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# Islamic Banking Regulation and Legal Transformation: A Comparative Study of Aceh and Malaysia

***Bambang Fitrianto[a], Dian Ekawati[b], Taufik Kurrohman[b], Selamat Lumban Gaol[c], Murni Karmila Salampessy[d], Geofani Milthree Saragih[b], Kadek Rama Maheswara Putra[e]**
[a] Universitas Pembangunan Panca Budi, Indonesia
[b] Universitas Pamulang, Indonesia
[c] Universitas Dirgantara Marsekal Suryadarma, Indonesia
[d] Universitas Pattimura, Indonesia
[e] Institute for Public Finance and Tax Law Studies
[*]Corresponding author: bambangfitrianto@dosen.pancabudi.ac.id

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***Abstract***

*The institutionalization of Islamic banking in Aceh and Malaysia reflects different approaches to integrating Sharia principles into national financial regulatory systems. Aceh adopts a territorially mandatory Islamic financial regime, while Malaysia maintains the coexistence of Islamic and conventional banking institutions under distinct statutory frameworks. This study examines the legal foundations, regulatory mechanisms, and institutional implications of these arrangements through normative legal research employing statutory, conceptual, and functional comparative approaches. The analysis focuses on Indonesia's special-autonomy and Islamic banking legislation, Aceh Qanun No. 11 of 2018, and Malaysia's Islamic Financial Services Act 2013, Financial Services Act 2013, and Central Bank of Malaysia Act 2009. The findings reveal that Aceh's regulatory framework establishes territorial obligations for Sharia-compliant financial services within Indonesia's national financial system, whereas Malaysia provides separate licensing and supervisory arrangements for Islamic banking alongside conventional institutions. These differences demonstrate that mandatory regulatory compliance and dual banking coexistence represent distinct legal mechanisms rather than equivalent forms of institutional conversion. The study further identifies legal certainty, regulatory authority, Sharia governance, contractual continuity, and stakeholder protection as essential considerations in assessing both frameworks. Its principal contribution is a comparative legal framework that integrates regulatory compliance with maqasid al-Shariah, particularly the protection of property, contractual justice, and institutional accountability, without assuming that either regulatory model is inherently more effective.*

**Keywords:** *Islamic Banking Law; Comparative Law; Sharia Governance; Aceh; Malaysia; Legal Certainty; Maqasid al-Shariah.*

**Abstrak**

Pelembagaan perbankan syariah di Aceh dan Malaysia memperlihatkan perbedaan pendekatan hukum dalam mengintegrasikan prinsip-prinsip syariah ke dalam sistem regulasi keuangan nasional. Aceh menerapkan kewajiban penyelenggaraan layanan keuangan berdasarkan prinsip syariah secara teritorial, sedangkan Malaysia mempertahankan keberadaan perbankan syariah dan konvensional melalui kerangka pengaturan yang berbeda. Penelitian ini bertujuan menganalisis dasar hukum, mekanisme regulasi, dan implikasi kelembagaan kedua model tersebut melalui metode penelitian hukum normatif dengan pendekatan perundang-undangan, konseptual, dan perbandingan fungsional. Kajian difokuskan pada peraturan otonomi khusus dan perbankan syariah Indonesia, Qanun Aceh Nomor 11 Tahun 2018, serta Islamic Financial Services Act 2013, Financial Services Act 2013, dan Central Bank of Malaysia Act 2009. Hasil penelitian menunjukkan bahwa pengaturan di Aceh menempatkan kepatuhan terhadap prinsip syariah sebagai kewajiban berdasarkan wilayah dalam sistem regulasi keuangan nasional, sementara Malaysia mengembangkan mekanisme perizinan dan pengawasan tersendiri bagi perbankan syariah yang berjalan berdampingan dengan perbankan konvensional. Perbedaan tersebut menegaskan bahwa kewajiban penerapan prinsip syariah dan keberadaan sistem perbankan ganda merupakan dua mekanisme hukum yang tidak dapat disamakan dengan proses konversi kelembagaan. Penelitian ini juga mengidentifikasi kepastian hukum, kewenangan regulator, tata kelola syariah, keberlanjutan hubungan kontraktual, dan perlindungan pemangku kepentingan sebagai unsur penting dalam penilaian kedua model. Kontribusi penelitian terletak pada pengembangan kerangka perbandingan hukum yang menghubungkan kepatuhan regulasi dengan maqasid al-Shariah, khususnya perlindungan harta, keadilan kontraktual, dan akuntabilitas kelembagaan, tanpa menganggap salah satu model secara mutlak lebih efektif.

**Kata Kunci:** Hukum Perbankan Syariah; Hukum Perbandingan; Tata Kelola Syariah; Aceh; Malaysia; Kepastian Hukum; Maqasid Al-Shariah.

## INTRODUCTION

The transformation of conventional banking institutions into Islamic banking entities has emerged as a significant issue within contemporary financial law, particularly in jurisdictions seeking to align economic systems with ethical and religious values.[1] Islamic banking is

[1] H. Abbassi, S. El Mendili, and Y. Gahi, "A Conceptual Real-Time and Privacy-Preserving Architecture for Banking Fraud Detection," in *Int. Conf. Optim. Appl., ICOA - Proc.*, ed. Hachimi H. and EL Mokhi C. (Institute of Electrical and Electronics Engineers Inc., 2025), Scopus, https://doi.org/10.1109/ICOA66896.2025.11236932.

fundamentally rooted in principles that prohibit interest-based transactions, excessive uncertainty, and speculative activities, while promoting fairness, transparency, and risk-sharing. As such, the shift from conventional to Islamic banking is not merely a technical or operational adjustment, but a profound legal transformation that requires restructuring regulatory frameworks, institutional arrangements, and contractual relationships.[2] This transformation raises important legal questions concerning the adaptability of existing financial laws, the role of the state in directing financial systems, and the balance between market freedom and normative regulation.

