Strategy in Overcoming Market Saturation of Islamic Banking in Indonesia

Meri Indri Hapsari, Noven Suprayogi and Salahuddin Rizal
Universitas Airlangga, Surabaya, Indonesia

Abstract
Rapid development of banking industry in Indonesia is not offset by the spread of Islamic banking services and access. It can be seen from the level of density of overall bank from spatial side, the number of banks per square kilometre and the size of the market, i.e. the number of banks per thousand of inhabitants. Processed Statistical of Bank Indonesia Data and Indonesia Statistical Bureau in 2011 showed that Java is an island with the highest number of the bank offices per square kilometre, while Papua has the smallest office per square kilometre. From The size of the market, Sumatra is an island with the highest number of bank offices per thousand inhabitants. Every one thousand inhabitants were able to be served by one bank office. Meanwhile, in Papua, every 17,000 population was only able to be served by a single bank. This shows that there is a gap in the number of bank offices that suggests some areas, such as Java and Bali, in a number of banks already dense spatially and have smaller potential expansion, or by the other meaning, the banking market in the region is already saturated. Differences in the level of saturation have an impact on Islamic banking services performance which can be measured by profitability, efficiency and stability of the financial system. On the basis of this assessment, the Islamic bank saturation level in province level in Indonesia becomes important. This is related to the mechanism establishment of incentive and disincentive policies, both in the central as well as regional by the Central Bank as regulator and supervisor of the banking system. This study use descriptive quantitative approach. The Data used are secondary data from the various sources. Data are collected on an annual basis using two analysis techniques, Matrix of Boston Consulting Group (BCG) and Euclidean Distance. As for the analysis tool in strategies formulating to overcome market saturation is used Ansoff Matrix.

Keywords: Market Saturation, Islamic Bank, and Strategy
1. Introduction

1.1 Background

The development of Islamic banking in Indonesia began in 1992 is characterized by the operation of Bank Muamalat Indonesia. Indonesian government issued regulations on Islamic banking namely Law No. 7 of 1992 which was perfected by Law No. 10 of 1998 which was availability for the dual banking system or conventional bank that has Islamic banking business unit.

When Law No. 10 of 1998 was valid, the development of Islamic banking in Indonesia showed progress rapidly. Report on Islamic Banking Bank Indonesia (BI) in 2010 stated that the growth of Islamic banking industry reached 47.6%. Its exist from 1992 to 1998 there was only one unit of Islamic bank, up to 2005 increased to 20 units consisting of 3 units of Islamic banks (BUS) and 17 Islamic business units (UUS). Until 2013 the existing 11 units Islamic banks and 23 Islamic business units. Islamic banking in Indonesia was predicted will grow and expand. (Alamsyah, 2012)

It seen from the total assets, total asset of Islamic banking is increasing from year to year. It showed in the following diagram:

**Figure1:** Total Asset Growth of Islamic Banking in Indonesia 2005-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Asset (in Million Rupiahs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Des 05</td>
<td>20,880</td>
</tr>
<tr>
<td>Des 06</td>
<td>26,722</td>
</tr>
<tr>
<td>Des 07</td>
<td>33,016</td>
</tr>
<tr>
<td>Des 08</td>
<td>49,555</td>
</tr>
<tr>
<td>Des 09</td>
<td>66,090</td>
</tr>
<tr>
<td>Juni 10</td>
<td>75,205</td>
</tr>
</tbody>
</table>

Source: syariahmandiri.co.id processed

While the market share of Islamic banks despite occupying a much smaller proportion than the conventional commercial banks, however, continued to grow from year to year.
The following is a diagram of the growth of market share of Islamic banks in Indonesia:

**Figure 2.** Market share of Islamic Banking in Indonesia 2005-2010

![Market Share of Islamic Banking in Indonesia](source: syariahmandiri.co.id)

The development of Islamic banking is increasing with the broad range of services. Based on Islamic Banking statistical data (2013), there was an individual office network of Islamic bank (BUS) as many as 1,998 outlets consisting of 407 operational headquarters, 1,356 branch offices, and 224 cash offices that are spread throughout Indonesia. While syariah business unit (UUS) there was as many as 590 individual office network consisting of 179 units operational headquarters, 310 branch offices, and 87 branch offices.

The development of the Islamic Banking industry in Indonesia showed the progress quickly and it given profit for Indonesia economy. But Islamic Banking as industry is not free from challenges to be faced. One of the challenges is the business cycle that will be faced by every business unit and industry. According to the theory of the product cycle from Campbell (2004), every product or industry will pass a stage of development process, saturation, until decrease production. This would apply also to the Islamic banking industry as well as individual business units in industry.

