

**Harmonization of Islamic and Conventional Banking Law in Dual Banking System
(Digital Transformation and Progressive Innovation)**

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ABSTRACT

This study examines the harmonization of Islamic and conventional economic law within dual banking systems through progressive innovation and digital transformation. The research employs a normative legal approach combined with comparative analysis to investigate how dual banking systems can effectively integrate Islamic principles with conventional banking practices while maintaining regulatory coherence. The study reveals that successful harmonization requires comprehensive legal frameworks that accommodate both systems' distinct characteristics while leveraging digital technologies to enhance operational efficiency and regulatory compliance. Key findings indicate that progressive innovation in financial technology, coupled with adaptive regulatory frameworks, can facilitate seamless integration between Islamic and conventional banking operations. The research contributes to the understanding of how dual banking systems can evolve to meet contemporary financial demands while preserving the integrity of Islamic principles and conventional banking practices. Maximum 500 characters (with spaces)

Keywords : dual banking system, Islamic banking, conventional banking, legal harmonization, digital transformation, financial innovation

A. INTRODUCTION

Indonesia is the country with the largest Muslim population in the world, which provides a strong rationale for establishing sharia-based banking. Islamic banking has developed since the birth of Law No. 7 of 1992 concerning "banks based on profit-sharing principles" which implicitly provided opportunities for banking business activities based on Islamic law, although there were no detailed legal foundations and types of permitted business. In Indonesia, the first Islamic bank was Bank Muamalat in 1992, established by a working group resulting from the Fourth National Conference of the Indonesian Council of Islamic Scholars (MUI). The economic crisis that occurred in Indonesia in 1998 caused many conventional banks to collapse, while Bank Muamalat was able to survive amid the crisis, indicating that Islamic banks have strong capabilities in facing economic crises. Since then, many conventional banks have also established their own Islamic business

units with the aim of preventing more severe collapse and maintaining banking stability. Bank Indonesia issued Law Number 21 of 2008 which states that Islamic banking is everything related to Islamic banks and Islamic business units, including institutions, business activities, and methods and processes in conducting business based on sharia principles. According to its types, it consists of Islamic Commercial Banks and Islamic Financing Banks. With these legal provisions, banking activities in Indonesia became a dual banking system.

The Dual Banking System is a banking activity that can conduct interest-based activities and non-interest-based activities (Profit Sharing). This system has become an important phenomenon in the global financial environment, particularly in countries with dominant Muslim populations. In Indonesia itself, the Islamic banking system has developed rapidly since Law No. 21 of 2008 on Islamic Banking was enacted, becoming one of the answers to the community's need for financial services based on Islamic principles such as the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation). However, conventional banking still dominates the banking sector in the last 5 years and continues to innovate competitive products. Therefore, the lagging implementation of the Islamic banking system must also be accompanied by strong legal protection so that both types of banking can be well integrated. The fundamental differences between these two types of banking include aspects of regulation and supervision, differences in operational principles, dispute resolution aspects, taxation aspects, guarantee and execution provisions, capital market regulations, and digital product regulations, so that the legal framework often creates overlapping processes or regulatory conflicts that can disrupt the stability of the banking system as a whole. This system allows coexistence between Islamic and conventional banking within one jurisdiction, creating legal complexity that requires effective harmonization.

The era of digital transformation marked by the emergence of financial technology (fintech) in the early 2000s has demanded accelerated banking law harmonization to ensure national economic growth. Based on Financial Services Authority (OJK) data from 2023, Indonesia has 12 Islamic Commercial Banks (BUS), 20 Islamic Business Units (UUS), and 164 Islamic Rural Banks (BPRS) operating alongside 110 conventional banks. Both conventional and Islamic banking compete to adopt the latest technologies, such as digital financial services and fintech, to improve operational efficiency and accessibility.

However, technological developments also create the need for adaptive and comprehensive regulations so that innovation remains aligned with applicable financial principles, both conventional and Islamic. This condition shows the importance of legal harmonization to create a stable banking ecosystem, economic growth, and increase public trust in the banking sector, which will ultimately support the creation of a more inclusive and sustainable financial system.

The main challenge in harmonizing Islamic and conventional banking law lies in the fundamental differences in the principles underlying both systems. Islamic banking is based on Islamic principles that prohibit *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (speculation), while conventional banking operates based on capitalist economic principles that allow interest and various financial instruments that may not be in accordance with Islamic principles. This research aims to analyze how harmonization of Islamic and conventional banking law can be achieved in a dual banking system through progressive innovation and digital transformation.