In many jurisdictions, the development of Islamic banking has occurred alongside conventional banking systems, resulting in a dual financial structure that accommodates diverse economic preferences. However, certain regions have pursued a more comprehensive approach by mandating the full conversion of conventional financial institutions into Islamic ones.[3] This divergence in regulatory strategies reflects different legal philosophies and policy priorities, thereby necessitating a closer examination of how legal systems manage the transition. The transformation process involves not only the enactment of new legal provisions but also the reinterpretation of existing norms, the reorganization of financial institutions, and the adjustment of market practices to ensure compliance with Islamic principles.

Indonesia presents a particularly compelling case in this regard, especially through the experience of Aceh as a region with special autonomy that allows for the implementation of Islamic law in various sectors, including finance.[4] The regional legal framework in Aceh mandates that all financial institutions operate in accordance with Islamic principles, effectively requiring the transformation of

[2] J. Gardner and C. Riefa, "Office of Fair Trading v Abbey National Plc [2009] UKSC 6: Reverse Robin Hood and Banking Charges," *Private Law and the UK Supreme Court: Key Cases and Decisions*, 2025, 95–102, Scopus, https://doi.org/10.4324/9781003476788-13.

[3] Z. Aladwan, "Legal Basis for the Fraud Exception in Letters of Credit under English Law," *Journal of Financial Crime* 30, no. 2 (2023): 594–600, Scopus, https://doi.org/10.1108/JFC-01-2020-0004.

[4] Ahmad Mukri Aji, Syarifah Gustiawati Mukri, and Gilang Rizki Aji Putra, "Implementasi Harmonisasi Akad Perbankan Syariah dengan Hukum Positif di Indonesia," *Mizan: Journal of Islamic Law* 6, no. 2 (October 2022): 267, https://doi.org/10.32507/mizan.v6i2.1639.

conventional banks into Islamic banks.[5] This policy represents a distinctive model of legal transformation characterized by its mandatory nature and territorially limited application. While it demonstrates a strong commitment to the institutionalization of Islamic finance, it also introduces complex legal challenges related to regulatory enforcement, transitional mechanisms, and the protection of stakeholders' rights.

In contrast, Malaysia adopts a more gradual and integrative approach by maintaining a dual banking system in which Islamic and conventional banks operate concurrently under a unified regulatory framework.[6] Rather than imposing mandatory conversion, the Malaysian model encourages the development of Islamic banking through regulatory incentives, institutional support, and market-driven mechanisms.[7] This approach reflects a different legal orientation that prioritizes flexibility, gradual adaptation, and coexistence between financial systems. The Malaysian experience illustrates how Islamic banking can evolve within an established legal structure without necessitating the displacement of conventional banking.

The contrast between these two approaches highlights a fundamental legal and policy question regarding the most effective method of transforming conventional banking systems into Islamic ones. On one hand, a mandatory transformation model may accelerate the institutionalization of Islamic finance but risks creating legal uncertainty and operational disruption. On the other hand, a voluntary and gradual approach may ensure stability and inclusiveness but may not achieve comprehensive transformation within a limited timeframe. This tension underscores the need for a comparative legal analysis that examines the

[5] Hisam Ahyani et al., "Prinsip-Prinsip Keadilan Berbasis Ramah Gender (Maslahah) Dalam Pembagian Warisan Di Indonesia," *al-Mawarid Jurnal Syariah dan Hukum (JSYH)* 5, no. 1 (July 2023): 73–100, https://doi.org/10.20885/mawarid.vol5.iss1.art6.

[6] Noraziah Abu Bakar et al., "Malaysian Experience of Orang Asli Involuntary Resettlement Compensation Package," *Asian Journal of Environment-Behaviour Studies* 7, no. 21 (April 2022): 53–65, https://doi.org/10.21834/aje-bs.v7i21.407.

[7] Z. Ahmad et al., "A Comparative Analysis of Shariah Governance Framework of Islamic Bank in Malaysia and Pakistan," *... : Journal of Islamic ...*, no. Query date: 2026-04-21 14:33:33 (2023), https://www.researchgate.net/profile/Dr-Ahmad-43/publication/371960163_A_Comparative_Analysis_of_Shariah_Governance_Framework_of_Islamic_Bank_in_Malaysia_and_Pakistan/links/649f016f95bbbe0c6e04e739/A-Comparative-Analysis-of-Shariah-Governance-Framework-of-Islamic-Bank-in-Malaysia-and-Pakistan.pdf.

underlying frameworks, implementation strategies, and practical implications of each model.

From a legal perspective, the transformation of banking systems involves a complex process of normative change in which existing legal rules are reoriented to conform to Islamic principles. This process encompasses various dimensions, including the revision of banking regulations, the restructuring of financial products, the establishment of Sharia governance mechanisms, and the development of dispute resolution frameworks that reflect Islamic legal values.[8] The transformation also requires coordination among multiple stakeholders, including regulators, financial institutions, legal practitioners, and consumers, each of whom plays a critical role in ensuring the effectiveness and legitimacy of the process.[9]

The increasing global interest in Islamic finance further amplifies the importance of understanding the legal dynamics of bank transformation. As more countries explore the potential of Islamic banking as a means of promoting ethical finance and financial inclusion, the need for clear and effective legal frameworks becomes increasingly evident.[10] However, the diversity of legal systems and socio-economic contexts means that there is no single model that can be universally applied. Instead, each jurisdiction must develop its own approach based on its legal traditions, institutional capacity, and policy objectives. In this context, the comparative study of different transformation models provides valuable insights into the range of possible strategies and their respective advantages and limitations.[11]

The relevant comparative question is not whether one jurisdiction converts banks more successfully than the other, but how different

[8] A. J. S. Adiwijaya et al., "Reforming Sharia Business Law in Indonesia: Reconstructing a Contemporary Legal Framework for Islamic Financial Integration," *Jurnal Ilmiah Mizani* 12, no. 2 (2025): 818–30, Scopus, https://doi.org/10.29300/mzn.v12i2.10034.

