

## **Conversion as a Strategic Decision PT. Bank Aceh**

**Deddy Nofendy<sup>1</sup> Amiur Nuruddin<sup>2</sup>, Andri Soemitra<sup>3</sup>**

<sup>1</sup>*Doctoral Candidate in Islamic Economics at UIN Sumatera Utara, North Sumatera, Indonesia.*

<sup>2</sup>*Professor of Islamic Economics, Faculty of Islamic Economic and Business, UIN Sumatera Utara, North Sumatera, Indonesia*

<sup>3</sup>*Lecturer at Faculty of Economic and Business, Universitas Negeri Medan, Medan, Indonesia*

*Corresponding Author: Deddy Nofendy*

---

**Abstract :** *This study aims to analyze conversion strategies carried out by PT. Bank Aceh, the reason why the management of PT. Bank Aceh did the conversion and how it was converted, in this study using descriptive qualitative analysis that related to the reason for conversion. Based on the results of this study, stated that the management of PT. Bank Aceh not using spin-off conversion because consider that more effective and efficient if capital is converted; because Aceh Province is the majority of Muslims and its regional government is Islam with the issuance of Qanun that all economic activities are carried out in accordance with sharia principles. So that PT. Bank Aceh received support from various parties starting from the regional government, local clerics, management of PT. Bank Aceh, customers, and the community. This research is also a recommendation and model for the conversion of the first regional bank to implement a conversion with a short time, so that it can become a guideline for other banks when converting.*

**Keywords -** *Conversion, Spin-off, Qanun, PT. Bank Aceh.*

---

Date of Submission: 26-03-2019

Date of acceptance: 09-04-2019

---

### **I. Introduction**

Islamic banking has made an important contribution to national development by implementing the financial intermediary function and maintaining the stability of national finance [1]. The existence of sharia banking laws has encouraged the emergence of the trend of sharia bank formation through the acquisition and conversion of conventional banks into Islamic banks [2]. The process of converting conventional banks into Islamic banks is technically not found in Law UU No. 10 of 1998 about Banking. Provisions regarding conversion are technically found in Bank Indonesia Regulation No. 8/3 / PBI / 2006 which the point is banks can only change their business activities into banks that carry out business activities based on sharia principles with the permission of the Governor of Bank Indonesia [3]. This conversion phenomenon is carried out by one of the regional banks, that is PT. Bank Aceh, where do conversion so it becomes PT. Bank Aceh Syariah. This is a big phenomenon that occurs because it has converted entirely into sharia.

Motivation for conversion of Bank Aceh has been discussed by the Aceh people from various circles. This is because Aceh, also called the Serambi Mekkah area, is an area that runs Islamic law in the lives of its people. Of course, it will be more supportive of the implementation of Islamic law if the Bank of Aceh becomes a sharia bank. This Bank Aceh conversion is also expected to increase the market share of sharia banking in Aceh significantly which is currently still very small, so that Islamic banks can be expected to become dominant in Aceh.

The decision of Bank Aceh owners and management to convert all Bank Aceh activities is a big and strategic decision, which certainly affects not only changes in products and systems, but also to services provided to the community, the implementation of work by bank employees or the work culture implemented by all employees and all offices in Aceh and Medan and which are also important product changes certainly have an influence on Bank Aceh Syariah's financial statements that have items of financial statements and income that are different from conventional because of differences in the system which results in a better direction or worse. And this change also changed the direction of Bank Aceh's business, its Human Resources, the Market, and its future development.

This study will focus on the underlying reasons that owners and management choose to carry out a conversion strategy towards PT Bank Aceh to operate fully based on sharia principles, considering the conversion of the parent bank that has the first new UUS in Indonesia, the conversion idea comes from the ideological factors of management or as a request from the market or the people of Aceh who want to use the sharia system.

## **II. Literature Review**

### **1.1. Conversion Philosophy**

Conversion is a mechanism for establishing alternative Islamic banks that are legal and based on the principle of convenience. UU No. 21 of 2008 about Sharia Banking, mentions the term of acquisition by transfer, that is a legal act carried out by a legal entity or an individual to take over bank shares and resulting in the transfer of control over the bank. The acquisition referred to in this context is followed by changes (conversions) of business activities from conventional to sharia, based on UU No. 21 of 2008 and Bank Indonesia regulations number 11/15 / PBI / 2009 about changes in conventional bank business activities to Islamic banks [4].