According to McKinon (1973) and Levine (1997) in Winarko (2013) stated that although the financial institution was able to push the growth of economy. But, the total of bank in region or the number of bank per population number indicates the level of competition between banks. The competition happen increasingly, it will cause saturation of bank. Winarko (2013) in his
study concluded that the number of office, *loan to deposit ratio* (LDR), and credit growth are significantly related to the level of saturation of commercial bank, either simultaneously or partially.

BI decided four categories of saturation that happen in commercial bank based on the analysis of economic growth rates and factors deposits and loans per capita included 4 bank saturation zone; *under banked, low equilibrium banked, medium equilibrium banked, and overbanked* (BI financial stability, 2012). Including the category of high overbanked is Jakarta. Medium overbanked is East Java, Central Java, West Java, Yogyakarta, Banten and Bali. Meanwhile, the province including low overbanked categories namely: North Sulawesi, Riau, and East Kalimantan. Region at the provincial level are under banked Lampung, Jambi, West Papua, West Sulawesi, South Sulawesi, West Nusa Tenggara, North Maluku, NTT, Gorontalo, Central Sulawesi, South Sumatra, Maluku and West Sumatra.

In Islamic banking there was saturation categorization of bank similar to conventional banking. Based on Bank Indonesia letter to Commercial Bank and Islamic Business Unit No. 15/8/DPbS/ in 2013, Islamic banking would set offices/units of the new services should consider the saturation level of the bank. The parameter that is used to analysis is regional gross domestic income growth, the performance of the distribution and collection of funds associated with the population in each province.

By facing of bank saturation as one of the challenges faced by the Islamic banking industry, the need for a strategy to be done. The strategy that is used must be adapted with the conditions of saturation that happen in the areas where the bank is located. This is done in order to strategy is effective and efficient.

2. Body of Analysis

*Literature Review*

*Bank Saturation*

Campbell et al. (2004:100) stated each product can be analogized as a living thing where they have a limited life. Every product has a life long or short. Product cycles can be applied to individual product, type, level, even to the market.

The first phase of the cycle is the product introduction phase, or commonly called as innovators. The characteristics are a very small proportion than market that already available.
Volume production was low; causing the price per unit was high. In this stage required a huge capital investment. The second stage was the stage of growth (growth stage). Sales in the market as a whole have increased. The market was increasingly profit. Some competitors started trying to challenge pioneer with little take part of the market share. Competitors may develop new market segments to avoid direct competition. The third stage is the stage of maturity (maturity). Saturation happen when the output has reached a high level. Saturation will occur when a product has been able to dominate the market share, in other words, most people at least once ever buy such products. The last stage is the stage decline (declining stage). At this stage of the overall market decline. The market can no longer provide gains. If associated with the banking industry continues to increase, one day will also experience boredom. The number of bank that the more competition will lead to high saturation will happen. Saturation happen when the number of banks that are too many banks in the economic growth.

A Country with low growth rate of Gross Domestic Product (GDP) will make a saturation Bank to be high. Instead, a country with high growth rate of GDP will be lower saturation level. Saturation Bank in a country can be calculated from the total banking assets divided by the country's GDP. (Nomura International plc, 2008).

Competition between banks can be analysed from the bank density rate calculated from the ratio between the numbers of bank in a region with by a large of the area. In addition, the density of the bank also saw from the terms of market reach of services by comparing the number of offices and the number of population in the region. If the density of bank is higher, so the competition of bank will be higher that caused a saturation bank. Wibowo (2012) mentioned that in identifying the degree of saturation of bank at the provincial level can be analysed using two indicators, namely the economies scale and scope of financial services. Economies scale in operational is growing. While the scope of financial services is deposits per capita and credit per capita.

BI (2012:65) using analytical technique, namely Matrix Boston Consulting Group (BCG), which has been modified, and the Euclidean distance. In BCG matrix which has been modified, GDP growth used as the vertical axis and DPK each capita factor and credit each capita as the horizontal axis. BCG matrix results used as the basis of arranging of scoring bank saturation level by calculating the Euclidean distance that calculated using the Pythagorean formula. The results of this analysis indicate that there is variability of saturation degree of each province in
Market Strategy

Ansoff Matrix

Lynch (2003) said that Ansoff Matrix is also referred to as the market/product matrix in some texts. Some texts refer to the market options matrix, which involves examining the options available to the organization from a broader perspective. Ansoff Matrix is a model that has proven to be very useful in business unit strategy processes to determine business growth opportunities using two dimensions, products and markets.