[9] A. Arfan et al., "The Implementation of Maqashid Sharia: Heterogeneity of Scholars' Fatwas towards Islamic Banking Contracts," *Legality: Jurnal …*, no. Query date: 2026-04-21 14:33:33 (2024), http://repository.uin-malang.ac.id/18548/.

[10] T. Berlianty et al., "Reassessing Islamic Banking Supervision in Indonesia: A Contemporary Islamic and Socio-Legal Perspective on OJK's Integrated Model," *MILRev: Metro Islamic Law Review* 4, no. 1 (2025): 619–44, Scopus, https://doi.org/10.32332/milrev.v4i1.10851.

[11] A. Balarabe, MF Abdullah, and ..., "History of Islamic Banking in Malaysia: A General Review," *… Journal of Islamic …*, no. Query date: 2026-04-21 14:33:33 (2023), https://journal.unisza.edu.my/inspire/index.php/inspire/article/view/29.

allocations of regulatory authority institutionalize Islamic finance while protecting legal certainty and affected parties. Existing scholarship addresses Aceh's Qanun-based Islamic finance mandate and Malaysia's Sharia governance arrangements, yet these discussions often employ different legal categories and therefore cannot by themselves establish the superiority of either model. A more precise comparison must separate territorial obligations to operate according to Sharia from the conversion of an individual institution and from the continued licensing of Islamic and conventional banks in parallel.

The present study seeks to address this gap by examining the legal transformation of conventional banks into Islamic banks through a comparative analysis of Indonesia, with a focus on the Aceh model, and Malaysia.[12] The study aims to explore how each jurisdiction designs and implements its legal framework, how the transformation process is carried out in practice, and what challenges and opportunities arise from each approach. By analyzing these aspects, the research intends to identify key factors that influence the success of bank transformation and to provide a more nuanced understanding of the relationship between law and financial system reform.

In addition to identifying the legal structures and processes involved, this research also aims to evaluate the broader implications of bank transformation for legal certainty, economic stability, and social acceptance. The transition to Islamic banking has far-reaching consequences not only for financial institutions but also for consumers, investors, and the overall economy. Therefore, it is essential to assess whether the legal frameworks in place are capable of supporting a smooth and effective transition while safeguarding the interests of all stakeholders. This evaluation is particularly important in the context of mandatory transformation, where the risks associated with rapid change may be more pronounced.

The significance of this research lies in its contribution to both academic discourse and practical policymaking. By providing a detailed comparative analysis of two distinct models of legal transformation, the study offers valuable insights into the strengths and weaknesses of different approaches. These insights can inform the development of more effective legal frameworks and guide policymakers in designing

[12] N. Fauziyah and AA Muttaqin, "Contemporary Fatwas on Online Marketplaces in Malaysia: A Shariah-Compliant Response to Digital Transactions," *... of Integrative Sustainability and …*, no. Query date: 2026-04-21 14:33:33 (2025), https://jurnalpps.uinsa.ac.id/index.php/jibec/article/view/797.

strategies that balance the objectives of Islamic finance with the need for stability and inclusiveness. Furthermore, the research contributes to the advancement of comparative financial law by highlighting the role of legal systems in shaping the evolution of banking practices.

The urgency of this research is underscored by the ongoing transformation of global financial systems and the increasing demand for alternative models of finance that emphasize ethical considerations.[13] As financial markets become more complex and interconnected, the need for robust and adaptable legal frameworks becomes more critical. The experience of jurisdictions that have undertaken the transformation to Islamic banking provides valuable lessons that can help address current and future challenges. In this context, understanding the legal dimensions of bank transformation is not only relevant but essential for ensuring the sustainability and resilience of financial systems.

The article's contribution is a common doctrinal matrix for comparing structurally different legal arrangements rather than a claim that Malaysia and Aceh represent two stages of one conversion process. The matrix evaluates the source and hierarchy of legal authority, clarity of obligations, supervisory competence, treatment of existing contracts, protection of affected stakeholders, and substantive Sharia objectives. It enables the analysis to identify regulatory strengths and legal risks without inferring empirical effectiveness from the mere existence of statutory obligations.

Ultimately, this research emphasizes that the success of transforming conventional banks into Islamic banks depends largely on the coherence, clarity, and effectiveness of the legal framework that governs the process. Legal systems must not only accommodate new financial principles but also ensure that the transition is carried out in a manner that is fair, transparent, and sustainable. By analyzing the experiences of Indonesia and Malaysia, this study aims to contribute to the development of legal knowledge that supports the continued growth and evolution of Islamic banking in a rapidly changing global environment.

## RESEARCH METHODS

A normative juridical method, incorporating statutory, conceptual and functional comparative approaches, is used to assess the legal

[13] Randall E. Duran and Paul Griffin, "Smart Contracts: Will Fintech Be the Catalyst for the next Global Financial Crisis?," *Journal of Financial Regulation and Compliance* 29, no. 1 (January 2021): 104–22, https://doi.org/10.1108/JFRC-09-2018-0122.

institutionalization of Islamic banking in Aceh and Malaysia.[14] Primary legal materials for Indonesia comprise the 1945 Constitution, Law No. 11 of 2006 on the Governing of Aceh, Law No. 21 of 2008 on Islamic Banking, Law No. 4 of 2023 on Financial Sector Development and Strengthening, and Aceh Qanun No. 11 of 2018 on Islamic Financial Institutions. For Malaysia, the core statutory sources are the Islamic Financial Services Act 2013, Financial Services Act 2013 and Central Bank of Malaysia Act 2009. Relevant implementing rules and regulator-issued Sharia governance instruments are considered according to their respective legal status; scholarly literature and Islamic jurisprudential doctrines are treated as secondary and conceptual materials rather than primary legislation.[15] The analysis focuses on the legal architecture reflected in these instruments as available through 2026, without purporting to measure financial or institutional outcomes.

