Discourse on Indonesia's Dual Banking System: A Thematic Literature Review

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Abstract

Indonesia's dual banking system, integrating conventional and *sharia*-compliant models, presents a unique case of institutional pluralism in the financial sector. This study offers a thematic literature review exploring the theoretical foundations, operational dynamics, and regulatory frameworks shaping the coexistence of these systems. Using Institutional Pluralism Theory, Financial Intermediation Theory, and Islamic Economic Principles, the review identifies how legal structures and ethical paradigms interact within Indonesia's financial landscape. Findings highlight that while the system is legally robust and ethically justified, practical limitations such as regulatory fragmentation, consumer misperceptions, and product standardization remain. The study underscores the need for regulatory harmonization, consumer education, and adaptive jurisprudence to optimize the dual model for stability and social equity. Contributing to global discourses on financial pluralism, this review refines theoretical interpretations and offers practical recommendations for dual banking implementation in emerging economies.

Keywords

dual banking system; Islamic finance; institutional pluralism; financial integration

Introduction

Indonesia's banking landscape has undergone a profound transformation over the past few decades, driven by its commitment to accommodate both conventional and Islamic financial paradigms. The establishment of a dual banking system—comprising traditional interest-based institutions and *sharia*-compliant banks—reflects Indonesia's pluralist socio-religious structure and evolving regulatory framework (Khan & Mirakhor, 2004; Archer & Karim, 2007). This transformation signifies more than structural diversification; it embodies an ideological and jurisprudential compromise aiming to align financial inclusion with religious adherence (Iqbal & Llewellyn, 2002).

Scholarly interest in dual banking has increased, reflecting the system's potential to serve diverse consumer segments while promoting financial resilience. The theoretical significance of this framework lies in its ability to integrate the moral economy of Islamic finance with the efficiency mechanisms of the conventional model (Chapra, 2000; El-Gamal, 2006). Empirically, dual banking offers a lens through which to examine operational synergies, market segmentation, and policy innovation in emerging markets (Sundararajan & Errico, 2002).

Nonetheless, integrating these two distinct paradigms introduces a complex web of legal, regulatory, and institutional challenges. Literature has highlighted concerns about regulatory arbitrage, systemic stability, and consumer awareness within such dual frameworks (Lewis & Algaoud, 2001; Sole, 2007). These challenges prompt deeper inquiry into the structural harmonization of dual systems and their ability to foster both equity and efficiency.

Although a growing body of research has explored various components of dual banking, few studies have thematically reviewed this system within the Indonesian context. There remains a critical gap in literature concerning comparative operational behavior, jurisprudential conflicts, and socio-economic implications specific to Indonesia's financial dualism (Karim, 2001; Warde, 2000). This gap underscores the need for a comprehensive literature review that integrates conceptual, empirical, and normative perspectives.

This study addresses the following research questions: How does the dual banking system operate within Indonesia's unique legal and socio-economic context? What are the theoretical justifications and limitations of such a model? And how can Indonesia's dual banking structure be optimized to ensure financial stability and social justice? By addressing these questions, the study aims to elucidate the multi-dimensional nature of dual banking in Indonesia and contribute to the broader discourse on financial pluralism.

Literature Review

The academic discourse on dual banking systems has developed substantially over the last two decades, especially in contexts where Islamic banking coexists with conventional financial systems. The concept of financial dualism draws from institutional pluralism theories, which propose that multiple, often ideologically distinct, systems can operate simultaneously under a shared regulatory umbrella (Zaher & Hassan, 2001; Khan & Mirakhor, 2004). In the Indonesian context, this duality is legitimized by state regulation and shaped by the country's unique blend of religious adherence and legal diversity (Iqbal & Llewellyn, 2002). Earlier works established the foundation of Islamic banking as an ethical and interest-free alternative to Western financial models, advocating its compatibility with modern economic objectives (Chapra, 2000; El-Gamal, 2006). Scholars have since examined how Islamic banks aim not only to achieve commercial viability but also to fulfill *maqāṣid al-sharīʿah*, or the higher objectives of Islamic law (Lewis & Algaoud, 2001; Archer & Karim, 2007).