Strategic marketing planning tool that links a firm’s marketing strategy with its general strategic direction and presents four alternative growth strategies as a table (matrix). These strategies are seeking growth (Igor Ansoff, 1941):

a. Market penetration: by pushing existing products in their current market segments.
b. Market development: by developing new markets for the existing products.
c. Product development: by developing new products for the existing markets.
d. Diversification: by developing new products for new markets.

Below is a table (matrix) that described by Ansoff that show a combination that maybe occur in the determination of the strategy:

**Figure 3: Ansoff’s Matrix**

From Figure 3 above can be explained that:
1. Market Penetration: Market penetration is a growth strategy where the company focuses on selling existing products in markets that have been there before.

2. Market Development: Development market in growth strategy, where business unit is trying to sell products that already exist in the new markets.

3. Product Development: Product development is a growth strategy where a business unit introduces new product to markets that already exist. This is maybe need development of new competencies strategy and need a new marketing program for developing product that can be changed/developed into existing markets.

4. Diversification: Diversification is a growth strategy where a business, the products are new and also in new markets. This is risk marketing more because, business strategy that moving new markets which have little or no experience of the new products.

3. Result and Discussion

There are four zones of saturation level commercial bank in Indonesia by Indonesia Bank. The four zones are under banked, low banked equilibrium, equilibrium medium banked, and overbanked (BI Financial Stability, 2012). In Islamic banks there is also categorization of saturation zone according to Indonesia Bank Circular Letter to Commercial Islamic Bank and Islamic Business Unit No. 15/8/DPbS In 2013, Islamic banking that will build up office/ a new unit that should consider the degree of saturation of the bank.

If described in the matrix, the distribution of the saturation zone will appear as follows:

**Figure 4. Matrix of Bank Saturation**
While the division of zone of the saturation zone banks by bases on province or territory in Indonesia looked on the map of distribution of saturation zone commercial banks in Indonesia as follows:

**Figure 5**: Saturation zone map Commercial Bank in Indonesia

Sources: Stability of Bank Indonesia, 2012. Processed

The division zone of the saturation of commercial bank includes all of commercial banks both commercial conventional bank and Islamic bank (BUS), including Islamic Business Unit (UUS). For the case of Islamic bank, the domination of conventional banks is still very high. Islamic bank as part of the industry banking in Indonesia cannot be separated from the influence of the conventional banking industry. The market segment of Islamic bank is still far below the conventional banking. Development of Islamic Banking BI reports in 2010 stated that the market segment of Islamic bank is only 3.1% of the total of banking market in Indonesia. Interest rate is still used as a benchmark in determining the murabaha margin and profit sharing rate. This is indicating that there is domination of the financial sector by conventional banking.

As the industry that are equally in the financial sector, Islamic banking and conventional banking are competed each other. Based on research conducted by Iribid and Zarka (2001) in Rival (2013) concluded that the Islamic bank customers are consumers who prefer the profit motive (economic rationality) rather than the religious aspects (belief). This means that there is a market wedge between conventional banking and Islamic banking, causing both of them are competed. Therefore, Islamic banking is not only facing inter-Islamic saturation banking itself, but also have to face the saturation bank in general, including the saturation of
conventional commercial banks.

**Strategy for facing market saturation**

In facing the saturation of bank, that needs the right strategy for continuing of Islamic banking activity can be maintained and still give priority to effectiveness and efficiency. The strategy that is adopted then adjusted to the level of saturation of banks in each region (province) whether over banked category under banked, low banked equilibrium, or equilibrium medium banked.

With combination of Ansoff matrix that is adjusted to the level of matrix saturation of banks, so it will be got a strategy that accordance with the level of saturation, respectively. Here is a combination of the two matrixes for the determination of strategy for facing the saturation of bank:

**Figure 5:** Combinaion Matrix of saturation levels of banks and Ansoff matrix
The combination result produces market penetration strategy for medium category of equilibrium banked, product development for over banked category, market development for under banked category, and diversification for low equilibrium banked category.

**Market Penetration Strategy for Medium Equilibrium banked Zone**

Medium equilibrium banked zone or a condition where the growth of the high banks in the central of the region’s economic growth was also high. Banking services in the medium equilibrium banked zone is still smaller than the markets’ potential.

Appropriate strategy for this condition is a market penetration strategy. Market penetration strategy focuses on selling products that already exist in the existing markets.

