Dual Banking in Indonesian Islamic Economic Discourse: A Literature-Based Examination

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Abstract
This study investigates the evolution and dynamics of the dual banking system within Indonesian Islamic economic discourse. By employing qualitative literature analysis, the article explores how scholars have conceptualized the coexistence of *sharia*-compliant and conventional financial institutions in Indonesia, a Muslim-majority country with a pluralistic legal and economic system. The research synthesizes theoretical models such as institutional dualism, legal pluralism, and hybridization theory to understand the philosophical foundations and practical implications of the dual system. Findings reveal a shift in scholarly perspectives—from ideological resistance to pragmatic integration—highlighting both convergence in regulatory practices and divergence in ethical foundations. The discourse reflects persistent challenges in aligning Islamic values with modern financial infrastructure, but also presents opportunities for regulatory coherence and ethical reform. The study offers significant contributions by mapping discursive trajectories, identifying key points of convergence and divergence, and proposing integrative pathways grounded in Islamic economic principles. The insights presented have theoretical implications for Islamic finance and practical relevance for policymakers and financial regulators engaged in system design and governance within dual banking environments.

Keywords
Islamic Banking; dual banking system; Indonesian finance; *Sharia* Economics

Introduction

The coexistence of conventional and Islamic banking systems in Indonesia has become a significant area of academic inquiry and institutional reform. As the world's largest Muslim-majority country, Indonesia presents a unique financial structure in which both interest-based and *sharia*-compliant systems operate side by side. This dual banking architecture reflects the socio-religious plurality of the nation and its constitutional commitment to economic inclusivity. The emergence of Islamic finance in Indonesia since the 1990s signaled a transformative phase in economic thought, responding to global trends in ethical finance and local demands for financial services aligned with *sharia* principles (Iqbal & Mirakhor, 2007). However, the structural and philosophical integration of Islamic and conventional banking systems remains a topic of ongoing debate among scholars, regulators, and practitioners.

The discourse on the dual banking system highlights tensions between theoretical purity and institutional pragmatism. Islamic economics, grounded in the prohibition of *ribā* (interest) and the promotion of risk-sharing mechanisms, faces conceptual challenges when coexisting with interest-based institutions. Some scholars argue that the dual system dilutes the ethical foundations of Islamic finance, while others view it as a transitional model toward a fully *sharia*-compliant economy (Chapra, 2000; Siddiqi, 2006). Moreover, the regulatory and operational harmonization of these two paradigms often encounters friction, as financial products, legal frameworks, and performance indicators are not always mutually compatible. These issues underscore the need for a comprehensive analysis of how the dual banking discourse has evolved within the Indonesian context.

The theoretical significance of studying Indonesia's dual banking discourse lies in its potential to illuminate broader questions about the adaptability of Islamic economic principles in modern nation-states. Empirically, Indonesia serves as a critical case study due to its formal legal support for Islamic banking alongside the longstanding dominance of conventional finance (Ariff, 1988; Lewis & Algaoud, 2001). Literature on Islamic banking often focuses on Gulf or South Asian models, leaving the Southeast Asian context relatively underexplored in global academic discourse. The Indonesian model, with its hybrid structure and gradualist approach, offers a fertile ground for examining the dialectical interaction between religious ideals and secular institutions.

Despite the growing body of literature on Islamic finance, few studies have systematically analyzed the Indonesian dual banking discourse from a comprehensive literature-based perspective. Existing research tends to emphasize either technical operational issues or broad ideological critiques, leaving a gap in understanding the integrative dynamics between Islamic and conventional institutions (Kuran, 2004; El-Gamal, 2006). Furthermore, the academic debate often lacks a unifying framework that connects historical, theoretical, and empirical elements in a cohesive analysis. This research addresses this lacuna by synthesizing the evolution of thought across various academic contributions and identifying patterns in how the dual system is conceptualized and contested.

This study aims to answer three central questions: How has the dual banking system been conceptualized in Indonesian Islamic economic literature? What are the primary points of convergence and divergence between Islamic and conventional banking as discussed in scholarly works? And how can the literature inform future regulatory or conceptual integration of these systems in Indonesia? The objectives of this research are to explore the trajectory of the dual banking discourse, assess the epistemological and practical dimensions of coexistence, and provide a critical synthesis that contributes to the development of Islamic economic theory in pluralistic societies. By engaging deeply with the literature, this article seeks to advance scholarly understanding and offer insights relevant to policymakers, academics, and financial practitioners alike.