Studies have also explored operational dimensions of dual banking systems, emphasizing the legal, regulatory, and managerial intricacies that emerge when two different financial logics coexist (Sundararajan & Errico, 2002; Warde, 2000). In Indonesia, where both systems are institutionally supported, researchers have noted distinct governance models, risk-sharing mechanisms, and consumer perceptions shaping market behavior (Sole, 2007). Yet while international literature has advanced models for coexistence, few have undertaken comparative assessments that thematically analyze institutional harmonization, jurisprudential integration, and market implications within specific national contexts like Indonesia. Therefore, this literature review serves not only to map the theoretical and empirical contributions of prior studies but also to position this research as a bridge between conceptual ideals and contextual realities in the discourse of dual banking.

Theoretical Framework

A rigorous understanding of the dual banking system in Indonesia necessitates the integration of several theoretical models, notably Institutional Pluralism Theory, Financial Intermediation Theory, and Islamic Economic Principles. These frameworks collectively form the analytical bedrock upon which this literature review is built.

Institutional Pluralism Theory provides the first essential lens, positing that multiple institutional systems can function within a single state apparatus while retaining distinct values and operational logics (Scott, 2001; North, 1990). In the Indonesian dual banking context, this theory helps explain how conventional and *sharia*-compliant banks operate under a unified regulatory framework yet respond to different normative orders. Institutional pluralism accommodates legal dualities and moral reasoning, which are crucial in understanding why *sharia* banking does not merely serve as an alternative, but as a parallel system with its own legitimacy and function (Archer & Karim, 2007; Iqbal & Llewellyn, 2002).

Financial Intermediation Theory further supports the study by elucidating the functions of banks as intermediaries that facilitate resource allocation, reduce information asymmetries, and manage risk (Diamond, 1984; Allen & Santomero, 1997). This theory is instrumental in analyzing how dual banks structure their operations differently to fulfill similar economic functions. While conventional banks rely on interest and debt instruments, Islamic banks employ profit-and-loss sharing mechanisms to mitigate risk and maintain compliance with *sharia* law (Sundararajan & Errico, 2002; Chapra, 2000).

A third theoretical pillar is rooted in Islamic Economic Principles, particularly the *maqāṣid al-sharīʿah*, which underpin the ethical and social objectives of Islamic finance. These principles prioritize justice, risk-sharing, and prohibition of *ribā* (interest), aiming to align economic activity with moral obligations (Kahf, 2003; El-Gamal, 2006). The Islamic banking model thus serves not just economic utility, but also social responsibility and religious compliance, aligning with broader societal values in Muslim-majority countries like Indonesia (Lewis & Algaoud, 2001).

Combining these theories allows for a holistic analytical framework to examine the coexistence of Islamic and conventional banks. While Financial Intermediation Theory provides a functionalist view, Institutional Pluralism Theory captures the regulatory and normative dynamics. The Islamic Economic framework ensures that the ethical and jurisprudential dimensions are not overlooked. This triangulated theoretical base enables a nuanced exploration of dual banking in Indonesia, allowing for both macro-structural and micro-institutional interpretations.

Previous Research

The evolution of dual banking systems has been widely studied in global contexts, with early scholarship laying the foundation for understanding institutional coexistence in mixed financial systems. Kahf (1994) explored the emergence of Islamic banking in Muslim-majority countries, highlighting its ethical foundation and its divergence from interest-based systems. His study emphasized the ideological motivations behind Islamic finance and the regulatory challenges faced in dual systems. This work is relevant as it set the stage for subsequent evaluations of how such models function within secular legal systems.

Following this, Chapra (2000) analyzed Islamic banking's macroeconomic implications, particularly its potential to reduce income inequality and promote ethical investment. His research applied Islamic economic principles to assess whether dual systems could facilitate financial inclusion without compromising efficiency. Chapra's contribution was foundational in legitimizing Islamic banking beyond religious grounds and aligning it with development economics, thus reinforcing its role in dual frameworks like Indonesia's.

Iqbal and Llewellyn (2002) offered a comparative assessment of Islamic and conventional banking operations, exploring risk management practices, institutional governance, and market segmentation. They found that while Islamic banks faced structural constraints, they also demonstrated resilience during financial crises. This study added empirical depth to dual banking debates and emphasized the need for regulatory coordination to prevent market distortions in coexisting systems.

Sundararajan and Errico (2002), in their IMF working paper, addressed the systemic implications of financial dualism. They examined operational compatibility, regulatory arbitrage, and the need for a tailored supervisory framework. Their analysis was pivotal in advocating for regulatory harmonization without undermining the philosophical foundations of Islamic finance. Their emphasis on systemic risk remains highly pertinent in the Indonesian context, where both systems are legally recognized.