Market penetration strategy aims to improve the position of Islamic banks that is associated with the product and market that are being served by Islamic banks today. With the same product and the same market that has served so far, the Islamic bank have to do more aggressive marketing activity, or do intensification of marketing. Market penetration efforts to seeking four main objectives:

1. Maintain or increase the market segment of this product, this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more personal resources that is dedicated to selling.
2. Safely growth market of dominance.
3. Restructure a mature market by the manoeuvring of the competitors, this will need an aggressive promotional campaign unceasingly, supported by a pricing strategy that is designed to make the market "less attractive" for competitors.
4. Increase using by existing customers, for example: introduce customer loyalty programs.

Market penetration is most often used and combined with other strategies. Islamic banks can implement market penetration strategy by combining marketing promotion and price, which increase the total of the sales staff, increasing the advertising budget, offering a variety of sales promotion items unceasingly, and even improve the overall publicity activities.

Appropriate with the case in Indonesia, Islamic bank in the zone is better if it focuses on products that already exist but the promotion is more intensive, advertising, and services in order to attract new customers and make the customer more loyal. With the consideration from several conditions in the medium equilibrium under banked zone in Indonesia, namely 1) the market
area of Islamic bank in this zone is still relatively large, 2) Generally, market/consumer do not yet know quite well about Islamic banks products, 3) Prospective consumer is sensitive about price, 4) the possible threat of competitors is quite large, especially from conventional bank that is a very established, 5) and there is a tendency of production cost per unit that decrease with increasing number of product until can be gained a market segment as large as possible.

Concrete measure management of Islamic banking is looking for opportunity to developing market segment of existing products in the market. There are three approaches that can be done by Islamic banking management, among others:

1. Increase customer using now. As if the other customer who has accounts at other bank, in the Islamic banks is side line only because other bank provides more convenience and better service than Islamic bank. Therefore, Islamic bank should begin to improving extra service to their customers to increasing the using of Islamic banks’ products that already exist.

2. Attract customers of other bank. With “persuasion" that can only be done by bank that has superior customer value which can be communicated well, so the other customer interested to moving.

3. Attract customers who have not become customer yet. There are still many Indonesian people in all corners of the region are still not using transaction through a bank. They are actually potent to becoming customer.

And work experience, so the market penetration strategy that is suitable to be applied in this zone is the rapid penetration. This strategy is executed by determining a low product price and high promotional activity. This strategy is executed with the aim to Islamic banks can enter into the market and can go to market as quickly as possible,

**Product Development Strategy for over banked Category**

Over banked Category is a condition in which the growth of the bank is too high compared to the economic growth of a region? The number of bank is too dense compared to the large of an area or population who served by bank. Orin another description, the growth of the banking system that is seen from the bank's total asset is not balanced with the growth of economic of a region. That means that existence of bank has no longer an impact on economic growth of a region. This is caused of the highly competition among bank in the region.

Appropriate strategy in that condition is product development strategy. Product
development is a strategy in which a business unit or industry focused introduce new product to the market that already exist. This is may be need a new strategy of competency development and also need a new marketing program to developing a product that can be changed/developed into existing market.

Innovation in product development is needed because in this zone is impossible to widen the market reach by expanding the geographic market or increase the number of new office. Density and competition between banks is very high so if adding market reach the result will not be effective and efficient. Especially to Islamic banking, would be better if it focused on innovation product in order to attract customer and grab market segment from conventional banks. Executing this strategy means involving cost of research and development a big of expense.

In the context of new product development of Islamic bank is not as simple as conventional bank. Therefore, it must be done carefully in order to do not ignore aspect of Islamic law. For example, when Islamic bank trying to make a creative credit card, deposit, or other product, it should be truly clear of the status of the Islamic law. So the customer does not doubt on the product that is offered.

Based on the trend of the development of Islamic banking in Indonesia, product development directs to the consumer loan product. To reduce the risk of bad debt from big debtors, Islamic banking in development over banked zone develops the credit to Small and Medium business group (SME). Potential constraint on giving credit to SME is the financial structure of the group and the availability of collateral from this group is still not too much attention. In Indonesia, the percentage of funding Islamic banking to SME is bigger than given credit for SME conventional bank. Islamic banking is more priority on expediency of business than the collateral from SME. This conditions that cause the banking sector in Indonesia, especially conventional bank inclined not to give credit lend to this business group. This is not a problem if Islamic banking can provide guidance and encouragement for the development of SME in the future, because according to Islamic banking main duty which is to encourage the real sector of the economy in the SME group.