Literature Review

The dual banking system in Indonesia has been the subject of growing academic interest, particularly as the country seeks to harmonize *sharia*-compliant financial practices with its broader conventional economic infrastructure. The conceptual foundation for this discourse can be traced to early works on Islamic economics that emphasized the normative principles of justice, equity, and prohibition of *ribā*, contrasted against the capitalist interest-based system (Chapra, 2000; Siddiqi, 2006). These foundational theories provided the intellectual stimulus for establishing Islamic financial institutions within secular economic systems. Scholars such as Ariff (1988) and Iqbal and Mirakhor (2007) have explored how Islamic finance has been introduced as a complementary, rather than a replacement, system in various jurisdictions. This complementary model has given rise to the dual banking framework, in which Islamic financial institutions coexist alongside conventional banks within a single regulatory and economic environment.

In the Indonesian context, literature has evolved to analyze the socio-political and legal dimensions of this dual arrangement. Lewis and Algaoud (2001) noted that the development of Islamic banking in Indonesia has been marked by a cautious, gradualist approach shaped by legal pluralism and market dynamics. Studies by El-Gamal (2006) and Kuran (2004) raised concerns about the authenticity of *sharia* compliance when Islamic banks replicate conventional financial instruments with superficial modifications. Other scholars emphasized the importance of institutional design and state policy in ensuring both the operational viability and ideological integrity of the dual banking system (Iqbal & Llewellyn, 2002). These discussions underscore the necessity of a nuanced analysis that considers not only economic outcomes but also epistemological commitments and institutional constraints. Thus, the literature serves as a multifaceted lens through which the Indonesian dual banking

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system can be critically examined and contextualized within broader global debates on Islamic finance.

Theoretical Framework

Understanding the dual banking discourse in Indonesia necessitates a theoretical grounding in Islamic economic thought, institutional dualism, and financial hybridity. At the core lies the framework of Islamic economics, which posits a system grounded in moral values, risk-sharing, and the prohibition of *ribā* (interest). Scholars such as Chapra (2000) and Siddiqi (2006) have articulated the foundational values of Islamic finance, emphasizing concepts such as *ʿadl* (justice) and *maṣlaḥah* (public interest). These values inform the development of financial products and institutional structures that align with *sharia* principles. The dual banking system, therefore, presents a theoretical tension between the ideal of a unified Islamic economic model and the pragmatic need for coexistence within a secular and capitalist macroeconomic environment.

Institutional dualism theory provides another analytical lens, explaining how two structurally different systems can coexist within the same legal and regulatory framework. Ariff (1988) proposed that Islamic banking's emergence within conventional systems does not necessarily lead to a confrontation but rather a functional division of financial services tailored to diverse consumer bases. From this perspective, the dual system is a reflection of institutional accommodation rather than ideological conflict. Iqbal and Mirakhor (2007) supported this view by highlighting that Islamic financial institutions, while differing in principles, operate under the same regulatory umbrella to ensure systemic stability and consumer protection. This theoretical model allows for an understanding of how regulatory and institutional mechanisms evolve to manage coexistence without enforcing convergence.

Hybridization theory also plays a central role in interpreting the Indonesian dual banking model. Hybridization refers to the blending of different institutional logics to create new structures that combine elements from each system (El-Gamal, 2006). In Indonesia, Islamic financial institutions often mirror conventional banks in product design and operational strategy, raising questions about authenticity and differentiation. Kuran (2004) argued that such mimicry compromises the transformative goals of Islamic economics. However, others, like Lewis and Algaoud (2001), suggested that hybrid structures are a necessary evolution, allowing Islamic banks to remain competitive while gradually introducing alternative paradigms. This theoretical framework helps explain why Indonesia's dual system is not merely a passive coexistence but a dynamic process of negotiation and adaptation between two financial ideologies.

The theory of legal pluralism is also applicable, particularly in understanding how Islamic and secular legal systems interact in regulating financial practices. Legal pluralism accepts the coexistence of multiple legal systems within one jurisdiction, often necessitating overlapping norms and procedures. This concept is critical in Indonesia, where Islamic financial laws are recognized within the broader national legal system but must conform to state regulations and international banking standards (Iqbal & Llewellyn, 2002). This duality creates spaces of legal negotiation that influence institutional behavior and consumer perception. Thus, legal pluralism serves as both a constraint and an enabler for the Islamic banking sector, shaping how it defines compliance and legitimacy.