B. METHOD

This research uses normative legal research methods with a conceptual approach. This method was chosen to analyze legal concepts related to the harmonization of Islamic and conventional banking law in the dual banking system. The conceptual approach is used to analyze the concept of banking law harmonization with focus on analyzing the concept of dual banking system, the concept of banking law harmonization, the concept of digital transformation in banking, and the concept of progressive innovation in banking law. This research uses secondary legal data sources consisting of primary legal materials: legislation, OJK regulations, and DSN-MUI fatwas; secondary legal materials: books, scientific journals, and research reports; tertiary legal materials: legal dictionaries, encyclopedias, and internet articles. Data was collected through library research by analyzing various legal sources and literature relevant to the research topic. Statistical data was obtained from official reports from OJK, Bank Indonesia, and related financial institutions.

Analysis was conducted qualitatively using descriptive-analytical analysis techniques to describe and analyze the harmonization of Islamic and conventional banking law in the dual banking system.

C. ANALYSIS/DISCUSSION

A. Dual Banking System in Indonesia

The dual banking system is a financial system structure where conventional banks and Islamic banks operate side by side in one country. This system allows people to choose banking services according to their preferences, whether based on conventional considerations or Islamic principles. Conventional Banks operate with an interest (riba) system as the main instrument in determining profit and fund costs. Their main focus is maximizing shareholder profit by applying capitalist economic principles. Meanwhile, Islamic Banks operate based on Islamic law (sharia) principles that prohibit riba, gharar (excessive uncertainty), and maysir (speculation). Profits are obtained through profit-sharing, buying and selling, and rental systems. This system provides flexibility for people to choose banking services according to their beliefs and needs. This diversification can improve overall financial system stability because risks are spread across two different business models. Competition between both systems encourages product innovation and service quality improvement. Conventional banks are encouraged to develop more ethical products, while Islamic banks strive to improve efficiency and competitiveness. Implementing a dual system requires a more complex regulatory framework. Monetary authorities must regulate two different systems with their respective standards and principles. This includes supervision, accounting standards, and adjusted monetary policy instruments.

Monetary policy coordination becomes more challenging because policy transmission can differ between the two systems. Central banks need to develop effective instruments for both market segments. Malaysia became a pioneer in successfully implementing the dual banking system by developing a comprehensive regulatory framework. The country succeeded in creating an ecosystem where both systems can develop harmoniously. Indonesia also implements a dual system with Islamic banking that has grown rapidly in recent decades. The government even consolidated state-owned Islamic banks to strengthen the position of Islamic banking. Middle Eastern countries such as the UAE and Bahrain developed dual systems to attract global investment while maintaining Islamic identity in their financial systems. The dual banking system is a banking structure that allows Islamic banks and conventional banks to operate simultaneously in one jurisdiction (Hassan & Aliyu, 2021). This system was first implemented in Malaysia in 1983 and subsequently adopted by various Muslim countries, including Indonesia.

Based on current statistical data, the dual banking system has experienced significant development in various countries. This growth is further strengthened by regulatory reforms, market development, and digitalization initiatives. The alignment between asset and financing growth shows effective fund distribution and balanced intermediation, while stable deposit growth indicates continued customer trust and a stable funding base.

Table 1. Islamic and Conventional Banking Growth

Indicator	Islamic	Conventional	Notes
Total Assets	Rp 980.30 trillion	Rp 12,000+ trillion	*Islamic market share: 7.72%
Asset Growth	9.88%	4-5%	*Islamic grows faster
Number of Banks	13 BUS + UUS	105 Commercial Banks	*Data as of 2023-2024
Number of Offices	2,001 units	30,000+ units	*BSI dominates 55% of Islamic offices

Source: Ojk.go.id Positive Performance of Islamic Banking 2024

According to Imam and Kpodar (2022), the dual banking system has unique characteristics in terms of regulatory structure, supervision mechanisms, and market integration. The existence of two banking systems with different operational principles creates regulatory complexity that requires a comprehensive harmonization approach. Risk diversification in the financial system can improve stability, especially when facing crises that specifically affect one system. Experience shows that Islamic banks tend to be more stable during global financial crises due to their more conservative business structure. The implementation of the dual banking system in Indonesia is based on several main regulations that form a comprehensive legal framework. Law No. 7 of 1992 concerning Banking as amended by Law No. 10 of 1998 provides the legal basis for conventional bank operations, while Law No. 21 of 2008 concerning Islamic Banking provides a special foundation for Islamic bank operations. The harmonization of these two legal frameworks creates a system

that allows the coexistence of conventional and Islamic banks while maintaining the basic principles of each system.