Legal sources were selected for their direct authority over licensing, territorial obligations, Sharia supervision, contractual continuity, prudential supervision and dispute resolution, rather than through empirical purposive sampling. The same comparative criteria are applied to both cases: (1) legal basis and hierarchy; (2) whether the regime requires territorial compliance, permits individual conversion or maintains dual-system coexistence; (3) supervisory and Sharia-governance authority; (4) treatment of existing contracts, assets and liabilities; (5) legal certainty and stakeholder safeguards; and (6) consistency with maqasid al-Shariah, particularly hifz al-mal, fairness and avoidance of harm. Statutory interpretation is combined with a functional comparison of legal consequences. Conclusions about actual institutional capacity, financial stability or consumer experience are expressly limited because the research does not include fieldwork or quantitative performance data.[16]

[14] V. Tampubolon, "BUMN Sebagai Penerima Hak Monopoli Berdasarkan Pasal 86M UU BUMN, Dan Implikasi Yuridis Terhadap Persaingan Usaha Di Indonesia," *Milthree Law Journal*, no. Query date: 2026-04-26 18:28:12 (2025), https://milthreelawjournal.co.id/index.php/mlj/article/view/95.

[15] Berlianty et al., "Reassessing Islamic Banking Supervision in Indonesia: A Contemporary Islamic and Socio-Legal Perspective on OJK's Integrated Model."

[16] Mexsasai Indra, Geofani Milthree Saragih, and Tito Handoko, "Pseudo-Judicial Review for the Dispute over the Result of the Regional Head Election in Indonesia," *Lentera Hukum* 10, no. 1 (May 2023): 111, https://doi.org/10.19184/ejlh.v10i1.36685.

## RESULTS AND DISCUSSION

### Legal Authority and Regulatory Architecture: Aceh's Territorial Mandate and Malaysia's Dual Banking System

The legal framework governing the transformation of conventional banks into Islamic banks in Indonesia and Malaysia reflects two distinct regulatory philosophies shaped by their respective constitutional structures, legal traditions, and policy orientations.[17] In Indonesia, particularly within the Province of Aceh, the transformation process is grounded in a region-specific legal regime that derives authority from the special autonomy granted to Aceh.[18] This autonomy enables the enactment of regional regulations mandating the implementation of Islamic principles across various sectors, including the financial system. As a result, the legal framework in Aceh adopts a coercive model, requiring all banking institutions operating within the region to comply fully with Islamic financial principles. This mandatory approach demonstrates a strong normative commitment to the Islamization of the financial sector but simultaneously introduces complex legal implications regarding regulatory hierarchy, institutional readiness, and the protection of economic actors within a pluralistic national legal system.[19]

At the national level, Indonesia maintains a dual banking system that allows the coexistence of conventional and Islamic banks. However, the Aceh model represents a deviation from this general framework, as it imposes a uniform Islamic financial system within a specific territorial

[17] YJ Amuda and SA Al-Nasser, "Exploring Encounters and Prodigies of Islamic Banks in Non-Muslim States: Towards Enhancing Regulatory Frameworks of Islamic Banking System," *International Journal of Law and …*, no. Query date: 2026-04-21 14:33:33 (2026), https://www.emerald.com/ijlma/article/68/2/245/1252032.

[18] F. Faizi and MSB Shuib, "Sharia Governance in Islamic Financial Institutions: A Comparative Review of Malaysia and Indonesia," *EL DINAR: Jurnal Keuangan Dan Perbankan …*, no. Query date: 2026-04-21 14:33:33 (2024), https://www.researchgate.net/profile/Faizi-Faizi/publication/382050828_SHARIA_GOVERNANCE_IN_ISLAMIC_FINANCIAL_INSTITUTIONS_A_COMPARATIVE_REVIEW_OF_MALAYSIA_AND_INDONESIA/links/668a10e22aa57f3b82747d7c/SHARIA-GOVERNANCE-IN-ISLAMIC-FINANCIAL-INSTITUTIONS-A-COMPARATIVE-REVIEW-OF-MALAYSIA-AND-INDONESIA.pdf.

[19] MN Choiruddin, H. Pratikto, and ..., "Financial Literacy, FinTech, and Contemporary Innovation in Islamic Economic Law: An Analysis of MSME Performance Sustainability in Indonesia and Malaysia," *… : Metro Islamic Law …*, no. Query date: 2026-04-21 14:33:33 (2025), http://e-journal.metrouniv.ac.id/milrev/article/view/10164.

jurisdiction.[20] This raises important legal considerations concerning the interaction between national banking laws and regional regulations, particularly in terms of legal harmonization and consistency. The transformation process in Aceh requires not only the adjustment of banking operations but also the alignment of legal instruments, supervisory mechanisms, and contractual arrangements with Islamic principles.[21] Consequently, the regulatory framework must address both substantive and procedural aspects of transformation, including licensing requirements, asset conversion, governance restructuring, and compliance monitoring.[22]

Aceh's regulatory authority must be read through Law No. 11 of 2006 on the Governing of Aceh and the national allocation of banking powers. Aceh Qanun No. 11 of 2018 on Islamic Financial Institutions establishes a territory-specific requirement for covered financial institutions to operate according to Sharia principles.[23] The Qanun is not a replacement for national prudential, licensing or supervisory law: Law No. 21 of 2008 on Islamic Banking and the national financial regulatory framework remain relevant. The legal question is thus how regional Sharia obligations are implemented consistently with national authorization and supervisory powers. The territorial mandate must also be distinguished from the separate legal steps needed for any particular bank's institutional conversion.[24]

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[20] EMK Alidar et al., "The Shared Values of Sharia Banking: Non-Muslims under the Qanun on Islamic Financial Institutons in Aceh," *Ahkam: Jurnal Ilmu Syariah*, no. Query date: 2026-04-21 15:23:00 (2024).