Finally, stakeholder theory provides a socio-economic dimension to the analysis by considering the interests and expectations of diverse groups—regulators, consumers, religious authorities, and international financial institutions. According to Freeman (1984), organizations must address the concerns of all stakeholders to sustain legitimacy and trust. In the Indonesian dual banking system, stakeholder alignment is essential to maintaining both operational viability and *sharia* credibility. As highlighted by Ariff (1988) and Iqbal and Mirakhor (2007), balancing these interests requires continuous engagement and transparent governance mechanisms. This theoretical insight is crucial for understanding how discourse on dual banking is not only about institutional form but also about relational dynamics among actors with competing expectations.

Previous Research

Early academic contributions to the discourse on Islamic banking provided foundational insights into the principles and institutional aspirations of Islamic finance. Ariff (1988) conducted a comparative study on Islamic banking in Southeast Asia, including Indonesia, focusing on the structural feasibility of integrating *sharia*-based finance into mixed economies. His findings indicated that while Islamic banks could operate under secular legal frameworks, regulatory and consumer readiness were significant factors influencing their development. This study laid the groundwork for understanding the institutional dualism that would later characterize Indonesia's financial sector.

Chapra (1992) further enriched the debate by offering a normative model of Islamic economics rooted in ethical and social justice. Although his focus was more theoretical, Chapra emphasized the necessity of embedding *sharia* principles within contemporary institutional frameworks. His work influenced subsequent discussions on whether a dual system undermines or supports the Islamic economic mission. While not Indonesia-specific, the philosophical depth of Chapra's analysis remains highly relevant to the Indonesian context, where ideological and operational dimensions often clash.

Siddiqi (1997) analyzed Islamic financial instruments and the legal adjustments required to implement them effectively. His research emphasized that Islamic banking

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must go beyond cosmetic compliance to offer genuine alternatives to interest-based financing. The Indonesian case reflects this dilemma, as several studies have observed the replication of conventional financial products under *sharia* labels. Siddiqi's emphasis on authenticity continues to resonate in critiques of Indonesia's dual banking approach.

Kuran (2004) offered a more critical assessment, arguing that Islamic banking is often symbolic rather than transformative. He suggested that in many Muslim-majority countries, including Indonesia, Islamic finance functions more as a cultural artifact than as a coherent economic system. His empirical evidence, although provocative, stimulated a wave of scholarship aiming to distinguish between ideological aspiration and institutional practice in Islamic banking. His critique is especially pertinent to the Indonesian case, where the expansion of Islamic banks has raised questions about their differentiation from conventional counterparts.

El-Gamal (2006) provided a comprehensive examination of financial engineering in Islamic finance, exposing how Islamic banks often mimic conventional products with *sharia* wrapping. He criticized the lack of innovation and the emphasis on form over substance. While El-Gamal did not single out Indonesia, his findings align with research on Indonesian Islamic banking's struggle to maintain both market competitiveness and theological legitimacy. His work underscores the conceptual difficulties in sustaining a genuinely dual model without convergence or compromise.

Iqbal and Mirakhor (2007) adopted a more constructive tone, offering institutional strategies for embedding Islamic finance within conventional systems. Their analysis includes case studies from various countries, including Indonesia, and suggests that a well-regulated dual system can promote financial inclusion and ethical finance. They argue that rather than replacing conventional banks, Islamic institutions can offer complementary services that enhance systemic diversity. Their work provides one of the most balanced frameworks for evaluating Indonesia's dual banking evolution.

These studies collectively expose a research gap concerning the integration of theoretical aspirations with empirical realities in the Indonesian context. While several authors address the ideological foundations or operational structures of Islamic banking, few works bridge these domains through comprehensive literature synthesis. This gap becomes particularly salient in understanding how Indonesian scholars and policymakers conceptualize the coexistence of Islamic and conventional banking within a plural legal and economic system. The present study aims to fill this void by analyzing the discourse itself—how dual banking is theorized, justified, and contested in Indonesian Islamic economic literature.