Lewis and Algaoud (2001) investigated Islamic banking's integration into Western legal and financial systems, noting the challenges of ensuring compliance without compromising legal standards. They introduced the idea that legal pluralism, while accommodating, can also fragment institutional coherence. Their findings are applicable to Indonesia's dual model, which operates within a civil law tradition yet incorporates *sharia*-based financial laws.

Warde (2000) took a sociopolitical perspective, exploring how Islamic banking was influenced by geopolitics, consumer perception, and ideological positioning. He argued that Islamic banks often navigate dual pressures—religious expectations and market viability—which complicate their role in a dual system. Warde's sociological lens remains valuable in understanding the motivations and constraints affecting consumer and institutional behavior in Indonesia.

While these studies contribute significant insights, a comprehensive thematic synthesis focusing specifically on Indonesia's experience remains underexplored. Most previous research has either addressed Islamic banking as a standalone phenomenon or considered financial dualism at a macro-regional level. Few studies offer a detailed narrative of how Indonesia's dual system functions operationally, institutionally, and ethically within its socio-legal context. This literature review addresses this gap by offering an integrated analysis that connects theoretical frameworks with Indonesia-specific institutional realities.

Research Methods

This study adopts a qualitative, literature-based approach that draws primarily on secondary data. The type of data utilized is textual and conceptual in nature, derived from books, peer-reviewed journal articles, institutional publications, and academic dissertations. Such data types are suitable for a literature review because they allow for a comprehensive and interpretive examination of theories, legal frameworks, and operational models relevant to dual banking systems (Flick, 2002; Creswell, 1998). By relying on qualitative textual data, the study can explore nuanced perspectives and uncover thematic patterns across different academic discourses.

The sources of data for this study encompass internationally recognized academic books, peer-reviewed journals, official institutional documents (e.g., World Bank, IMF reports), and reputable theses or dissertations. These sources provide a rich foundation for analyzing the structural, regulatory, and ethical dimensions of Indonesia's dual banking model. Previous literature on Islamic and conventional banking models, financial regulation, and economic pluralism form the backbone of this research. Notable among these are works by Chapra (2000), El-Gamal (2006), and Archer and Karim (2007), which offer both theoretical grounding and contextual relevance.

Data collection was conducted using document analysis, focusing on works published no later than 2009 to align with methodological rigor. Documents were selected based on their scholarly credibility, thematic relevance, and citation frequency within the field. The literature was organized thematically—covering theory, institutional frameworks, regulatory models, and socio-economic impacts—allowing for systematic comparison and synthesis (Bowen, 2009). This method ensures that the study is grounded in established scholarship and reflects a high degree of academic integrity.

For data analysis, a thematic interpretive approach was employed. This method involves identifying recurring themes, concepts, and arguments across the collected literature, followed by comparative and critical evaluation (Patton, 2002). Through this approach, key patterns—such as legal dualism, ethical banking, and institutional coexistence—were synthesized to construct an analytical narrative. The analysis was guided by the theoretical frameworks discussed earlier, allowing for alignment between theory and findings.

Conclusion drawing in this research followed an iterative and integrative process. After themes were extracted and analyzed, they were mapped onto the research questions to assess theoretical coherence and empirical applicability. The results were evaluated in terms of their capacity to address identified research gaps, provide conceptual refinement, and suggest pathways for institutional harmonization. This approach ensures that the study's conclusions are not only rooted in the literature but also oriented toward advancing knowledge and policy implications (Miles & Huberman, 1994).

Results and Discussion

The emergence of Indonesia's dual banking system reflects an intricate interplay of legal pluralism, religious considerations, and economic pragmatism. Drawing from the theoretical frameworks outlined earlier, particularly Institutional Pluralism and Islamic Economic Principles, the Indonesian case demonstrates a model where two ideologically distinct banking paradigms coexist under a unified regulatory framework. This structure aligns with prior findings by Sundararajan and Errico (2002), who noted that financial dualism could promote broader financial inclusion and resilience when appropriately regulated.

However, the integration of Islamic and conventional banking is not merely a matter of structural alignment but involves ongoing negotiations of legitimacy, functionality, and performance. While Iqbal and Llewellyn (2002) emphasized the institutional distinctiveness of each model, Indonesia's regulatory evolution indicates increasing convergence in supervisory mechanisms and operational standards. This convergence, however, does not eliminate tensions; instead, it requires constant recalibration to preserve both systems' core values.

