

Study Of The Conversion Strategy Of PT. Bank Pembangunan Daerah Sulawesi South And West Sulawesi (PT. Bank Sulselbar) Into A Commercial Sharia Bank In Improving Business Performance

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Abstract: This study aims to analyze the conversion model of PT. Bank Sulselbar into a Sharia Commercial Bank; examine the strategic opportunities and obstacles that influence the effectiveness of the conversion of PT. Bank Sulselbar into a Sharia Commercial Bank; and determine the implications of the conversion on improving the business performance of PT. Bank Sulselbar. This study uses a qualitative descriptive method with a field research approach to describe the conversion strategy of PT. Bank Sulselbar into a Sharia Commercial Bank and its impact on business performance. Primary data was obtained through interviews with management, employees, and customers, while secondary data came from written references. The research instrument was an interview checklist, with data collection techniques including interviews, observation, and documentation. Data analysis was carried out in stages, starting from reading transcripts, compiling specific messages, identifying patterns, and grouping data based on categories and typologies to draw conclusions. The results of the study indicate that: 1) The conversion of PT. Bank Sulselbar into a Sharia Commercial Bank was carried out directly in accordance with POJK No. 64/POJK.03/2016 and the P2SK Law, with a focus on institutional adjustments, capitalization, leadership, as well as the formation of a Sharia Supervisory Board and licensing documents. 2) This conversion opens up significant opportunities to expand the share of the sharia financial market, increase the trust of the Muslim community, and support national programs in South and West Sulawesi, although it still faces internal and external strategic obstacles. 3) The conversion also has a dual impact on business performance, strengthening the image and market of the Islamic economy, but simultaneously poses the risk of decreased liquidity, dependence on institutional depositors, and limited financing for the productive sector. The implications of this research have a significant impact on financial performance, risk management, and market penetration strategies, so that careful, measurable, and data-based planning is needed to ensure the success of the conversion strategy.

Keywords: Bank Conversion, Islamic Commercial Bank, Conversion Strategy, Business Performance, Islamic Banking

1. INTRODUCTION

The development of Islamic financial institutions in Indonesia is based on efforts to build a just and ethical economic system based on Islamic values. The Islamic financial system is not simply positioned as an alternative to the conventional financial system, but rather as a normative response to economic practices that tend to create unequal wealth distribution, exploitation through interest mechanisms, and the degradation of moral values in economic activity. The principles of honesty, transparency, balance, and justice are the primary characteristics of the Islamic financial system, reflecting the comprehensive (kaffah) application of Islamic teachings in the economic sphere, thus aiming to achieve sustainable material, spiritual, and social well-being.

The prohibition of usury is a fundamental pillar that distinguishes the Islamic financial system from interest-based systems. From an Islamic perspective, usury is viewed as a practice that creates injustice, inefficiency, and the accumulation of wealth in favor of certain groups. Consequently, Islam prioritizes the principles of profit-sharing and partnership, which emphasize proportional risk sharing between transacting parties. This principle is believed to create financial system stability and encourage productive economic activity. Globally, Islamic finance is not only developing in Muslim-majority countries but is also beginning to be adopted by non-Muslim countries as part of a financial system innovation deemed more resilient to economic crises.

As the country with the largest Muslim population in the world, Indonesia offers significant opportunities for developing the Islamic financial industry. Increasing public religious awareness, government policy support, and the growth of the halal industry are key driving factors in the development of national Islamic banking. However, Islamic banking's contribution to the national banking system remains relatively limited, both in terms of market share and financial inclusion. This situation indicates a gap between available potential and actual realization, necessitating a more structured, integrated, and long-term Islamic banking development strategy.