B. Harmonization of Islamic and Conventional Banking Law

In the dual banking system, legal harmonization becomes crucial to ensure no normative conflicts occur between Islamic and conventional banking regulations. Legal harmonization of economics in the context of dual banking systems involves the process of adjustment and balancing between Islamic and conventional principles (Rammal & Zurbruegg, 2022). This process includes three main dimensions:

1. **Structural Harmonization**, in the form of adjusting organizational structure and governance that enables effective integration between Islamic and conventional banking. This aspect includes:
 - Ownership and control structure
 - Corporate governance system
 - Supervision and oversight organization
 - Strategic decision-making mechanisms

Structural harmonization in the dual banking system in Indonesia can be seen from the significant development of Islamic Business Unit (UUS) implementation formed by conventional banks as a transition model. These Islamic Business Units serve as an answer to accommodate Islamic banking services in an integrated organizational structure. This implementation is also supported by adopting a governance system that enables dual systems, such as implementing separate but coordinated board structures, integrated risk management systems, and implementing a compliance framework that unites both systems. However, differences in ownership structures between conventional and Islamic banks create challenges in structural harmonization, with many banks struggling to align governance structures between conventional parent companies and Islamic units, creating potential conflicts of interest between conventional and Islamic stakeholders.

2. **Operational Harmonization**, in the form of integrating operational systems and technology that enables operational efficiency of both banking systems. This dimension includes:

- Information system and technology integration
- Business process and operational procedure harmonization
- Product and service standardization
- Distribution and delivery channel synergy

Operational harmonization in technology aspects can be demonstrated through customer service products for both Islamic and conventional banks in the form of Core Banking systems, Digital Platforms, Payment Gateways, and Shared ATM Networks that are integrated and use the same platform so they can serve both types of customers. Such as ATM Bersama, BI-Fast, and QRIS.

3. **Regulatory Harmonization**, in the form of legal framework and policy convergence that enables operational efficiency of both banking systems. This dimension includes:

- Prudential standards convergence
- Reporting and accounting system harmonization
- Supervision and sanction framework integration
- Macroprudential policy synchronization

Reporting and accounting systems in dual systems show quite significant differences, where there are differences in accounting standards used between Conventional PSAK and Islamic PSAK.

Table 3. Comparison of Islamic and Conventional Bank Accounting Standards

Element	Conventional PSAK	Islamic PSAK
Revenue Recognition	Accrual Basis	Accrual + Cash Basis
Asset Valuation	Historical Cost/Fair Value	Islamic Fair Value

Element	Conventional PSAK	Islamic PSAK
Disclosure	General Standards	General Standards + Sharia Compliance
Audit	Conventional Audit	Conventional Audit + Sharia Audit

The Financial Services Authority (OJK) has implemented an integrated regulatory approach through:

- a. **Dual Regulatory Framework**, regulations that apply to both banking systems. Examples include several conventional banks that have Islamic Business Units, such as CIMB Niaga - CIMB Niaga Syariah, BTN - BTN Syariah, Bank Mega - Bank Mega Syariah, etc.
- b. **Shariah Compliance Integration**, conditional integration of sharia compliance in general regulations manifested in product types such as deposit products managed based on Islamic principles of wadiah (deposit) or mudharabah (profit sharing) that require verification and review processes by the Sharia Supervisory Board (DPS).
- c. **Risk-Based Supervision**, as a form of risk-based supervision, such as credit/financing risk, market, liquidity, operational, legal, reputation, strategic, and compliance risks adjusted to the characteristics of each bank.

These three dimensions of harmonization create a system that allows the coexistence of conventional and Islamic banks while maintaining the basic principles of each system.