Earlier research by Chapra (2000) and El-Gamal (2006) suggested that Islamic banking contributes significantly to ethical finance, emphasizing risk-sharing and community development. These values are evident in Indonesia's *sharia* banking model, which seeks to align economic goals with social justice. Yet as Lewis and Algaoud (2001) observed, maintaining this alignment within a competitive and secular financial environment often requires regulatory innovation and institutional creativity.

Moreover, new perspectives from unpublished dissertations and institutional reports reinforce that dual banking in Indonesia cannot be examined through binary lenses. It must be approached as a dynamic field shaped by cultural context, policy shifts, and market demands. For instance, while conventional banking in Indonesia remains dominant in terms of market share, Islamic banking has shown rapid growth rates and increased public trust (Archer & Karim, 2007; Sole, 2007).

This review reveals that although much scholarly attention has been paid to Islamic banking as a moral alternative, less has been devoted to the dialogic space between Islamic and conventional systems. The duality itself—its tensions, synergies, and evolving norms—constitutes a field worthy of deeper analysis. This study contributes to bridging that gap by examining how Indonesia's financial system incorporates both functional diversity and normative pluralism, offering insights relevant to other multi-system economies.

1. Operational Dynamics and Legal Architecture of Indonesia's Dual Banking

The coexistence of Islamic and conventional banks in Indonesia presents a unique operational model that reflects both convergence and segmentation. The first research question explored how this dual banking system functions within Indonesia's specific socio-legal context. Unlike systems where Islamic banking remains marginal, Indonesia's legal framework affords *sharia*-compliant banks full recognition under national banking laws, notably the enactment of Law No. 21 of 2008 on *Sharia* Banking. This legal foundation not only formalizes *sharia* compliance but also integrates supervisory structures under Bank Indonesia and later the Financial Services Authority (OJK), thus promoting institutional parity (Sundararajan & Errico, 2002).

Operationally, Islamic and conventional banks exhibit both overlap and differentiation in service offerings. While conventional banks rely heavily on interest-based lending and deposit mechanisms, Islamic banks utilize contracts like *mudarabah*, *murabahah*, and *ijarah* to structure financial products (Iqbal & Llewellyn, 2002). These differences necessitate dual regulatory and audit systems to ensure compliance with both secular banking norms and *sharia* principles. As El-Gamal (2006) noted, such parallel systems often result in higher operational costs and require specialized expertise in Islamic jurisprudence.

Nevertheless, convergence is occurring, particularly in risk management and corporate governance standards. Drawing from Chapra (2000), both banking systems have adopted standardized financial reporting, compliance mechanisms, and consumer protection frameworks. Indonesia's legal institutions have made significant efforts to harmonize these systems without compromising their ideological foundations. For example, the *Dewan Syariah Nasional* (National *Sharia* Council) plays a pivotal role in issuing fatwas that guide Islamic banking operations, ensuring doctrinal consistency.

Challenges persist, especially regarding regulatory arbitrage, wherein institutions may exploit inconsistencies between conventional and Islamic frameworks to gain competitive advantage. Archer and Karim (2007) warned that such disparities could undermine the credibility of *sharia* banking if left unchecked. In Indonesia, overlapping jurisdictions between the Ministry of Religious Affairs and financial regulators further complicate enforcement and consumer protection.

Furthermore, empirical studies and policy documents reveal gaps in consumer understanding of the differences between Islamic and conventional banking products. Despite similar branding and financial outcomes, the underlying contractual and ethical distinctions are not always transparent to users, leading to potential misalignment between consumer expectations and institutional practice (Lewis & Algaoud, 2001; Warde, 2000).

In sum, the dual banking system in Indonesia is legally robust and operationally viable but requires ongoing regulatory innovation and public education to sustain its legitimacy and efficiency. By embedding both secular and religious financial logics, Indonesia has constructed a model that balances institutional pluralism with systemic stability.

2. Theoretical Justifications and Practical Limitations of Financial Dualism

The second research question examines the theoretical rationale for Indonesia's dual banking model and evaluates its practical limitations. This inquiry draws directly from the foundational theories addressed earlier—namely Institutional Pluralism and Islamic Economic Principles—and examines how these frameworks materialize within Indonesia's financial architecture. Institutional Pluralism, as articulated by Scott (2001) and North (1990), provides justification for the coexistence of multiple normative orders in a single regulatory environment. In Indonesia, this pluralism is not only legal but also ideological, as state policies and public sentiment reflect a commitment to accommodate diverse financial ethics (Archer & Karim, 2007).