Research Methods

The type of data used in this study is qualitative and textual in nature. It primarily comprises scholarly interpretations, institutional reports, legal documents, and academic critiques relevant to the dual banking system in Indonesia. The focus is not on empirical measurement or statistical analysis but on understanding the evolution of discourse through interpretive frameworks. This approach allows for a nuanced investigation into how various scholars and institutions conceptualize the intersection of Islamic and conventional banking systems (Creswell, 2003). By engaging with theoretical arguments and historical narratives, the research seeks to provide an in-depth understanding of the intellectual landscape shaping dual banking discourse in Indonesian Islamic economics.

The data sources were drawn from a broad selection of reputable international books, journal articles, theses, and institutional publications, all published no later than 2008. These include foundational works in Islamic economics by scholars such as Chapra (2000), Siddiqi (2006), and Kuran (2004), as well as policy-oriented publications by institutions like the IMF and World Bank that comment on Indonesia's financial reforms. Academic books such as those by Ariff (1988) and Iqbal and Mirakhor (2007) were consulted for their detailed discussion of Islamic finance principles and global practices. This triangulated sourcing ensures that the data reflect multiple viewpoints and maintain both academic credibility and policy relevance (Yin, 2003, p. 85).

The data collection technique involved document analysis, particularly literature review and content examination of relevant academic and institutional texts. Selected texts were analyzed to identify recurring themes, conceptual patterns, and debates concerning dual banking in Indonesia. The inclusion criteria were based on relevance to the Indonesian context, depth of theoretical engagement, and publication credibility. Manual coding and thematic categorization were used to extract meaning from the texts (Bowen, 2009). This method allowed for a systematic and contextual examination of how the dual banking system has been framed, challenged, and defended over time within Islamic economic discourse.

The data analysis technique employed was thematic interpretation. Using an interpretive lens rooted in grounded theory (Strauss & Corbin, 1998, p. 102), the study identified key thematic clusters such as institutional hybridity, *sharia* compliance, legal pluralism, and stakeholder dynamics. These themes were then analyzed against the backdrop of theoretical models discussed earlier, including institutional dualism and hybridization theory. The interpretive analysis enabled the mapping of discourse evolution, highlighting shifts in emphasis, emerging tensions, and conceptual developments within the academic field. This method prioritizes depth over breadth, offering a more holistic and context-sensitive view of the literature.

The final step involved drawing conclusions by synthesizing findings from the thematic analysis with the theoretical framework. The synthesis aimed to evaluate how the discourse on dual banking addresses the research questions and whether it provides pathways for future conceptual or policy integration. By comparing theoretical ideals with practical realities as captured in the literature, the study reveals both the strengths and limitations of the current dual system in Indonesia. This process allowed the research to bridge theoretical abstraction and institutional practice, offering insights that are academically rigorous and practically informative (Miles & Huberman, 1994, p. 132).

Results and Discussion

The evolution of dual banking in Indonesia reflects a broader intellectual and institutional struggle to reconcile Islamic economic principles with the operational logic of a modern financial system. This section engages the theoretical framework and earlier research to establish how the discourse surrounding this duality has developed. The analysis reveals a consistent tension between preserving *sharia* values and adapting to global banking standards. While earlier scholars such as Ariff (1988) and Chapra (2000) envisioned Islamic banking as a transformative force, subsequent literature has highlighted the challenges of actualizing this vision within Indonesia's pluralist regulatory environment. This study contributes by synthesizing diverse perspectives into a coherent narrative that maps the trajectory of discourse while revealing points of friction, convergence, and adaptation.

Institutional dualism theory provides a foundation for understanding how two distinct financial paradigms—Islamic and conventional—can coexist within a shared economic structure. This theoretical lens allows for an appreciation of Indonesia's pragmatic approach, where Islamic banking institutions are granted space to develop without directly challenging the existing financial order (Iqbal & Mirakhor, 2007). Yet, previous research by Kuran (2004) and El-Gamal (2006) has raised critical concerns that this coexistence often results in the Islamic banking sector replicating the same profit-driven mechanisms it seeks to reform. This literature points to a conceptual dilemma: Can Islamic banking remain true to its foundational values while operating under regulatory constraints that prioritize standardization and risk minimization?

Newer contributions to the discourse, though still rooted in earlier frameworks, have begun to explore more integrative models. These approaches propose a hybrid financial architecture where Islamic banks do not merely imitate conventional instruments but instead innovate within a shared ecosystem. Lewis and Algaoud (2001) hinted at this possibility, emphasizing the role of gradualism and institutional learning. The Indonesian context provides fertile ground for such exploration, given its legal pluralism and relatively young Islamic banking sector. The existing literature, however, has not fully articulated how this hybrid model can be systematized or whether it risks eroding the distinctiveness of Islamic finance. The present study addresses this gap by identifying patterns in the discourse that point toward implicit models of integration.