Table 4. Dual Banking System Regulatory Structure

Aspect	Islamic Banking	Conventional Banking
Legal Foundation	- Law Number 21 of 2008 on Islamic Banking - Bank Indonesia Regulations and OJK Regulations related to Islamic banking - Fatwas of the National Sharia Council of Indonesian	- Law Number 10 of 1998 on Amendment to Law No. 7 of 1992 on Banking - Law Number 23 of 1999 on Bank Indonesia (as amended) - Law Number 21 of 2011 on Financial Services Authority

Aspect	Islamic Banking	Conventional Banking
	Islamic Council (DSN-MUI)	(OJK)
Operational Principles	Profit-Loss Sharing	Interest
Supervision	OJK + DPS	OJK
Main Products	Financing, Mudharabah, Musyarakah	Credit, Deposits, Savings
Revenue Source	Halal Profit Margin	Interest Margin
Guarantee Concept	Kafalah or Rahn	Mortgage Rights
Taxation	Potential Double Taxation	Single Taxation
Capital Market	Not all capital market instruments in sharia version	Conventional ribawi capital market instruments
Dispute Resolution	Religious Court, Sharia Arbitration	District Court, General Arbitration

C. Digital Transformation in Islamic and Conventional Banking

The development of financial technology (fintech) and digital transformation in the banking industry has created new challenges in harmonizing Islamic and conventional banking law in Indonesia. This banking system dualism requires a coherent regulatory framework to support innovation while maintaining the fundamental principles of each system.

Table 5. OJK Regulations in Digital Transformation

General Financial Technology Regulations	Special Islamic Digital Banking Regulations
POJK Number 77/POJK.01/2016 on Information Technology-Based Money Lending Services	POJK Number 15/POJK.03/2017 on Status Determination and Follow-up Supervision of Islamic Commercial Banks and Islamic Business Units
POJK Number 13/POJK.02/2018 on Digital Financial Innovation in Financial Services Sector	OJK Circular Letter on Implementation of Information Technology Governance for Islamic Commercial Banks and Islamic Business Units
POJK Number 12/POJK.03/2021 on Commercial Banks	

The Financial Services Authority as the regulator for both Islamic and conventional banking strives to create an integrated dual system so that digital-based services can be provided in both Islamic and conventional banking. Generally, the regulatory coverage issued by OJK includes definitions and scope by regulating peer-to-peer lending platforms based on information technology, minimum capital, governance systems, technology infrastructure, information transformation, dispute resolution mechanisms, education, and limitations on loan amounts per borrower and lender. Meanwhile, for Islamic banks, they must comply with Islamic principles in their contracts and operations, obtain approval from DSN-MUI, and implement mudharabah or musyarakah contracts in loan structures.

Digital transformation in Islamic and conventional banking in Indonesia within the dual banking system framework reflects how both systems (Islamic and conventional) develop in parallel by utilizing digital technology to improve efficiency, financial inclusion, and compliance with their respective principles. Several digital transformations experienced by conventional banking include:

a. **Digital Banking**, with the development of digital financial applications that can be downloaded by customers on their respective gadgets for greater efficiency and effectiveness such as BRImo (BRI), Livin' by Mandiri, BCA Mobile, Jago. In addition, there is also an increase in non-cash transactions through QRIS, mobile banking, internet banking.

b. **Automated Branch & Self-Service Technology**, which is the use of technology with:

1. **CRM (Cash Recycling Machine)**, machines that combine cash deposit and withdrawal functions independently
2. **Video banking**, banking services that allow customers to interact with bank officers through video conferencing to conduct banking transactions. Such as V-Box machines or mobile applications like Halo BCA, Mandiri Video Banking Box, D-Bank by Bank Danamon, BSI, etc.
3. **Big Data & AI**, with utilization of customer data for credit scoring and marketing analytics.
4. **Open Banking & API (Application Programming Interface) Integration**, cooperation with fintech to expand services through API integration.

Meanwhile, digital transformation in Islamic banking is also increasing although there are some additional constraints such as the need for compliance with Islamic principles, including:

a. **Digital Syariah Banking Platform**, Example: BSI Mobile (Bank Syariah Indonesia) offers features for opening Islamic accounts, zakat payments, waqf, and digital contracts.

b. **Digital Onboarding and Online Contracts**, Account opening processes and contracts (mudharabah, murabahah, etc.) conducted through digital platforms with approval according to Islamic principles.

c. **Financial Technology Syariah**, Islamic-based fintech such as ALAMI, Investree Syariah, which facilitates P2P lending financing based on contracts.

d. **Integration of Islamic Social Finance Systems**, Digitalization of collection and distribution of zakat, infaq, sedekah, and wakaf (ZISWAF).