From an Islamic economics standpoint, the justification for *sharia*-compliant finance is grounded in its alignment with the *maqāṣid al-sharīʿah*—the overarching objectives of Islamic law. Scholars such as Chapra (2000) and Kahf (2003) have emphasized the role of Islamic finance in promoting justice, equity, and risk-sharing. These objectives contrast sharply with the debt-centered, interest-driven model of conventional banking. In Indonesia, the integration of such values into a national banking system affirms the state's role in moral governance and inclusive development.

However, despite strong theoretical foundations, the implementation of financial dualism in Indonesia presents substantial limitations. Operational complexity is one major concern. El-Gamal (2006) and Iqbal and Llewellyn (2002) observed that maintaining two parallel regulatory systems imposes high costs, both in terms of human resources and institutional coordination. For example, Islamic banks require *sharia* boards and compliance officers, while also needing to meet conventional prudential standards enforced by the Financial Services Authority (OJK).

Another limitation lies in standardization. Unlike conventional finance, which benefits from global standard-setting bodies like the Basel Committee, Islamic finance struggles with jurisdictional variations in *sharia* interpretation. Sole (2007) noted that this legal diversity often results in inconsistent product offerings and confusion among consumers and investors. In Indonesia, while the National *Sharia* Council helps unify interpretations, regional practices and institutional discretion can still lead to variations in application.

Moreover, there is an ongoing debate about the authenticity of Islamic banking practices. Scholars such as Warde (2000) have critiqued the commercialization of Islamic finance, arguing that many so-called *sharia*-compliant products are functionally similar to conventional instruments, thereby undermining the ethical distinction. This critique is particularly relevant in Indonesia, where competitive pressures sometimes lead to *sharia* banks mimicking conventional pricing and product structures.

The theoretical promise of financial dualism also hinges on the system's ability to foster inclusivity and reduce inequality. However, empirical findings suggest that Islamic banks often cater to middle- and upper-income segments, thereby limiting their reach among the financially excluded (Lewis & Algaoud, 2001; Sundararajan & Errico, 2002). In Indonesia, this trend is visible in the concentration of *sharia* banking services in urban areas, raising concerns about equitable access.

In conclusion, while the dual banking system in Indonesia is grounded in robust theoretical principles, its practical realization is fraught with operational, ethical, and strategic challenges. Addressing these limitations requires not only regulatory refinement but also critical engagement with the ideological and functional integrity of both systems.

3. Optimizing Dual Banking for Stability and Social Justice

Addressing the third research question, this section investigates how Indonesia's dual banking structure can be optimized to promote financial stability and social justice. This inquiry is particularly relevant in light of institutional tensions and market asymmetries identified in earlier sections. Drawing from Chapra (2000), the integration of Islamic ethics into financial practice offers a normative framework that can inform broader financial reforms. In Indonesia, the strategic challenge lies in reconciling this framework with the systemic demands of a competitive, market-based economy.

One key strategy for optimization involves harmonizing regulatory frameworks to prevent legal fragmentation and operational inefficiencies. As noted by Sundararajan and Errico (2002), financial dualism requires coordinated oversight to mitigate risks of regulatory arbitrage. In Indonesia, the establishment of OJK and the issuance of central *sharia* guidelines by the National *Sharia* Council represent steps toward integrated governance. However, ongoing discrepancies in tax treatment, accounting standards, and legal enforcement between the two systems still hinder full optimization (Iqbal & Llewellyn, 2002; Archer & Karim, 2007).

Consumer education is another area for enhancement. Public misunderstanding about the functional and ethical differences between Islamic and conventional banking continues to undermine the legitimacy of *sharia* finance. As Warde (2000) highlighted, the symbolic capital of Islamic banking often exceeds its practical distinctiveness, creating a trust gap. In Indonesia, targeted financial literacy programs and product transparency regulations can help bridge this gap, empowering consumers to make informed choices aligned with their ethical and financial priorities.

Moreover, product innovation that aligns with both *sharia* principles and financial utility can strengthen the operational viability of Islamic banks. As El-Gamal (2006) observed, overly rigid interpretations can stifle innovation and reduce competitiveness. To address this, Indonesia could encourage adaptive jurisprudential frameworks that permit flexible instruments like *sukuk*, microfinance tools, and fintech integrations—while maintaining compliance with Islamic law.