[21] S. Ezzerouali, "Expanding the Authority of Muhtasib to Protect Consumers: A Comparison between Moroccan Law and Islamic Qanun of Aceh," *Trunojoyo Law Review*, no. Query date: 2026-04-21 15:23:00 (2025), https://journal.trunojoyo.ac.id/trunojoyo-law-review/article/view/29151.

[22] PH Husain and C. Warsito, "Determinants of Islamic Digital Banking Adoption under Sharia Regulatory Mandate: Evidence from Aceh, Indonesia," *Jurnal.Stie-Aas.Ac.Id*, no. Query date: 2026-04-21 15:23:00 (n.d.), https://www.jurnal.stie-aas.ac.id/index.php/jei/article/download/19548/8396.

[23] M. Afdhal, A. Azis, and N. Muntazar, "Eksistensi Qanun Syariat Islam Aceh Dalam Sistem Hukum Indonesia: Tinjauan Hukum Tata Negara Islam Dan UUD 1945," *MUNTAZAR …*, no. Query date: 2026-09-15 15:42:37 (2025), https://jurnal.penerbitalmuntazar.my.id/index.php/MUJIM/article/view/31.

[24] MA Ilhamsyah, LF Rizal, and ..., "KONSEP FAST TRACK LEGISLATION DALAM PEMBENTUKAN PERPPU SEBAGAI MEKANISME PENANGANAN KEADAAN DARURAT YANG LEBIH DEMOKRATIS …," *QANUN: Journal of Islamic …*, no. Query date: 2026-05-05 17:52:16 (2026), http://asianpublisher.id/journal/index.php/qanun/article/view/1299.

In contrast, Malaysia adopts a more centralized and integrative legal framework that supports the development of Islamic banking alongside conventional banking without mandating full conversion.[25] The Malaysian approach is characterized by a comprehensive regulatory system that provides equal recognition to both banking models while ensuring strict compliance with Islamic principles for institutions operating within the Islamic banking sector.[26] The legal framework is structured to facilitate gradual transformation through market-driven mechanisms, supported by a robust institutional infrastructure that includes centralized regulatory authorities and Sharia governance bodies. This approach reflects a pragmatic legal strategy that balances the objectives of financial innovation, stability, and inclusiveness.[27]

Malaysia's Islamic Financial Services Act 2013 regulates Islamic financial institutions and their Sharia-compliance obligations, while the Financial Services Act 2013 provides the corresponding statutory framework for conventional financial institutions.[28] The Central Bank of Malaysia Act 2009 situates Bank Negara Malaysia and its Sharia Advisory Council within the institutional architecture for Islamic financial matters. The legal coexistence of these regimes means that Malaysia's Islamic banking development cannot be characterized, without further qualification, as compulsory or voluntary conversion of

[25] Norazlina Abdul Aziz, Mazlina Mohamad Mangsor, and Miti Fateema Sherzeella Mohd Yusoff, "The Malaysian Monarchy System: A Review of the Literature," in *Proceedings of the 12th UUM International Legal Conference 2023 (UUMILC 2023)*, vol. 15, ed. Rohana Abdul Rahman et al., Atlantis Highlights in Social Sciences, Education and Humanities (Dordrecht: Atlantis Press International BV, 2024), 282–94, https://doi.org/10.2991/978-94-6463-352-8_22.

[26] L. Nurhisam et al., "Sharia Banking Syndicated Financing in the Context of Funding Strategic Projects after Islamic Financial Qanun Institution in Aceh," *... Dan Hukum Islam*, no. Query date: 2026-04-21 15:23:00 (2024), https://jurnal.ar-raniry.ac.id/index.php/samarah/article/view/15891.

[27] A. Kurniawan and M. Kusuma, "A Comparison of Islamic Banking Regulations between Indonesia and Malaysia from the Perspective of Legal Certainty: Examining the Problem of Regulatory …," *Journal of Lex et Justitia*, no. Query date: 2026-04-21 15:23:00 (2026), https://ejournal.grafindoscience.com/jlj/article/download/149/177.

[28] R. Fahlevi, MN Hosen, and E. Amalia, "Contractual-Based Islamic Crowdfunding Model for Sustainable Agricultural Financing," *Jurnal Ekonomi &Keuangan Islam*, no. Query date: 2026-09-15 15:38:28 (2026), https://journal.uii.ac.id/JEKI/article/view/42105.

the conventional banking sector.[29] Its central legal characteristic is differentiated statutory authorization and supervision within a dual system.

The Malaysian regulatory framework emphasizes clarity, consistency, and enforceability, thereby creating a conducive environment for the growth of Islamic banking.[30] It establishes detailed provisions governing licensing, supervision, risk management, and Sharia compliance, ensuring that Islamic banking operations are conducted within a well-defined legal structure. Unlike the Aceh model, which relies on regional authority to enforce transformation, Malaysia's framework operates within a unified national system that integrates Islamic finance into the broader financial architecture. This integration reduces the potential for legal fragmentation and enhances regulatory coherence, thereby contributing to the overall stability of the financial system.

The differences between these two legal frameworks can be more clearly understood through a comparative perspective, which highlights key aspects of regulatory design, implementation, and impact. The following table presents a structured comparison of the legal frameworks governing the transformation of conventional banks into Islamic banks in Indonesia (Aceh model) and Malaysia.

**Table 1.** Comparative Legal Framework of Banking Transformation in Indonesia (Aceh Model) and Malaysia

| Aspect | Indonesia (Aceh Model) | Malaysia |
|---|---|---|
| **Legal Basis** | Regional autonomy regulations mandating Islamic financial system | National legislation supporting dual banking system |
| **Nature of Transformation** | Territorially mandatory Sharia-compliant operation for covered institutions within Aceh | Dual-system coexistence; individual conversion |

[29] MHAK Husein, MR Soleman, and ..., "Fintech Regulation and Its Impact on The Islamic Banking Industry in Indonesia," *Kunuz: Journal of …*, no. Query date: 2026-09-15 15:38:28 (2025), https://ejournal.iain-manado.ac.id/kunuz/article/view/1688.