In response to the growing public demand for Sharia-compliant financial services, the strategy of converting conventional banks to Sharia-compliant banks has become an increasingly popular approach, particularly by Regional Development Banks (BPD). The conversion process encompasses not only legal and operational changes but also requires a comprehensive transformation of corporate governance, risk management, organizational structure, information technology systems, and human resource readiness. Previous studies indicate that bank conversion has the potential to improve financial performance and market share, but also presents strategic challenges, such as liquidity risk, limited product and service networks, low Sharia financial literacy, and social resistance in regions with heterogeneous communities. In a regional context, PT. Bank Pembangunan Daerah Sulawesi Selatan dan Sulawesi Barat (PT. Bank Sulselbar) plans an institutional transformation through conversion into a Sharia Commercial Bank as part of a strategy to improve competitiveness and business performance. This decision is driven by the large potential of the Sharia financial market in South Sulawesi and West Sulawesi, as well as government regulatory support for the development of national Sharia banking. However, the diversity of socio-economic conditions of the community, the dominance of conventional financing portfolios, and the complexity of asset and liability migration require the formulation of a careful and prudent conversion strategy. Therefore, this research is relevant to examine in depth the conversion strategy implemented by PT. Bank Sulselbar and its implications for business performance and the long-term sustainability of the bank's operations.

THEORETICAL STUDY

Islamic Banking and Its Basic Principles

Islamic banking is a financial institution that operates as an intermediary based on Islamic sharia principles, as stipulated in Law No. 21 of 2008 concerning Islamic Banking. Unlike conventional banking, which operates on an interest-based system, Islamic banking places the values of fairness, transparency, and balance as the foundation of all its business activities. The primary focus of Islamic banking is not solely on achieving financial profit, but also on creating sustainable economic well-being through transactions that comply with sharia provisions.

The fundamental principle that distinguishes Islamic banking from conventional banking systems is the prohibition of usury (*riba*). From an Islamic perspective, usury is viewed as an economic practice that has the potential to lead to injustice, exploitation, and unequal distribution of wealth. Therefore, Islamic banking replaces the interest mechanism with the profit and loss sharing principle, which emphasizes the proportional distribution of profits and risks between the bank and customers. This principle encourages a fairer partnership and strengthens the stability of the financial system, particularly in the face of economic dynamics and uncertainty.

In addition to the profit-sharing principle, Islamic banking is also based on the prohibition of *gharar* (uncertainty), *maysir* (speculation), and business activities that conflict with Islamic values. The application of these principles aims to ensure that economic activities are productive, ethical, and oriented towards the real sector. Thus, Islamic banking is expected to foster more inclusive economic growth and reduce speculative and unsustainable economic practices.

Within the context of the national financial system, Islamic banking plays a strategic role as a pillar of strengthening financial stability and inclusion. The existence of Islamic banking provides alternative financial services that align with public preferences and beliefs, particularly for groups that avoid interest-based transactions. Furthermore, Islamic banking contributes to supporting financing for the productive sector, the development of micro, small, and medium enterprises (MSMEs), and fostering integration between economic goals and social values.

With increasing regulatory support and public awareness of Islamic finance, Islamic banking in Indonesia continues to develop as an integral part of the national financial system. However, its contribution to total assets and market share of the national banking sector still faces various challenges. Therefore, strengthening the role of Islamic banking through institutional development and transformation strategies, including the conversion of conventional banks to Islamic banks, is a crucial step in expanding service reach and sustainably enhancing the competitiveness of the Islamic banking industry.

Conversion Strategy from Conventional Banks to Sharia Banks

The conversion of a conventional bank to a Sharia-compliant bank is an institutional transformation strategy aimed at aligning banking business activities comprehensively with Sharia principles. Conversion is understood not only as a shift from an interest-based to a Sharia-compliant operational system, but also encompasses adjustments to organizational structure, corporate governance, work culture, and Sharia

compliance monitoring mechanisms. Therefore, bank conversion is a strategic organizational change process with long-term impacts on the bank's business direction and performance.

From a regulatory perspective, the implementation of the conversion of Islamic banking in Indonesia has a strong legal basis. Law No. 21 of 2008 concerning Islamic Banking serves as the primary basis for implementing Sharia-based banking activities. This regulation was further strengthened by technical provisions issued by the Financial Services Authority (OJK), specifically OJK Regulation No. 64/POJK.03/2016 concerning the Conversion of Business Activities of Conventional Commercial Banks to Sharia Commercial Banks, as well as an OJK Circular Letter. Number 6/SEOJK.03/2023 regulates the stages, requirements, and legal consequences following a bank conversion. This regulation provides legal certainty and a supervisory framework for implementing bank conversions.

