ABSTRACT

IDQAN FAHMI, 2012. The Dynamic of Market Structure and Bank Behaviour and Their Impacts on Performance of Islamic Banking Industry in Indonesia (ARIEF DARYANTO as Chairman, HERMANTO SIREGAR and HARIANTO as Members of Advisory Committee)

Competition is traditionally viewed as a pre-requisite for an industry to grow and welfare to maximize. In banking industry, however, the theory has been refuted and only accepted conditionally. Islamic banking industry in Indonesia is an interesting laboratory to test the theory because it has been highly concentrated but growing very rapidly. This research were aimed at clarifying the market boundary between Islamic and conventional banking industry, analyzing the relationship between market structure and profitability of Islamic banks in Indonesia, identifying the level of competition of Islamic banking industry in Indonesia, and analyzing the determinants of Islamic banking industrial growth in Indonesia. Four econometric models utilizing available yearly balanced panel data between 2005-2010 were used for analysis. The result shows that Islamic banking is more of a complementary to, instead of a substitute industry for conventional banking industry. This justifies the strategy of conventional banking opening Islamic banking unit without worrying for cannibalism of their own consumers. The positive relationship between market structure with profitability is found to be more supporting of the Efficient Structure Hypothesis rather than collusive Traditional Hypothesis. This conclusion is finally confirmed by the result of Panzar and Rosse model which indicate an almost perfect competition among banks in the industry with the H-statistical value of 0.91. Number of branches, ratio of interest rate and rate of return, and management quality, economic growth rate, exchange rate and Act No.21/2008 were found to be industrial growth enhancing, while market concentration was the opposit. All results satisfied the necessary condition for competition based on Islamic values. More information based on primary data from banks and consumers’ perception are needed, however, to clarify for the sufficient condition that IB’s good behaviour in competition is driven more by Islamic values than by the pressure of contestability in the market.

Keywords: Islamic Banking, Structure-Conduct-Performance, Efficient Structure Hypothesis, Panzar and Rosse Model, Panel Data