Furthermore, the role of stakeholders—particularly regulators, religious authorities, and consumers—emerges as a critical variable in shaping the dual banking discourse. While much of the academic focus has been on institutional design, recent literature (e.g., Siddiqi, 2006; Iqbal & Llewellyn, 2002) underscores the importance of stakeholder alignment for legitimacy and functionality. In Indonesia, the alignment appears partial at best. Regulatory bodies support Islamic banking through legal reforms and institutional frameworks, yet consumer education and *sharia* board independence remain areas of concern. This study adds to the discourse by highlighting how stakeholder dynamics are not just peripheral but central to the feasibility of dual banking in Islamic economic thought.

Ultimately, the findings affirm that the Indonesian dual banking model represents both a practical accommodation and a conceptual challenge. It is a model born out of compromise but aiming toward coherence. By critically analyzing the literature, this research illustrates how the discourse has evolved from ideological delineation to institutional negotiation and now to a tentative hybridization. Each stage reflects the broader transformation in Islamic economic thought from doctrinal purity to contextual realism. This progression, while not without its flaws, demonstrates a maturing academic field grappling with the realities of economic governance in a pluralistic society.

1. Conceptualizing Coexistence: Foundations of the Dual Banking Discourse

The first research question explores how the dual banking system has been conceptualized in Indonesian Islamic economic literature. From the outset, scholars have approached this issue from both normative and institutional perspectives. Chapra (2000) framed Islamic economics as an ethical system, intrinsically incompatible with interest-based capitalism. This foundational viewpoint informed early skepticism toward dual banking models, which were seen as compromising Islamic values. However, within the Indonesian context, authors such as Ariff (1988) and Iqbal and Mirakhor (2007) provided a more nuanced stance, suggesting that coexistence is both inevitable and potentially beneficial in achieving broader economic inclusivity in Muslim-majority societies. Their works illustrate a paradigm shift—from binary opposition to functional complementarity between Islamic and conventional systems.

This shift is evident in how Indonesian literature navigates the concept of *taʿāyush* (coexistence) between financial paradigms. Siddiqi (2006) proposed that while Islamic finance must maintain its unique ethical identity, it can also operate within shared institutional frameworks, provided that core principles—like risk sharing and social equity—are preserved. In this sense, the dual banking system is not merely tolerated but actively theorized as a bridge between two worlds. The literature acknowledges that Indonesia's plural legal system and diverse economic actors necessitate a hybrid model that balances religious obligations with institutional realism (Iqbal & Llewellyn, 2002). This discursive position aligns with Indonesia's broader socio-political structure, which emphasizes tolerance and incremental reform.

Nonetheless, the conceptualization of dual banking is not without internal tensions. El-Gamal (2006) criticized the superficial Islamicization of conventional financial instruments, arguing that such practices dilute the theoretical integrity of Islamic economics. This critique resonates within Indonesian academic circles, where concerns have been raised about the legitimacy of products that merely rebrand conventional loans under *sharia* terminologies. These debates reveal a critical strand in the literature that views dual banking not as a harmonious coexistence but as a contested compromise—a view echoed by Kuran (2004), who contended that Islamic finance often functions more symbolically than substantively in pluralistic systems.

Another prominent conceptual theme is the notion of duality as a transitional phase toward fuller *sharia* compliance. Lewis and Algaoud (2001) suggested that the dual system could serve as a stepping stone, allowing for gradual institutional development while maintaining macroeconomic stability. This transitional model is particularly appealing in Indonesia, where financial conservatism and regulatory cautiousness have historically shaped policy trajectories. Indonesian authors influenced by this line of thought often argue that dual banking is a strategic compromise, enabling Islamic finance to grow organically within a supportive yet competitive environment.

Furthermore, legal pluralism as a conceptual framework supports the coexistence of Islamic and conventional banking systems under one national jurisdiction. The Indonesian legal environment accommodates both *sharia*-compliant and conventional financial services, reflecting a broader societal commitment to diversity and integration. Iqbal and Mirakhor (2007) argued that this pluralism does not necessarily create systemic conflict, provided that regulatory oversight ensures fairness and transparency. In this light, Indonesian literature often reflects optimism about the integrative potential of dual banking, particularly when supported by coherent governance mechanisms and inclusive policy design.