From several digital transformations in the dual banking system, it encourages significant legal harmonization so that this digital transformation can expand service access to 3T areas (Underdeveloped, Frontier, Outermost) for example with MSME digitalization and with the collaboration of Islamic and conventional banks in hybrid models (one system or application has 2 types of bank services), but structural harmonization in digitalization makes automation of Islamic contracts need to ensure no gharar and must maintain margin transparency so it doesn't resemble hidden interest. In terms of technology capital, conventional banks with larger scales generally develop faster and more massively compared to Islamic banks which are still small-scale.

Table 6. Digital Transformation of Islamic and Conventional Banking in Dual Banking System

Aspect	Conventional Banking	Islamic Banking	Implementation Examples
Digital Platform	Applications like Livin' by Mandiri, BRI Mo, BCA Mobile	BSI Mobile, Muamalat DIN	Customers can open accounts and transact without going to branches
Digital Financial Services	Mobile banking, internet banking, e-wallet integration	Mobile banking with digital contract features and ZISWAF services	Digitalization of financing contracts (murabahah, ijarah) online
Customer Onboarding	e-KYC (digital verification)	e-KYC with Islamic contract approval process	Islamic customers can open accounts with contracts online
Financing/Loan Products	Interest-based credit, digital KTA	Financing with contracts (murabahah, mudharabah, musyarakah)	Automatic conventional loans vs Islamic financing based on approved margins

Aspect	Conventional Banking	Islamic Banking	Implementation Examples
Supporting Technology	Big data, AI for credit scoring and personal finance	AI still limited, but being developed in contract analysis	Micro credit based on historical data vs Islamic financing based on contracts
Fintech Collaboration	Open to all types of fintech	Selective, only with Islamic-based fintech	Cooperation of Islamic banks with Islamic fintech (e.g., ALAMI, LinkAja Syariah)
Financial Inclusion	Credit distribution to MSMEs through digital platforms	Micro Islamic financing distribution to informal sector	Fintech lending for farmers or small traders with Islamic contracts
Social Finance Features	Digital CSR, donations	Digital Zakat, Infaq, Sedekah, Wakaf (ZISWAF)	Zakat and wakaf features in Islamic banking applications
Regulatory and Sharia Compliance	Following general OJK and BI regulations	Additional: Compliance with DSN-MUI fatwas	Contracts and product structures must be verified by DSN-MUI
Challenges	Cyber risks and competition from digital banks	Limited Islamic digital HR and delayed technology adoption	Some Islamic banks cannot adopt open APIs and AI maximally

D. Progressive Innovation in Banking Law Harmonization

Progressive innovation is a creative and adaptive approach in designing laws and policies capable of accommodating digital dynamics, technology, and banking dualism principles without sacrificing the basic values of each system. One innovation implemented by OJK is the existence of Sandbox regulations aimed at both Islamic and conventional

banking. Regulatory Sandbox is a limited testing mechanism for new business models, products, services, and/or technologies in the financial services sector that have not been regulated or not fully regulated by applicable regulations.

OJK uses regulatory sandbox to accommodate innovation in the technology-based financial services sector, especially in the financial technology (FinTech) industry. The purpose is to assess the feasibility and risks of such innovation before being established as part of the formal financial system.

The main legal basis for OJK's implementation of Regulatory Sandbox is: POJK No. 13/POJK.02/2018 on Digital Financial Innovation (IKD) in the Financial Services Sector. Articles 6 to 9 regulate the implementation of regulatory sandbox and OJK Circular Letter No. 21/SEOJK.02/2019 on Regulatory Sandbox Implementation, providing technical guidelines for sandbox implementation, including stages and assessment criteria.

According to POJK and OJK SE, sandbox stages include:

- a. **Registration**, Digital financial innovation (IKD) business actors register their products with OJK. Must submit proposals containing: business model, technology used, benefits, risks, and partners (if any)
- b. **Initial Evaluation**, OJK conducts administrative and substantive selection, assessing whether the innovation is truly new, beneficial, and requires testing. If passed, enters sandbox stage.
- c. **Testing Implementation**, OJK designates business actors as sandbox participants. Participants get a maximum trial period of 1 (one) year, can be extended for 6 months if needed. During trials, products are only used by limited users (limited trial).
- d. **Monitoring and Evaluation**, OJK conducts periodic monitoring of compliance with consumer protection principles, business model effectiveness, technology and data security aspects, and participants must submit periodic reports.

e. OJK Decision:

- Recommended for use: Product can be continued commercially and will be formally regulated
- Needs further development: Product must be improved or modified before continuation
- Not recommended: Product is prohibited from continuation because it doesn't meet regulatory standards