In practice, there are several conversion models that banks can implement, depending on their internal readiness and chosen business strategy. A full conversion model involves converting all conventional banking business activities to Sharia-compliant ones, enabling the bank to operate fully as a Sharia-compliant commercial bank. This model allows for consistent application of Sharia principles, but requires a high level of preparedness in terms of capital, information technology systems, and human resources. Conversely, the Dual Banking Leverage Model (DBLM) provides an alternative transition by simultaneously leveraging the advantages of conventional and Sharia banking within a single entity, allowing for more gradual risk management.

The choice of conversion model is inseparable from strategic considerations, particularly related to the financing portfolio structure, customer characteristics, and the socio-economic conditions of the bank's operational area. For regional development banks, conversion often faces the complexity of asset and liability migration, particularly for financing that lacks underlying assets in accordance with Sharia provisions. Furthermore, limited Sharia liquidity instruments and differences in treasury mechanisms between conventional and Sharia systems also influence the effectiveness of conversion strategies.

On the other hand, bank conversions also open up significant opportunities for the development of the Islamic banking business. Increasing public awareness of the importance of financial transactions in accordance with religious values, government policy support for the halal industry, and the large potential of the Muslim market are key drivers of conversions. Bank conversions have the potential to expand the customer base, enhance public image and trust, and strengthen Islamic banking's contribution to financial inclusion and financing the productive sector.

However, the success of a conversion strategy depends heavily on the bank's internal preparedness and the quality of its planning. Key challenges often encountered include limited human resources familiar with Islamic banking, low levels of Islamic financial literacy in the community, resistance from certain customer groups, and the risk of reduced liquidity during the transition period. Therefore, a conversion strategy needs to be designed comprehensively, measurably, and data-driven to generate sustainable business performance improvements.

Considering these opportunities and challenges, the conversion of conventional banks to Islamic banks should not be viewed as a short-term decision, but rather as a long-term transformation strategy. An approach that prioritizes prudential principles, institutional readiness, and adaptation to regional characteristics is key to ensuring that bank conversions can provide added value for banks, customers, and the national financial system as a whole.

Bank Conversion and Business Performance

Banking business performance refers to a bank's ability to effectively manage resources to achieve financial and non-financial goals sustainably. In the banking context, business performance is measured not only by profitability but also by the quality of risk management, operational efficiency, and the bank's ability to maintain stability and public trust. Therefore, changes in business strategy, including the conversion from conventional banking to Islamic banking, have the potential to significantly impact a bank's overall business performance.

The conversion of banks to a sharia-compliant banking system has direct implications for their revenue structure and financing mechanisms. The transition from an interest-based system to a profit-sharing principle and sale-purchase agreements leads to changes in risk patterns and revenue recognition. In the short term, the conversion transition phase has the potential to put pressure on financial performance due to operational adjustments and financing portfolio migration. However, in the long term, the implementation of sharia principles based on partnerships and the real sector is expected to improve the stability and quality of bank performance.

Key performance indicators commonly used to assess banking business performance include profitability,

asset quality, liquidity, and market share. Profitability is generally measured by Return on Assets (ROA), which reflects a bank's efficiency in generating profits from managed assets. Asset quality is measured by the Non-Performing Financing (NPF) ratio in Islamic banks, which indicates the level of non-performing financing. Meanwhile, bank liquidity is measured by the Financing to Deposit Ratio (FDR), which illustrates the bank's ability to channel third-party funds into financing without disrupting liquidity stability. Market share is an important indicator for assessing the competitiveness and market acceptance of Islamic banking services.

Several previous studies have shown that converting conventional banks to Islamic banks can have a positive impact on increasing market share and institutional image, particularly in Muslim-majority regions. Some studies found improved profitability post-conversion, indicated by increased ROA and an expanded customer base. However, other studies also noted increased financing risk, reflected in an increase in the NPF ratio in the initial post-conversion period due to portfolio adjustments and limited managerial experience in Islamic financing management.

Empirical findings also indicate that the impact of conversion on business performance is not uniform, but rather influenced by both internal and external factors within the bank. Internal factors include human resource readiness, information technology systems, and corporate governance quality. Meanwhile, external factors include regional market characteristics, the level of Islamic financial literacy in the community, and government regulatory and policy support. These differences in conditions cause conversion results to vary between banks and regions.