Finally, the concept of stakeholder engagement emerges as a meta-framework shaping the conceptual discourse. Freeman's stakeholder theory (1984), though secular in origin, has found relevance in Islamic economic thought, particularly in discussions of ethical governance and social accountability. Indonesian literature increasingly incorporates this perspective, recognizing that the legitimacy of the dual banking system depends not only on doctrinal soundness but also on public trust and institutional responsiveness (Siddiqi, 2006). The discourse thus moves beyond technical or theological boundaries to encompass relational dynamics that define the system's long-term sustainability.

2. *Convergence and Divergence—Points of Synergy and Tension*

The second research question focuses on identifying the primary points of convergence and divergence between Islamic and conventional banking as discussed in scholarly literature. Indonesian academic discourse illustrates that while operational convergence between the two systems is often observed, foundational divergences remain deeply embedded in their philosophical orientations. Islamic banking is built on principles such as risk-sharing (*mushārakah*, *muḍārabah*) and the prohibition of *ribā*, whereas conventional banking is structured around interest-bearing loans and profit-maximization imperatives. Ariff (1988) and Chapra (2000) emphasized that these differences are not superficial but stem from distinct worldviews—Islamic finance promotes social justice and ethical stewardship, while conventional banking adheres to market-driven efficiency and individual gain.

Despite these differences, convergence emerges in regulatory practice and product development. Lewis and Algaoud (2001) noted that Islamic banks often structure their financial instruments to mirror conventional products, enabling competitiveness and regulatory parity. For example, *murābaḥah* (cost-plus financing) closely resembles traditional credit mechanisms, which facilitates Islamic banks' compliance with existing legal frameworks. In Indonesia, this trend is particularly pronounced due to the central bank's standardized requirements for risk management and liquidity coverage, which compel Islamic banks to adopt similar operational metrics as their conventional counterparts (Iqbal & Llewellyn, 2002). Thus, convergence occurs as a practical necessity, even as theoretical divergence persists.

The literature also highlights divergent perspectives on performance measurement. Conventional banks are evaluated through profitability and return on equity, while Islamic banks must incorporate ethical and social metrics rooted in *maṣlaḥah* and *ʿadl*. Chapra (2000) argued that conflating these metrics risks compromising the identity of Islamic banking, a view echoed by El-Gamal (2006), who criticized the formal mimicry of Western financial models. In the Indonesian context, regulatory alignment often necessitates the use of conventional indicators, creating a discursive tension that is frequently debated in academic literature. Some scholars advocate for the development of unique performance indices grounded in Islamic ethics, though practical models remain underdeveloped.

Risk management represents another domain of divergence. Conventional banks rely heavily on interest-based contracts to hedge financial exposure, while Islamic banks must navigate complex *sharia*-compliant instruments that avoid *gharar* (excessive uncertainty) and *ribā*. Siddiqi (2006) observed that this divergence leads to structural inefficiencies for Islamic banks, especially in volatile markets. Indonesian scholars often point to the lack of liquidity management tools as a systemic barrier to Islamic banking growth, highlighting an area where operational divergence translates into competitive disadvantage. Regulatory reforms have attempted to address this gap through instruments like *sukuk*, but these remain limited in scope and application.

On the convergence side, stakeholder engagement and corporate governance show increasing alignment between the two systems. Iqbal and Mirakhor (2007) argued that Islamic banks, despite their ethical mandates, must adopt robust governance frameworks similar to those of conventional banks to maintain investor confidence and regulatory compliance. In Indonesia, the Financial Services Authority (OJK) has imposed uniform reporting standards and audit protocols across both banking sectors, further narrowing the operational divide. This convergence is seen as enhancing transparency and institutional trust, though it also raises concerns about the erosion of distinctiveness in Islamic banking practices.

Marketing strategies present another area of divergence that literature has begun to explore. While conventional banks emphasize convenience and profitability, Islamic banks often leverage religious identity and ethical commitment as market differentiators. However, scholars such as Kuran (2004) questioned whether this branding accurately reflects substantive differences or merely capitalizes on religious sentiments. In Indonesia, consumer behavior studies reveal a complex picture: while many customers express preference for *sharia*-compliant services, their decisions are often driven more by pricing and accessibility than by ideological conviction. This behavioral divergence illustrates the gap between conceptual frameworks and market realities.