[30] A. Muneem et al., "Debt-Based Financing: A Case Study of Malaysian Islamic Banks," *Global Business and …*, no. Query date: 2026-04-21 14:33:33 (2024), https://doi.org/10.1504/GBER.2024.135289.

| | | |
|---|---|---|
| | | subject to separate requirements |
| **Regulatory Structure** | Combination of national and regional regulatory authorities | Centralized regulatory authority at national level |
| **Banking System Model** | Full Islamic banking system within region | Dual banking system (Islamic and conventional coexist) |
| **Scope of Application** | Territorial (limited to Aceh Province) | Nationwide application |
| **Institutional Approach** | Coercive and policy-driven | Market-driven and incentive-based |
| **Legal Harmonization** | Potential overlap between national and regional laws | High level of integration within national framework |
| **Sharia Compliance** | Mandatory for all financial institutions in Aceh | Mandatory only for Islamic banking institutions |
| **Flexibility of Implementation** | Limited flexibility due to compulsory nature | High flexibility with gradual adaptation mechanisms |
| **Risk and Stability Considerations** | Higher transitional risks due to rapid transformation | Lower risks due to phased and controlled development |

The comparison distinguishes territorial mandatory Sharia compliance in Aceh from the nationally authorized coexistence of separately regulated Islamic and conventional banking institutions in Malaysia. These are distinct legal architectures, not equivalent forms of voluntary and compulsory conversion. A valid assessment must consider whether each arrangement provides an identifiable statutory mandate, clear supervisory authority, predictable consequences for existing legal relationships and enforceable Sharia-governance obligations.

On the other hand, Malaysia's framework demonstrates a more adaptive and integrative approach, allowing Islamic banking to develop organically within a supportive legal environment.[31] The coexistence of

[31] AH Buang, "The Application of Promise (Wa 'd) in Islamic Banking Contracts in Malaysia: A Maslahah Perspective," *International Journal of Banking and*

conventional and Islamic banks provides greater flexibility for financial institutions and consumers, enabling a gradual transition that minimizes disruption. The centralized regulatory structure further enhances the effectiveness of supervision and enforcement, ensuring that both banking systems operate within a coherent legal framework. This approach reflects a balance between regulatory control and market dynamics, which contributes to the sustainability and resilience of the financial system.

Despite these differences, both jurisdictions share a common objective of promoting Islamic banking as a viable and competitive component of the financial sector.[32] Their respective legal frameworks demonstrate different pathways toward achieving this goal, each with its own advantages and limitations. The Aceh model highlights the potential of strong legal mandates in accelerating transformation, while the Malaysian model emphasizes the importance of regulatory flexibility and institutional support. These contrasting approaches provide valuable insights into the role of law in shaping financial system reform and underscore the need for context-sensitive legal strategies.[33]

Ultimately, the effectiveness of any legal framework for banking transformation depends on its ability to balance normative objectives with practical considerations. A well-designed framework must ensure compliance with Islamic principles while maintaining financial stability, protecting stakeholders, and supporting economic development. The comparative analysis of Indonesia and Malaysia demonstrates that there is no single model that can be universally applied; rather, each jurisdiction must tailor its legal framework to its specific institutional, social, and economic context. This underscores the importance of continued legal research and policy innovation in advancing the development of Islamic banking at both national and regional levels.

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*Finance*, no. Query date: 2026-04-21 14:33:33 (2024), https://e-journal.uum.edu.my/index.php/ijbf/article/view/18383.

[32] K. D. Gribble et al., "Human Milk Bank Services and Islamic Milk Kinship: Pathways and Processes for Ensuring Respect for Religious Law and Tradition in the Provision of Donor Human Milk for Small Vulnerable Newborns," *International Breastfeeding Journal* 20, no. 1 (2025), Scopus, https://doi.org/10.1186/s13006-025-00704-w.

[33] F. Faisal, M. Manfarisyah, and F. Aksa, "Legal Protection for Islamic Bank Customers After the Implementation of the Qanun LKS," *Available at SSRN 4431390*, no. Query date: 2026-04-21 15:23:00 (2023), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4431390.

**Institutional Authority, Sharia Governance and the Treatment of Existing Banking Relationships**

The transformation of conventional banks into Islamic banks involves a complex interplay of legal mechanisms and institutional roles that operate within a structured regulatory environment. This process is not limited to the formal conversion of financial products but extends to a comprehensive reconfiguration of governance systems, operational models, and compliance frameworks. In both Indonesia, particularly under the Aceh model, and Malaysia, the transformation process is guided by a series of legal procedures that ensure alignment with Islamic financial principles while maintaining institutional stability. These mechanisms typically include regulatory approval processes, restructuring of assets and liabilities, modification of contractual frameworks, and the establishment of Sharia-compliant governance systems.[34] Each of these components reflects a deliberate legal design aimed at ensuring that the transformation is both legally valid and operationally feasible.

Conversion must also be assessed as a legal process affecting existing rights, rather than a mere change in product terminology. Conventional loans, deposits, security interests, guarantees, employment relationships and other obligations cannot be assumed to become Sharia-compliant automatically. The applicable statutory and contractual rules determine whether amendment, novation, assignment, refinancing, customer consent or other measures are necessary. For Aceh, the mandatory territorial requirement raises particular questions about transitional notice, consent, preservation of accrued rights and remedies for parties who do not accept revised contractual terms. For Malaysia, comparable issues arise when an individual institution or portfolio is converted, but not merely because Islamic banks coexist with conventional banks.[35]

[34] AA Jihad et al., "The Role of the Supervisory Board in the Development of Sharia Cooperatives in Aceh After the Enactment of the Sharia Financial Institutions Law," *... Hukum Keluarga Dan ...*, no. Query date: 2026-04-21 15:23:00 (2024), https://jurnal.ar-raniry.ac.id/index.php/samarah/article/view/19610.