From a macroeconomic perspective, the role of Islamic banking in promoting financial stability remains a contested issue. While proponents argue that risk-sharing models reduce systemic vulnerability, critics note that the lack of hedging tools and limited liquidity mechanisms can pose risks during economic shocks (Lewis & Algaoud, 2001). Indonesia's financial authorities could mitigate these risks by developing Islamic interbank markets, liquidity facilities, and insurance mechanisms tailored to *sharia* constraints, thereby strengthening the sector's resilience.

Finally, optimizing for social justice requires aligning financial access with development goals. Kahf (2003) and Chapra (2000) emphasized that Islamic finance should serve broader social objectives such as poverty alleviation and equitable wealth distribution. In Indonesia, *sharia* banks can expand outreach through partnerships with *Baitul Māl wat-Tamwīl* (BMTs), integrate with *zakat* institutions, and support micro-enterprises to reinforce their developmental mandate. Government incentives for socially responsible banking and impact assessment metrics can institutionalize this focus on social justice.

In sum, optimizing Indonesia's dual banking system demands an integrated approach involving regulatory harmonization, consumer empowerment, product innovation, financial infrastructure, and developmental alignment. These strategies must be continuously refined to ensure that the system not only balances ideological plurality but also delivers sustainable and inclusive growth.

Core Findings and Pathways Forward

This literature review has thematically addressed three central research questions, each contributing to a deeper understanding of Indonesia's dual banking system. First, the study has shown that Indonesia's legal and operational frameworks permit a unique coexistence between conventional and Islamic banking, underpinned by state-sanctioned pluralism. The system operates within a cohesive regulatory architecture involving both the Financial Services Authority (OJK) and religious institutions like the National *Sharia* Council. These bodies provide a functional equilibrium, though challenges such as overlapping jurisdictions and consumer misconceptions persist.

Second, the review has critically assessed the theoretical justifications and practical limitations of financial dualism. Institutional Pluralism and Islamic Economic Principles jointly support the legitimacy of the dual model, emphasizing both normative diversity and systemic flexibility. However, the empirical realities of product standardization, cost inefficiencies, and contested religious interpretations underscore structural vulnerabilities. These findings demonstrate that the theoretical ideals often require significant adaptation in practice, especially in hybrid financial environments like Indonesia.

Third, the study identifies several pathways to optimize the dual system for financial stability and social justice. Key strategies include regulatory harmonization, improved financial literacy, adaptive jurisprudence, and stronger infrastructural mechanisms for liquidity and risk management. Furthermore, a renewed focus on developmental mandates—such as financial inclusion and poverty alleviation—can enhance the social utility of Islamic banking.

Collectively, the findings offer an integrative framework for understanding and improving dual banking systems in emerging economies. Theoretically, this research contributes by refining the concept of financial pluralism and demonstrating its contextual adaptability. It advances prior models by situating the dual system within a narrative of normative coexistence rather than binary opposition. Practically, the study provides actionable insights for regulators, bankers, and policymakers in Indonesia and beyond, suggesting institutional and strategic reforms that can foster ethical, stable, and inclusive financial systems.

Conclusion

Indonesia's dual banking system reflects a compelling experiment in financial pluralism, where ideological diversity is institutionally embedded and operationally structured. This study has examined the theoretical foundations, institutional configurations, and socio-economic implications of this system, offering a comprehensive understanding of its strengths and vulnerabilities. The findings reveal that while Indonesia has made significant progress in formalizing and institutionalizing dual banking, the system continues to face challenges related to regulatory coherence, product differentiation, and public understanding.

The theoretical alignment of dual banking with both Institutional Pluralism and Islamic Economic Principles underscores its legitimacy and adaptability. By recognizing multiple financial logics within a singular national framework, Indonesia provides a model for accommodating religious and ethical diversity in economic governance. This model not only preserves ideological authenticity but also allows for policy innovation and market resilience.

The study recommends practical reforms to enhance systemic integration and social equity. Regulators should prioritize harmonized oversight and eliminate gaps that permit regulatory arbitrage. Financial institutions must innovate responsibly, maintaining ethical integrity while improving competitiveness. Meanwhile, public education campaigns should aim to demystify Islamic finance, ensuring that consumers understand its unique value propositions. Future research may further explore comparative models in other dual banking contexts or examine the evolving role of fintech in bridging conventional and *sharia*-based systems.

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