Finally, the literature reflects a growing awareness of the need for integrative frameworks that reconcile convergence and divergence. Hybridization theory, as discussed by El-Gamal (2006), provides a conceptual tool to understand how Indonesian banking evolves through selective adoption and adaptation of practices from both paradigms. This hybridity does not signify confusion but rather strategic evolution—a theme increasingly recognized in Indonesian Islamic economic literature. By mapping these points of convergence and divergence, the present study highlights the complexity of managing dual identities within a single financial system.

3. Toward Integration: Insights from Literature for Policy and Conceptual Reform

The third research question investigates how literature can inform the future regulatory or conceptual integration of Islamic and conventional banking systems in Indonesia. A critical insight from the literature is the importance of aligning regulatory structures with the foundational objectives of Islamic finance while ensuring systemic coherence. Iqbal and Mirakhor (2007) argued that regulatory dualism must be carefully managed to avoid legal fragmentation and consumer confusion. In Indonesia, the dual regulatory approach—where Bank Indonesia and the Financial Services Authority (OJK) oversee both Islamic and conventional institutions—has prompted discussions on the need for a unified framework that respects *sharia* integrity without creating institutional inefficiencies.

A number of scholars propose that integration need not imply homogenization but can be achieved through a layered regulatory model. Lewis and Algaoud (2001) advocated for differentiated regulation based on risk profiles and operational mandates, allowing Islamic banks to innovate within their ethical boundaries. This model supports the coexistence of distinct paradigms under a harmonized policy umbrella. In the Indonesian context, such an approach could enhance regulatory clarity while promoting innovation. However, as Kuran (2004) pointed out, integration efforts must guard against superficial assimilation that undermines the transformative goals of Islamic economics.

Conceptual integration also requires a shift in academic discourse from doctrinal purity to functional pragmatism. Chapra (2000) emphasized the necessity of embedding Islamic finance within national development goals and social welfare systems. This perspective suggests that integration should focus on outcomes rather than form—evaluating success by impact on poverty alleviation, financial inclusion, and ethical business conduct. Indonesian literature increasingly reflects this orientation, highlighting the potential for Islamic banking to contribute meaningfully to national development agendas, provided that its theoretical models adapt to contextual realities.

Legal pluralism remains both a challenge and an opportunity in the integration process. Iqbal and Llewellyn (2002) suggested that overlapping legal jurisdictions—secular and *sharia*—must be harmonized through dialogical jurisprudence and coordinated policy instruments. In Indonesia, efforts to codify *sharia* banking laws within the national legal framework have been partially successful but still face gaps in enforcement and interpretation. Academic contributions call for greater collaboration between religious scholars and financial regulators to develop jurisprudential tools that are both theologically sound and institutionally viable. This process, while complex, is essential for meaningful integration.

From a governance perspective, stakeholder theory underscores the need for inclusive dialogue and participatory policymaking. Freeman's (1984) model, adapted in Islamic economic thought by Siddiqi (2006), posits that integration will only succeed if all relevant actors—regulators, *ulama*, financial institutions, and consumers—have a voice in shaping policy. In Indonesia, stakeholder engagement has improved through public consultations and advisory councils, but literature points to persistent gaps in consumer education and *sharia* board independence. These areas must be addressed to ensure that integration is not top-down but driven by a shared vision of ethical finance.

Another emerging theme in the literature is the importance of educational reform. As El-Gamal (2006) noted, many Islamic financial practitioners lack a deep understanding of *fiqh al-muʿāmalāt*, leading to implementation that is legally compliant but conceptually shallow. Indonesian scholars argue that curriculum development in economics and finance must incorporate both *sharia* principles and modern financial theory to produce a new generation of professionals capable of leading integrated financial institutions. This recommendation is echoed in policy discussions and is increasingly reflected in university programs and professional training courses across Indonesia.

Finally, the literature suggests that integration should be seen as a dynamic process rather than a fixed endpoint. Hybridization theory, as applied by El-Gamal (2006), offers a framework for understanding this evolution as a series of adaptive responses to changing institutional, legal, and social contexts. In Indonesia, where Islamic banking continues to grow within a predominantly conventional system, this dynamic model allows for continuous innovation while retaining core values. The integration of dual banking systems, therefore, is not about choosing one paradigm over the other but about creating a coherent financial ecosystem that draws strength from diversity.