In converting, there are two alternatives that can be taken. The first is to eliminate the concept of interest from every form of income on deposits and loans, and only allow banks to charge service charge fees to cover their expenses. This will cause banks to be not profitable and will be considered as a social service institution run by the government that is not useful because there is no result, and people will not save their funds in the bank. Thus will drain the source of funds and will result in hampered economic growth. The second alternative, Islamic banking must be run based on the principle of sharing results and risk sharing (profit and loss sharing), Islam does not reject efforts to generate profits. Therefore there is no reason for banks to not join in a partnership with entrepreneur and include funds, without charging interest, but obtaining profit sharing [5].

The conversion regulation is in PBI No.11 / 15 / PBI / 2009 & SEBI No.11 / 24 / DPBS about Changing Business Activities of Conventional Banks into Sharia Banks. And paying attention to the Aceh Qanun No. 8 of 2014 about the Principles of Islamic Shari'a in Article 21 paragraph 1 d. 3 is affirmed:

1. Financial institutions that will operate in Aceh must be based on sharia principles;
2. Conventional financial institutions operating in Aceh must open a Sharia Business Unit (SBU);
3. Aceh Government financial transactions and Regency / City Government must use sharia principles and / or through the process of Sharia Financial Institutions.

### **2. Conventional Bank Conversion Guidelines Become Sharia Banks**

The eligibility criteria for the conversion of conventional banks into Islamic banks in general and implemented in world Islamic banking are as follows: (a) All banks that have a division / branch of Islamic banking can submit a request for conversion into an overall Islamic bank; (b) Banks that have not been given an approval by the regulator for the sharia banking division must first obtain approval to open a sharia banking division before submitting a request for conversion to the overall Islamic bank; (c) Banks must have a minimum CAMELS rating of 'Fair' in the inspection at the last place and / or CAMELS minimum rating of 'Fair' in the all report except the last, there are no adverse findings to the bank; (d) Applicant Banks must comply with the Minimum Capital Requirements, Capital Adequacy Ratio (CAR) and all other requirements as applicable to overall Islamic banks, from time to time [6].

### **3. Challenge of Conversion Strategy (Real Condition from Various Countries)**

This conversion process has increased in the Middle East region, where over a decade, some have been successfully converted to Islamic banks in Kuwait, Saudi Arabia and the UAE. In addition, banks in this region have also succeeded in offering branches of Islamic banking to work alongside conventional banks. This phenomenon has also been recorded in other Muslim countries throughout the world. The research conducted examined the validity of successful conversion models from conventional banks to Islamic banks in the context of Libya and the driving factors of experience, successful experience of Libyan conversion into Islamic banks as the dependent variable, and found that the tested factors had a positive impact on the success of conventional bank conversion in Libya becomes a sharia bank [7].

Great opportunity in the UK for the development of the Islamic financial system. In addition, Islamic banks in India face challenges in the form of harmonizing the accounting system, lack of qualified team members who are knowledgeable in Islamic finance, marketing and sales products. In addition, in Jordan, the transformation of conventional banks in Islamic banks and their adoption of the Islamic banking system to follow sharia principles [8]. The problems and challenges facing Islamic banks in the UK with data collected reveal that the main challenges facing Islamic banks in the UK are client heterogeneity (current and potential), regulatory problems, competitiveness, and lack of qualified and experienced human resources [9].

In Bangladesh, the obstacles faced by Islamic banks are the creation of an interest-free mechanism for placement of short-term funds and high risk in profit sharing. He also found that around 60-70% of bank investment is currently carried out on a mark-up basis, in the form of Murabahah and Bai-Muajjal and short-term trade investments in concentrated Islamic banks. The other main obstacle is the lack of a complete Islamic banking legal framework, and limited trained and efficient human resources committed to Islamic banking, and regulatory and supervisory standards that are in accordance with the undeveloped Shari'a. He recommended that

micro and small businesses should be prioritized by Islamic banks and further improvements in the bank could be achieved through improving the quality of the workforce [10].

### **III. Methodology**

#### **1.2. Research sites**

This research was conducted at PT. Bank Aceh Syariah that has converted, in region Banda Aceh and North Sumatra. The time of research is conducted from January 2018 to June 2018.

#### **1.3. Types of research**

This research is a qualitative study, by examining whether Bank Aceh's conversion is the right decision and successfully implemented.