[35] S. Nasri, "Criminal Protection of Banks and Financial Institutions' Monopoly on Banking Operations Through the Criminalization of Unauthorized Banking Practices-Analysis in …," □□□□□□□□□□ □□□□□□□□ □□□□□□□ □□□□, *2025*, no. Query date: 2026-09-12 12:13:22 (n.d.), https://asjp.cerist.dz/en/article/277101.

One of the primary mechanisms in the conversion process is the licensing and regulatory approval system, which serves as the legal gateway for transformation. Financial institutions seeking to convert must comply with specific requirements set by regulatory authorities, including demonstrating financial soundness, operational readiness, and the capacity to implement Sharia-compliant practices.[36] In the Aceh model, this mechanism is reinforced by a mandatory regulatory directive that compels banks to either convert or cease operations, thereby accelerating the transformation process. This coercive mechanism ensures rapid compliance but also places significant pressure on institutions to meet regulatory standards within a limited timeframe. In contrast, Malaysia employs a more facilitative mechanism, where regulatory approval is integrated into a broader framework that supports voluntary conversion and allows institutions to transition at a measured pace.

Another critical mechanism involves the restructuring of financial assets, liabilities, and contractual relationships to conform with Islamic principles. Conventional banking contracts based on interest must be replaced with Sharia-compliant instruments such as profit-sharing, leasing, or trade-based contracts. This transformation requires not only legal adjustments but also operational recalibration, as financial institutions must redesign their product offerings and internal processes. The legal framework plays a crucial role in ensuring that these changes are implemented consistently and transparently, minimizing the risk of legal disputes and ensuring compliance with both national regulations and Islamic legal standards. In jurisdictions like Aceh, where the transformation is mandatory, this restructuring must occur simultaneously across all institutions, creating a uniform but highly demanding transition environment.

Institutional accountability differs in legally material respects. In Indonesia, financial-sector supervision and licensing operate within the national regulatory framework, while Sharia compliance in Islamic banks involves Sharia supervisory arrangements and relevant authoritative religious guidance. In Malaysia, Bank Negara Malaysia exercises statutory supervisory powers, and the Sharia Advisory Council occupies a specific position under the Central Bank of Malaysia Act

[36] N. Ihwanudin et al., "Regulatory Evolution and Challenges in Aceh's Sharia Financial System: A Study of Qanun Reforms," *Milkiyah: Jurnal …*, no. Query date: 2026-04-21 15:23:00 (2025), https://jurnal.stainmajene.ac.id/index.php/milkiyah/article/view/1598.

2009; institutional Sharia committees operate under applicable Sharia governance requirements. The authority and legal effect of these bodies should not be conflated: prudential decisions, institutional Sharia review and dispute adjudication are distinct functions, even when they interact.

The institutional sequence may be expressed as regulator and licensing authority → regulated bank → Sharia supervisory or advisory function → customer and contractual counterparties → competent dispute-resolution forum. Each link carries a different legal responsibility. The regulator establishes enforceable licensing and supervisory obligations; the bank implements them and remains responsible for its contracts; Sharia bodies assess conformity within their legally defined mandates; customers retain applicable contractual and consumer-protection rights; and courts or other competent bodies resolve disputes. In Indonesia, jurisdiction over Islamic economic disputes must also be considered in light of the Religious Courts framework, including Article 49 of Law No. 3 of 2006, while Malaysian dispute pathways must be assessed within their own statutory and judicial arrangements.

Institutional roles are equally significant in facilitating the transformation process, particularly in terms of regulatory oversight and compliance enforcement. Regulatory authorities serve as the primary actors responsible for supervising the transformation, issuing guidelines, and ensuring adherence to legal requirements. In Indonesia, this role is shared between national financial regulators and regional authorities in Aceh, creating a multi-layered governance structure that reflects the region's special autonomy. This dual structure allows for localized implementation but may also lead to coordination challenges and potential overlaps in authority.[37] In Malaysia, the institutional framework is more centralized, with a single regulatory authority overseeing both conventional and Islamic banking sectors. This centralized approach enhances consistency in regulatory enforcement and reduces the risk of fragmentation.[38]

A distinctive feature of Islamic banking transformation is the role of Sharia supervisory institutions, which function as an integral component of the governance framework. These bodies are responsible

[37] A. Kasim and MY Hadi, "ISLAMIC LAW IMPLEMENTATION IN ACEH AND CHALLENGES IN THE ERA OF LIBERAL ECONOMICS AND POLITICS," *Al-Mudharabah: Jurnal Ekonomi Dan Keuangan …*, no. Query date: 2026-04-21 15:23:00 (2024).

[38] Fauziyah and Muttaqin, "Contemporary Fatwas on Online Marketplaces in Malaysia: A Shariah-Compliant Response to Digital Transactions."

for ensuring that all banking activities comply with Islamic principles, providing legal and ethical oversight that complements conventional regulatory supervision. Their role extends to reviewing financial products, issuing compliance opinions, and advising on the implementation of Sharia principles within banking operations. The presence of such institutions introduces an additional layer of accountability, requiring financial institutions to adhere not only to statutory regulations but also to religiously grounded legal standards. This dual compliance requirement underscores the unique nature of Islamic banking transformation as a process that bridges legal and ethical domains.

The transformation process also involves internal institutional restructuring within banks, including changes in organizational structure, management practices, and human resource competencies. Banks must establish dedicated units or divisions responsible for Islamic banking operations, supported by personnel with expertise in both finance and Islamic law.[39] This institutional adaptation is essential to ensure that the transformation is not merely symbolic but is embedded in the operational culture of the institution. The legal framework supports this process by setting standards for governance, transparency, and accountability, thereby ensuring that the transformed institutions operate effectively within the new regulatory environment.