Core Findings and Pathways Forward

This study has provided a comprehensive literature-based analysis of the discourse on Indonesia's dual banking system, addressing three central research questions. First, the review of academic literature reveals that the concept of dual banking in Indonesian Islamic economic thought has evolved from initial ideological resistance to a more pragmatic acceptance of coexistence. Early scholars like Chapra (2000) and Siddiqi (2006) envisioned Islamic banking as a distinct and morally superior alternative to conventional finance. However, later perspectives, particularly those from Ariff (1988) and Iqbal and Mirakhor (2007), framed the dual banking system as a transitional or complementary structure suited to pluralistic contexts like Indonesia. This progression reflects a maturing intellectual stance that acknowledges the practical constraints of financial reform within existing global and national systems.

Second, the literature identifies several points of convergence and divergence between Islamic and conventional banking. Convergence is most apparent in operational aspects such as product structuring, regulatory compliance, and performance evaluation. Islamic banks in Indonesia have adopted many functional elements from their conventional counterparts to remain competitive and meet regulatory standards. Yet divergence persists in underlying principles, particularly around *ribā*, risk-sharing, and ethical accountability. These conceptual differences are at the core of the duality and continue to generate debates about authenticity and differentiation. The Indonesian experience, as discussed in the literature, offers a valuable case study of how convergence and divergence coexist in a complex regulatory and social ecosystem.

Third, the literature provides actionable insights into how dual banking systems can be better integrated, both conceptually and institutionally. Integration, according to scholars like Lewis and Algaoud (2001), is not about uniformity but about coherent frameworks that accommodate difference while promoting shared goals such as financial inclusion, systemic stability, and ethical finance. Legal pluralism and stakeholder engagement emerge as critical factors in ensuring successful integration. The Indonesian context shows promising developments in legal reform and institutional support, yet challenges remain in public understanding, governance standards, and educational foundations. The literature consistently advocates for policies that are participatory, context-sensitive, and grounded in Islamic ethical frameworks.

The theoretical implications of this research include a rethinking of Islamic banking not as a binary alternative to conventional systems, but as part of a dynamic, evolving financial ecosystem. This integrative perspective encourages a departure from rigid ideological boundaries and promotes intellectual flexibility grounded in *maṣlaḥah* and *ʿadl*. Conceptually, the study contributes to the refinement of hybridization and institutional dualism theories within the context of Islamic economics. Practically, it highlights the importance of inclusive regulatory policies, cross-disciplinary education, and participatory governance as strategies for deepening the impact of Islamic finance in mixed economies like Indonesia. These findings lay the groundwork for future research and policymaking aimed at optimizing the strengths of both Islamic and conventional systems in service of ethical and sustainable financial development.

Conclusion

The discourse on Indonesia's dual banking system represents a complex intersection of ideology, pragmatism, and institutional adaptation. This study has synthesized a broad range of scholarly literature to explore how the duality of Islamic and conventional banking is conceptualized, contested, and potentially integrated within the Indonesian context. The findings reveal that the evolution of this discourse reflects a broader shift within Islamic economics—from a rigid pursuit of doctrinal purity to a more nuanced engagement with institutional realities and socio-economic pluralism. By addressing three key research questions, the study demonstrates that dual banking is not merely a structural arrangement but a discursive space where ethical aspirations and market logics interact.

The research confirms that while convergence in operational and regulatory domains has facilitated the growth of Islamic banking, fundamental divergences in ethical and conceptual foundations continue to challenge seamless integration. The literature shows that integration is most feasible when approached not as forced standardization but as a layered, context-driven process that honors the distinctiveness of Islamic finance. Legal pluralism, stakeholder participation, and educational reform emerge as critical pathways for creating a coherent and ethically grounded financial ecosystem in Indonesia.

From a theoretical standpoint, this study contributes to Islamic economic thought by offering an integrative framework that bridges the normative and practical dimensions of dual banking. It affirms the value of hybridization and institutional dualism as tools for understanding and guiding financial development in Muslim-majority societies. Practically, the findings underscore the need for policy strategies that are inclusive, transparent, and grounded in *sharia* principles, yet responsive to contemporary economic challenges. Policymakers are encouraged to invest in regulatory coherence, capacity building for *sharia* boards, and public financial literacy. Future research should build on this foundation by examining empirical data on consumer behavior, institutional performance, and policy implementation to further inform the evolving discourse on dual banking in Indonesia and beyond.

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