#### **3.3. Data collection technique**

In this study, using the primary data which acquired by interviews and questionnaires to the respondents. Interviews and questionnaires were conducted by arranging questions to answer the initial idea of choosing Bank Aceh's conversion strategy, how the changes that occurred after the conversion, what were the responses both internally and externally regarding the conversion, how the responses and support from various parties for the conversion. After the respondents answered all the questions posed, the answers will be described for the results of the research and tested the validity and reliability of the questionnaire to produce research results. In collecting data here is using the notes during the interview and the questionnaire that has been given to all respondents according to the determination of the respondent that is from the management of Bank Aceh, the existing customer of Bank Aceh.

### **IV. Results and Discussion**

#### **1.4. Conversion Process PT. Bank Aceh**

The stages of the conversion process were initially surveyed to several parties. Like a survey conducted to customers of PT. Bank Aceh by producing that 97% of customers of PT. Bank Aceh will choose to remain loyal customers, while 3% others declare no. The conversion phase will be passed in several stages, namely: (1) Conversion Licensing; (2) HR preparation; (3) Technology Infrastructure Preparation and Product Mapping; (4) Conversion and Migration of Conventional Portfolios to Sharia.

Phase I was conducted in November 2015 with a conversion kick off meeting. In December 2015, from January 2016 to April 2016, the preparation of licensing documents was carried out as well as training in HR and the final document for completing conversion permits, namely:

- a) Draft amendment to Articles of Association (AA), Minutes, General Meeting of Shareholders (GMS), Shareholder Data;
- b) Determination of candidates for Commissioners, Directors, Sharia Supervisory Board (SSB), and Organizational Structure;
- c) RBB, Financial Report, Corporate Plan;
- d) SOP;
- e) Proof of Operational Readiness;
- f) List of Office Networks.

Phase II will submit conversion permits to the OJK from January 2016 to April 2016. In January 2016 a visit was made to the National Sharia Council (DSN-MUD). Then, in March to April 2016, the Department of Law and Human Rights endorsed and submitted AD changes to the Ministry of Law and Human Rights. In March to April 2016, a Fit and Proper Test was conducted by bank administrators. From May to June 2016 the approval of the conversion permit from OJK (maximum 60 days) and presentation to the OJK was conducted. July 2016 announcement to the public at least 10 days before opening.

Phase III, which is from January to July 2016, various strategies are carried out to the customers, namely:

- a) Socialization;
- b) Gathering;
- c) Visit;
- d) Negative Confirmation via mass media.

Then in August 2016 was carried out: (1) The process of sharia migration; (2) Reporting of business activities to OJK (10 days after operations); (3) Bank Aceh Syariah Operations. From September 2016 to July 2017 is the process of resolving the rights and obligations of conventional customers (a maximum of 1 year after the permit is issued).

### **1.5. Reason for Conversion of PT. Bank Aceh**

The conversion strategy carried out by Bank Aceh has gone through various considerations from various parties resulting in a decision to convert. Various considerations through the processes that are passed from several reasons are as follows:

- 1) Religious factors. In general, Muslims must adhere to the rules of Islamic law including the economic and banking aspects. Besides that, Aceh has also been implemented by Islamic law since 2001 with the condition that the local government regulation is certainly a major supporter in the application of Islamic law, and as a matter of rapid conversion support.
- 2) Factors in the majority of the population in Aceh are Muslim, so that socialization of the rules of Islamic law can run more thoroughly.
- 3) Not only the rules of Shari'a, but from internal factors of government, society, and ulama are strongly support all activities carried out in Aceh in accordance with Islamic Shari'a.
- 4) Requests from shareholders, of course the shareholders, including from regional government groups, communities, and scholars who want conversion to take place.
- 5) In addition to the above support factors, conversion is done not using the spin-off step is a consideration of effectiveness and business efficiency, if a spinoff is carried out, Bank Aceh must provide minimum funding for the establishment requirements of Rp.500 billion and subsequently must reach Rp.1 trillion to Rp.3 trillion. To provide the budget within 1 year is not an easy thing. But with the conversion step, it does not need it because the system is changing.
- 6) Other considerations why conversions are made, because conversions are easier to be aligned with Bank Aceh conditions compared to spinoffs. By converting all Bank Aceh work units into sharia, it is faster to implement and well organized.
- 7) On the basis of the above conditions, consideration of conversion is carried out at Bank Aceh, of course, with various material and immaterial support from related parties. Although there is a lot of support for the conversion, there are also parties from internal Bank Aceh who do not support or contradict conversion decisions, but those who do not support it cannot act otherwise so that the party also agrees to the majority of parties who approve it..
- 8) There is constraints from this conversion, such as fears of failure and can reduce bank performance and there are no role models that guide Bank Aceh to convert. In addition, the problem is the time is short so that the socialization process is not comprehensive, preparation of an operational system in sharia with a higher investment. However, various obstacles at the outset could be resolved with high motivation and enthusiasm from the management of Bank Aceh.

