analysis conducted on the readiness of Sharia Business Units owned by Regional Government Banks to separate in 2023 based on the provisions contained in the Financial Services Authority Regulation Number 59/POJK.03/2020 show that out of 12 Sharia Business Units, there are only 3 Sharia Business Units that have a core capital of IDR 1 trillion. Meanwhile, in terms of total UUS assets compared to total BUK assets, none of them reached 50%. However, 10 out of 12 UUS have NPF values below 5% with a very healthy health level predicate. This shows that the overall spin-off readiness analysis of UUS BPD shows that none of the Islamic business units are ready to separate from their parent bank in 2023.

Capital increase can be done by increasing capital from the parent bank and contributions from the respective Provincial Governments to UUS as a form of support in developing the Islamic financial sector in their regions. If both options cannot be done, then several UUS can merge to have strong capital. With the increase in capital, it can affect the increase in total assets of the UUS.

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