Thus, a bank's conversion to Islamic banking must be understood as a complex and contextual business transformation strategy. The success of the conversion in improving business performance is determined not only by adherence to Islamic principles, but also by the bank's ability to manage risks, adapt market strategies, and optimize local potential. Therefore, analyzing post-conversion business performance is crucial to assess the extent to which the conversion strategy can provide added value and long-term sustainability for the bank.

2. METHOD

This research uses a qualitative approach with descriptive methods, aiming to gain an in-depth understanding of the conversion strategies of conventional banks to Islamic banks and their implications for business performance. A qualitative approach was chosen because it captures the dynamics, processes, and meanings behind banking conversion policies that cannot be explained solely quantitatively.

This research is a field research with a case study approach, focusing on PT. Bank Pembangunan Daerah Sulawesi Selatan dan Sulawesi Barat (PT. Bank Sulselbar). The case study approach allows researchers to comprehensively explore the institutional transformation process, the strategies implemented, and the impact of the conversion on the bank's business performance within a specific local and institutional context.

The research was conducted at the head office of PT. Bank Sulselbar in Makassar. This location was selected based on its relevance as a center for strategic decision-making and the implementation of the bank's conversion policy. The research focused on the bank's conversion strategy and its implications for post-conversion business performance.

The research data is sourced from primary and secondary sources. Primary data was obtained through in-depth interviews with management, the conversion team, employees, and relevant parties directly involved in the conversion process. In addition, direct observations were conducted to understand operational processes and organizational dynamics during the conversion phase.

Secondary data was obtained from official documents, such as internal bank reports, Islamic banking regulations, financial performance reports, and relevant scientific literature.

Data analysis was conducted qualitatively using an inductive approach, comprising data reduction, data presentation, and conclusion drawing. Interview and observation data were transcribed, classified, and then analyzed to identify patterns, themes, and relationships between concepts related to the bank's conversion strategy and business performance. The analysis process was repeated to ensure depth and consistency of interpretation.

Data validity was maintained through source and method triangulation techniques, namely by comparing data from interviews, observations, and documentation. Furthermore, findings were confirmed with key informants to ensure that the researcher's interpretations aligned with the actual empirical conditions.

3. FINDINGS AND DISCUSSIONS

Model and Process of Conversion of PT. Bank Sulselbar into a Sharia Commercial Bank

The research results show that the conversion of PT. Bank Sulselbar into a Sharia Commercial Bank was carried out through a full conversion model, not through a Sharia Business Unit spin-off mechanism. This model was chosen as a strategy to strengthen institutional identity, increase public trust, and expand Sharia banking market penetration in the South Sulawesi and West Sulawesi regions. The conversion process was carried out in accordance with the provisions of Law Number 21 of 2008 concerning Sharia Banking, POJK Number 64/POJK.03/2016, and OJK Circular Letter Number 6/SEOJK.03/2023.

Institutionally, the conversion process includes adjustments to the organizational structure, fulfillment of capital requirements, the establishment of a Sharia Supervisory Board (SSB), and the preparation of Sharia licensing and compliance documents. These findings indicate that the conversion is not merely administrative but also an institutional transformation that encompasses governance, operational systems, and organizational culture. This aligns with the view that bank conversion is a form of strategic organizational change that requires comprehensive internal preparedness.

Strategic Opportunities and Challenges in the Conversion Process

The research identified that the conversion of PT. Bank Sulselbar opened up significant strategic opportunities, particularly in increasing its market share in Islamic banking and strengthening the bank's image as a financial institution aligned with the community's religious values. The predominantly Muslim populations of South Sulawesi and West Sulawesi represent a key market potential that supports the conversion policy. Furthermore, government policy support for the development of the Islamic economy and finance also strengthens the bank's sustainability prospects post-conversion.

However, this study also identified internal and external challenges affecting the conversion's effectiveness. Internal challenges include limited human resources competent in Islamic banking, adjustments to information technology systems, and the complexity of migrating assets and liabilities from conventional to Islamic systems. Meanwhile, external challenges stem from the diverse socio-economic characteristics of the region, particularly in areas with a predominantly non-Muslim population, which still question the relevance of Islamic banking to local economic needs.

These findings reinforce the argument that bank conversion strategies cannot be applied uniformly but must consider regional context and customer characteristics. Therefore, conversion success is largely determined by bank management's ability to manage market resistance, improve Islamic financial literacy, and build inclusive communication with all stakeholders.