### **V. Conclusion**

The conversion carried out by Bank Aceh is a very strategic consideration, effectiveness, efficiency, improving the development of Bank Aceh, and maintaining the existence of Aceh as a sharia economic system supported by the regional government. Of course the participation in increasing the market share of Islamic banking is not only in the scope of interests in Aceh or Bank Aceh, but on a national scale in increasing the market share of Islamic banking. Not only that, the conversion of Bank Aceh as a pioneer of the first regional bank to convert to Islamic banks.

This conversion benefit is not only enjoyed by Bank Aceh management, but for all parties to enjoy the benefits. This is a positive consideration that has a significant impact on Bank Aceh. The majority of the community supports the decision for conversion, after the conversion has taken place, the entire process from the beginning has been supported and the community can coordinate well as existing customers of Bank Aceh can still be optimally served both in funding and financing products.

### **VI. Recommendation**

Based on the research carried out related to the conversion taken, the following suggestions are given as follows:

- a. Regulators giving a support to financial institutions to take conversion and have models for conversion so that they can run on a standardized and optimal basis;
- b. Supervision of financial institutions that do conversion, so that operations can run in accordance with the purpose of conversion;
- c. Increased insight, knowledge, skills of human resources because the operational system implemented in Islamic banks is different from conventional banks, because surely these human resources are still originating and accustomed to conventional banks.;
- d. Conversion from conventional banks to Islamic banks does not only change names, symbols, or logos, but a paradigm change and conformity between sharia principles must be of concern to management and all interested parties.

### References

- [1]. Yuli Andriansyah, Kinerja Keuangan Perbankan Syariah Di Indonesia Dan Kontribusi Bagi Pembangunan Nasional.(Engl: Financial Performance of Islamic Banking in Indonesia and Contributions to National Development), *La Riba Journal of Islamic Economics* Volume III, Number 2 December 2015
- [2]. Khotibul Umam. *Financial Performance of Islamic Banking in Indonesia and Contributions to National Development*, 2015.
- [3]. Abdul R Saliman. *Hukum Bisnis untuk Perusahaan (Engl: Business Law for Companies)*. Jakarta: Kencana Prenada Media, 2015
- [4]. Aji Damanuri. Rasionalitas Konversi Bank Konvensional Ke Bank Syariah (Engl: Rationality of Conventional Bank Conversions to Islamic Banks). *Justica Islamica* Volume 9 Number 1. 2012.
- [5]. Ahmad Nur Faqihuddin. *Analisis Kinerja Keuangan Bank Umum Syariah Dan Konvensional Yang Memiliki Unit Usaha Syariah (Engl: Analysis of Financial Performance Sharia General Bank and Conventional Commercial Banks Which has Sharia Business Units)*. UIN Sunan Kalijaga. 2011
- [6]. F.S. Alani dan Yaacob. Traditional Banks Conversion Motivation Into Islamic Banks: Evidence From The Middle East. *International Business Research*, 2012.
- [7]. M. Aziz Abdalla. Testing The Impact Of The Control Bank's Support For The Experience Of Converting The Conventional Banks Into Islamic In Libya Multiple Groups Analysis Using Structural Equation Modeling. *International Journal of Science and Research (ISJR)* 4 (9), 2015.
- [8]. Al-Ayat. Transforming Conventional Banks To Work According To Islamic Sharia: A Study To Show The Viability Of Application In Jordan. Aman: *The Arab Academy For Banking And Financial Sciences*. 2007
- [9]. Y. Karbhari. Problems And Challenges Facing The Islamic Bnaking System In The West: The Case Of UK. *Thunderbird International Business Review*, 46 (5), 2004.
- [10]. Sarker. Islamic Banking In Bangladesh: Performance, Problems, And Prospects. *International Journal Of Islamic Financial Services*, 1999.

Deddy Nofendy. "Comparison of The Application of Problem Based Learning Learning Models with Jigsaw Learning Model Towards Learning Activity of Students of Sman 2 Sidoarjo." *IOSR Journal of Economics and Finance (IOSR-JEF)* , vol. 10, no. 2, 2019, pp. 44-48.