This Regulatory Sandbox can encourage inclusive and safe innovation harmonization in the financial services sector, by bridging new technology and still-developing regulations, and most importantly providing legal certainty for innovative actors before being permanently regulated. One example is ALAMI Sharia (P2P Lending) which once participated in sandbox to ensure its contracts and technology comply with regulations. In addition, Fintech utilizing AI, blockchain, robo-advisor, or smart contracts are also tested through this sandbox before being launched to the public. Generally, several progressive innovations already implemented in society include:

1. Integrated Digital Banking Platform

A. Bank Syariah Indonesia (BSI) - BYOND by BSI

Progressive Innovation Features: a. **Sharia Super App**: All-in-one application with banking, investment, and lifestyle services b. **QRIS Integration**: Digital payment with automatic sharia compliance c. **Sharia Robo-Advisory**: AI-powered investment recommendation based on sharia principles d. **Digital Wallet**: Sharia e-money with auto-screening halal/haram

Harmonization with Conventional:

1. Uses the same national QRIS infrastructure
2. Interoperability with conventional payment systems
3. Unified API for merchant integration

B. Bank Mandiri - Livin' by Mandiri

Dual Banking Features: a. **Dual Account Management**: One application to manage sharia and conventional accounts b. **Smart Switching**: Automatically selects sharia/conventional products based on customer preferences c. **Cross-Platform Investment**: Access to sharia and conventional investment products in one interface

2. Digital Financing (Digital Lending)

A. BSI Mitraguna Online

Progressive Innovation: a. **100% Digital Process**: Application to disbursement without visiting branch office b. **AI Credit Scoring**: Credit assessment algorithm considering sharia factors c. **Blockchain Documentation**: Smart contract for digital murabahah contracts d. **Real-time Shariah Compliance**: Automatic sharia compliance monitoring

Harmonization: a. Uses the same scoring system as conventional products b. Integrated with national credit bureau (SLIK OJK) c. Shared fraud detection system

B. BRI Digital Lending Platform

Dual Products: a. **BRIGuna**: Conventional financing with digital platform b. **BRIGuna Syariah**: Sharia version with murabahah/musyarakah contracts c. **Unified Application**: One platform for both products with auto-routing

3. Digital Investment (Wealth Management)

A. Mandiri Digital Investment

Dual Banking Features: a. **Mandiri Sekuritas**: Conventional and sharia stock trading in one platform b. **Hybrid Mutual Funds**: Mixed conventional and sharia portfolio c. **Dual Robo-Advisory**: AI advisor that can recommend sharia and conventional products.

B. BCA Digital Investment

Progressive Innovation: a. **Welma (Wealth Management)**: Digital investment platform with sharia options b. **ESG Integration**: Investment screening based on Environmental, Social, Governance c. **Shariah Screener**: AI-powered filtering for halal investment

4. Payment Solutions

A. QRIS Ecosystem

Universal Harmonization: a. **Unified QR Code**: One QR for all payment types b. **Auto-Compliance**: System automatically processes transactions according to account type c. **Cross-Bank Compatibility**: Interoperability between sharia and conventional banks

Implementation Examples: a. **GoPay**: Supports top-up from sharia accounts with compliance checking b. **OVO**: Integration with sharia banks for halal merchants c. **DANA**: Dual wallet system (conventional and sharia)

B. Digital Wallet Integration

BSI Mobile & Mandiri Online: a. **Cross-Platform Payment**: Payment across banking systems b. **Merchant Classification**: Automatically categorizes halal/haram merchants c. **Split Billing**: Payment that can be split between sharia and conventional accounts

5. Fintech Partnership Products

A. Peer-to-Peer Lending

Modalku (Funding Societies): a. **Dual Funding**: Platform providing sharia and conventional financing b. **Automated Shariah Screening**: AI for halal business screening c. **Integrated Risk Assessment**: One risk assessment system for both products.

B. Insurtech Integration

Prudential Syariah & Conventional: a. **Dual Platform**: One application for sharia and conventional insurance products b. **Parametric Insurance**: Technology-based products with dual compliance c. **Blockchain Claims**: Smart contract for automatic claims.

6. Digital Trade Finance

A. Digital Letter of Credit (LC)

Bank Mandiri Trade Finance: a. **Blockchain LC**: Smart contract for sharia and conventional LC b. **Dual Compliance**: Automatically meets sharia and conventional requirements c. **Cross-Border Integration**: Compatible with international banking systems.