The development of Islamic bank, other products that appear charge card is similar to a debit card in conventional bank. This simplicity is also one of the innovations made in the development of Islamic bank products today that will be an attraction for potential customers of
Islamic banks in the facilities with ease. In terms of funding, the prospect of third-party funding of product development can also be done by launching products such as the combination of savings compared for education to facilitate people who want to invest for their children’s education.

**Market Development Strategies for under banked Categories**

Under banked zone is a zone where the banking sector is still not saturated. The amount of bank share still too small compared to the total population or area. Another understanding of the under banked are seen growth of total banking assets is still very slow inversely related to the high economic growth in the region.

The appropriate strategy is with the condition of market development strategies. Market development is a growth strategy, in which the business unit or industry trying to sell products that already exist in the new markets. This is because many sectors of the economy that is still untapped banking services. If these sectors have already touched banking services, the economic growth in the region will increase rapidly given the banking function is as an intermediary institution that facilitate financial flows to economic growth.

There are many ways to apply this strategy. Adding new geographic markets and distribution channels is still very possible in this zone. Adding new geographic markets can be interpreted expand market reach in are a sun touched by the Islamic banking services. Increasing the number of distribution channels as well as the office is still very possible because competition among banks is still far from saturation point. Moreover, it can also apply different pricing policy to attract new customers or create new market segments, changing from non-users to become users, and attract competitors’ customers.

Now a days in Indonesia to open an office/new network is set up in regulation. Islamic Banking allowed to open new out lets in various cities in Indonesia, as well as regions in Indonesia that Islamic banking service is still minimal.

The development of Islamic banking network is supported by the support from the monetary authority, the Bank of Indonesia. The opening of the office network Commercial Bank and Islamic Business Unit in Indonesia is regulated in Bank Indonesia Circular Letter No.15/8/DPbS. Previously, UU No.72of 1992, Indonesia’s banking allows to the dual banking system. UU no.10 of 1998as an improvement of the previous attached used the term "bank based
on Islamic principles”, and in Article 1, point 13 mentioned the enactment of Islamic law as the basis in Islamic banking transactions.

**Diversification Strategies for Low Equilibrium banked zone**

Low equilibrium zone is banked areas of economic growth and the growth of banking equally slow. This condition can be overcome if the bank’s diversification strategy. When a business or industrial unit will apply the strategy of diversification, then it must have a clear vision of what it will get from the strategy and an honest assessment of the risks when in fact doomed to failure. By adding new products or services, but related, generally called concentric diversification or focus. This strategy is more appropriately used by the Islamic banking industry in Indonesia, with the consideration that in the low zone of equilibrium banked in Indonesia has the following characteristics:

1. The Islamic banking industry that is not competing in the growing or slow-growing.
2. Adding a new product, but related, will significantly push sales of the current product.
3. Products offered by Islamic banking is a new, but related, can be offered at very competitive prices.
4. Islamic banking has a strong management team.

Islamic banking can apply this strategy by adding new products and services but still interconnected. Thus, the purpose of this strategy is to create new products that relate to the same market. This can be done if the industry competes on a slow-growing or in decline and of course taking into account the availability of resources is good. Islamic banking is running concentric diversification by playing well in the Takaful business, set up to be Hajj, and others. Islamic banking execute this strategy because the banks see the banking business is still very tied to the activity of the community and religious activities are also under writing the risk.

**4. Conclusion**

To deal with the saturation level of banking in Indonesia is need for customized strategies to deal with the level of saturation of each region/province. This is done so that Islamic banking is able to choose an effective and efficient strategy for dealing with saturation banks in accordance with the position of each in every province.

Appropriate strategy to the saturation level of the bank is as follows: The combined
results produce market penetration strategy for the medium category banked equilibrium; product development for overbanked category; market development for under banked category; and diversification to the category of low equilibrium banked.

**Recommendation**

For Islamic banking industry, it is important to know the appropriate strategies for dealing with bank saturation level corresponding saturation positions in their respective provinces. This relates to the effectiveness and efficiency of the Islamic banking business itself.

For the government as monetary authorities and banking supervisor are able to make appropriate regulations for banks in terms of the saturation level of banking. It needs to be regulated because it relates to competition among banks, financial services and coverage areas, and economic growth in which the government's interest to it all. Banks are supposed to act as an intermediary institution should be able to facilitate financial in order to capable economic growth rather than vice versa. That is where the interests of the government to regulate and supervise in order to create prosperity for its people.

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