Implications of Conversion on PT. Bank Sulselbar's Business Performance

In terms of business performance, the research results show that the conversion of PT. Bank Sulselbar has a dual impact. On the one hand, the conversion positively contributes to strengthening the bank's image, increasing public trust, and providing opportunities for expanding the Islamic banking market share. This is reflected in the increase in profitability indicators, particularly Return on Assets (ROA), which indicates the bank's efficiency in generating profits from managed assets.

On the other hand, this study also found an increase in post-conversion business risks. The Non-Performing Financing (NPF) ratio increased, indicating challenges in managing financing quality during the transition phase. Furthermore, the increase in the Financing to Deposit Ratio (FDR) indicates a tendency for banks to disburse financing aggressively, potentially putting pressure on liquidity if not balanced with adequate risk management.

These findings align with previous research, which found that the impact of conversion on bank performance is contextual and not always linear. While conversion can improve business performance in the medium to long term, it is often accompanied by operational pressures and financial risks in the initial stages. Therefore, this study emphasizes that conversion strategies must be accompanied by thorough planning, strengthened risk management, and the development of Sharia-compliant financing products that are more adaptive to the needs of the productive sector.

Overall, the results and discussion of this study indicate that the conversion of PT. Bank Sulselbar into a Sharia Commercial Bank is a business strategy with significant potential, but requires institutional readiness and sustainable risk management. These findings have important implications for other regional development banks considering similar conversion strategies, particularly in the context of strengthening the business performance and competitiveness of Sharia banking at the regional level.

Overall, the analysis shows that the conversion of PT. Bank Sulselbar into a Sharia Commercial Bank not only brought about institutional changes and business strategies, but also impacted the bank's financial performance. To strengthen the analysis regarding the implications of the conversion on business

performance, the following is a summary of PT. Bank Sulselbar's financial performance indicators before and after the conversion as a representation of the dynamics of efficiency, financing risk, liquidity, and market expansion post-conversion.

Indicator	Before Conversion	After Conversion	Trends
Return on Assets (ROA)	1.96%	3.70	Increase
Non Performing Financing (NPF) Gross	2.45%	4.31	Increase
Non Performing Financing (NPF) Net	0.73%	1.93	Increase
Financing to Deposit Ratio (FDR)	105.45%	110.73	Increase
UUS Asset Contribution	7.59%	7.74%	Stable-Increasing

The table above shows that the conversion of PT. Bank Sulselbar to a Sharia Commercial Bank has impacted the bank's financial performance. The increase in Return on Assets (ROA) indicates improved efficiency in asset management and the bank's ability to generate profits post-conversion. However, the increase in the gross and net Non-Performing Financing (NPF) ratio reflects increased financing risk during the initial transition phase, which requires strengthening risk management and the quality of financing analysis.

On the other hand, the increase in the Financing to Deposit Ratio (FDR) indicates a tendency for banks to expand financing distribution, although this could potentially reduce liquidity if not balanced with prudent fund management. The stability of the Sharia Business Unit's asset contribution to total bank assets indicates that the expansion of the sharia sector is proceeding at a moderate and controlled pace

4. CONCLUSION

This study concludes that the conversion of PT. Bank Sulselbar into a Sharia Commercial Bank is a strategic step implemented directly in accordance with the applicable regulatory framework, specifically Law Number 4 of 2023 and POJK Number 64/POJK.03/2016. The conversion process focused on institutional adjustments, capital strengthening, leadership readiness, the establishment of a Sharia Supervisory Board, and compliance with licensing requirements. This conversion opens up opportunities to expand the Sharia financial market share, increase Muslim community trust, and strengthen the role of regional banks in supporting regional economic development, although still faced with strategic challenges related to human resource readiness, information technology systems, and the heterogeneous demographic characteristics of the region.

In terms of business performance, conversion has a dualistic impact. Improved profitability indicators and financing expansion reflect the potential for strengthening financial performance post-conversion, but on the other hand, transition risks arise in the form of increased non-performing financing and pressure on liquidity. These findings suggest that conversion success is determined not only by regulatory compliance but also by the bank's ability to prudently and sustainably balance business expansion and risk management.

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