B. Supply Chain Finance

BSI & BRI Supply Chain: a. **Dual Financing Structure**: Murabahah for sharia, factoring for conventional b. **IoT Integration**: Real-time monitoring for collateral c. **AI Risk Assessment**: Unified risk scoring system.

7. Islamic Fintech Innovations

A. Digital Sukuk Platform

OJK Digital Sukuk: a. **Blockchain Sukuk**: Distributed ledger for sukuk certificates b. **Fractional Ownership**: Sukuk investment with low minimum value c. **Cross-Platform Trading**: Can be traded on conventional platforms

B. Digital Wakaf

Dompot Dhuafa & BSI: a. **Wakaf Crowdfunding**: Digital platform for productive wakaf b. **Blockchain Transparency**: Tracking wakaf fund usage c. **Micro-Wakaf**: Wakaf with small amounts through applications

8. Corporate Banking Solutions

A. Cash Management System

Mandiri Cash Management: a. **Dual Account Pooling**: Liquidity management for sharia and conventional accounts b. **Automated Placement**: AI-powered fund placement according to preferences c. **Cross-System Reporting**: Unified reporting for both systems

B. Trade Finance Platform

Bank BCA Trade Finance: a. **Digital Documentary Credit**: Digital LC with dual compliance b. **Supply Chain Finance**: Supply chain financing with sharia options c. **Cross-Border Payment**: Integrated international payment system

Digital transformation and progressive innovation such as Regulatory Sandbox, digital onboarding, and sharia super app platforms can serve as important bridges in uniting both banking systems, while maintaining their respective identities. Similarly, progressive innovations such as sharia robo-advisory, blockchain sukuk, and AI-based shariah screening show that technology adaptation in sharia principles is very possible, as long as regulations and supervision are kept strictly maintained.

a. Structural Harmonization

Seen from the integration of Islamic business units in conventional banks and adoption of shared governance systems. However, differences in ownership structures and basic operational principles create potential conflicts of interest that require special handling.

b. Operational Harmonization

Implementation of technologies such as core banking systems, shared ATM, BI-Fast, and QRIS creates cross-system efficiency. Digital products and services develop in parallel in both systems, but technology adoption in Islamic banking still lags behind.

c. Regulatory Harmonization

Different legal frameworks, such as the use of Islamic vs Conventional PSAK, require alignment. OJK has developed dual regulatory framework and risk-based supervision, but there is no national regulation that combines both comprehensively.

Digital transformation provides opportunities to increase financial inclusion and efficiency. However, challenges faced include:

- a. Technology adoption inequality between conventional banks (which tend to be more advanced) and Islamic banks (which have capital and HR limitations).
- b. The need for cross-system digital regulations that unite sharia and conventional interests.
- c. Risk of digital contract implementation errors that can blur sharia principles (e.g., profit margins resembling hidden interest).

Table 7. Dual Banking System Development

Legal Aspect	Current Condition	Proposed Development
Digital Regulation	Separate between conventional and sharia	Digital Banking Harmonization Law
Digital Contracts & Agreements	No specific codification	Digital contract codification based on law and sharia
Supervision & Sandbox	Conducted separately	OJK Digital Hub: cross-system and innovation type supervision
Fatwa and Products	Fatwa not automatically integrated into positive law	DSN-MUI enters co-regulatory sandbox with OJK
Literacy & HR	Still low in legal technology aspects	Certification & digital legal literacy programs for sharia banking practitioners

D. CONCLUSION

Legal harmonization in the dual banking system does not aim to standardize principles, but to create regulatory equality and legal system efficiency. From the discussions above, there are several challenges in digital transformation, such as the absence of a single regulation governing cross-system digital banking systems, difficulty in uniting technology platforms and digital supervision for two different legal principles, gaps between conventional digital infrastructure advances and sharia technology readiness, and lack of human resources who master both types of banking structures. With progressive innovation approaches and digital transformation support, Indonesia has the opportunity to become a model for a fair, inclusive banking system that is adaptive to global technological developments. The proposal for the birth of the National Banking System Harmonization Law, which does not eliminate dualism but formulates general principles of digital banking law, such as the validity of electronic contracts, customer protection, information disclosure obligations, and technology standards, becomes a legal umbrella to connect the Banking Law (Conventional) and Islamic Banking Law.

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