Furthermore, dispute resolution mechanisms play a crucial role in supporting the transformation process by providing legal certainty and protecting the rights of stakeholders. The shift to Islamic banking introduces new types of contractual relationships that may require specialized legal interpretation. As such, the legal system must be equipped to handle disputes arising from Sharia-compliant transactions, either through specialized courts or alternative dispute resolution mechanisms. This aspect is particularly important in ensuring that the transformation does not lead to increased legal uncertainty, which could undermine confidence in the financial system.

Despite the structured mechanisms and clearly defined institutional roles, the transformation process is not without challenges. Issues such as regulatory coordination, institutional capacity, and market readiness can significantly affect the effectiveness of the transformation.

[39] Amuda and Al-Nasser, "Exploring Encounters and Prodigies of Islamic Banks in Non-Muslim States: Towards Enhancing Regulatory Frameworks of Islamic Banking System."

In the Aceh model, the mandatory nature of the process may lead to implementation difficulties if institutions are not adequately prepared. In Malaysia, the voluntary approach may result in uneven levels of adoption, potentially limiting the overall impact of the transformation.[40] These challenges highlight the importance of designing legal mechanisms that are not only robust but also adaptable to the specific conditions of each jurisdiction.

Ultimately, the mechanisms and institutional roles involved in the conversion of conventional banks into Islamic banks demonstrate the central role of law in shaping financial system transformation. The effectiveness of this process depends on the coherence of regulatory frameworks, the capacity of institutions to implement change, and the ability of legal systems to integrate new principles without compromising stability. By examining these elements in a comparative context, it becomes evident that successful transformation requires a careful balance between regulatory control, institutional flexibility, and stakeholder engagement. This underscores the importance of a comprehensive legal approach that addresses both the technical and normative dimensions of Islamic banking transformation

**Comparative Legal Assessment: Certainty, Stakeholder Protection and Maqasid al-Shariah**

The comparative analysis of the transformation models implemented in Indonesia, particularly through the Aceh model, and Malaysia reveals a complex interplay between legal design, institutional capacity, and socio-economic context. Each model reflects a distinct approach to integrating Islamic banking principles into an existing financial system, thereby generating different types of challenges, levels of effectiveness, and legal implications. The Aceh model, characterized by mandatory transformation within a territorially limited jurisdiction, demonstrates a strong normative orientation toward the full implementation of Islamic financial law. In contrast, Malaysia's dual banking system represents a more flexible and gradual approach, allowing Islamic banking to evolve alongside conventional banking

[40] I. Ilias, "Regulatory Reform to Strengthen Islamic Consumer Credit Business in Non-Banking Sector: The Case of Malaysia.," *Manchester Journal of Transnational Islamic Law & …*, no. Query date: 2026-04-21 14:33:33 (2024), https://search.ebscohost.com/login.aspx?direct=true&profile=ehost&scope=site&authtype=crawler&jrnl=17423945&AN=181002320&h=a1opbzCmj4YSbgp3hr%2BJyhS8CYPz5zqGcc2dU%2FkQp1IMnZJckHL%2Bsg45kZhN0WjI1tKXYhEvpgzadyVVRk3VTw%3D%3D&crl=c.

under a unified regulatory framework.[41] These contrasting models provide a valuable basis for evaluating how different legal strategies influence the outcomes of financial system transformation.

Substantive Islamic legal evaluation cannot stop at the avoidance of riba. The prohibitions of gharar and maysir, together with contractual fairness, transparency, maslahah and the protection of wealth (hifz al-mal), supply criteria for evaluating the consequences of institutional reform. A mandatory transition that eliminates interest-bearing products but produces avoidable losses, opaque substitutions or unjustified impairment of existing rights cannot be assumed to fulfil the broader objectives of Sharia.[42] Equally, a dual system does not establish substantive compliance merely because Islamic institutions hold appropriate licences. In both models, the relevant question is whether enforceable governance arrangements protect lawful assets, informed consent and equitable treatment while preventing foreseeable harm.

One of the primary challenges in the Aceh model lies in the rapid and comprehensive nature of its implementation. The mandatory conversion of all conventional banks into Islamic banks requires significant adjustments in a relatively short period, including the restructuring of financial products, institutional governance, and operational systems.[43] This creates substantial pressure on financial institutions, particularly in terms of technical readiness, human resources, and compliance capacity. Additionally, the coexistence of national and regional legal frameworks introduces potential issues of legal harmonization, as regional regulations must operate within the broader national legal system. These challenges may affect legal certainty and create transitional risks that could impact the stability of the financial sector.

In contrast, Malaysia's transformation model faces a different set of challenges, primarily related to the coexistence of dual banking systems. While this approach provides flexibility and stability, it may

[41] M. Amirulloh et al., "Legal Basis and Readiness of the Banking Sector in Implementing Privacy Reliability Certification," *Jurnal IUS Kajian Hukum Dan Keadilan* 13, no. 3 (2025): 545–58, Scopus, https://doi.org/10.29303/ius.v13i3.1777.

[42] H. Hasanuddin, A. Malik, and H. Tuo, "Integrating Smart Contracts with Islamic Economic Law: A Sharia Design Framework for Digital Finance Governance," *Journal of Islamic Economics …*, no. Query date: 2026-09-15 15:39:24 (2026), https://journal.uii.ac.id/JIELariba/article/view/44810.

[43] S. Sutrisno and A. Widarjono, "Determinants of Capital Buffer in Islamic Banks: The Lesson from Indonesia," *Cogent Business and Management* 11, no. 1 (2024), Scopus, https://doi.org/10.1080/23311975.2024.2331707.

also result in regulatory complexity and market segmentation. The presence of both conventional and Islamic banks requires a comprehensive legal framework capable of addressing the unique characteristics of each system while ensuring overall coherence.[44] Furthermore, the voluntary nature of transformation may lead to uneven adoption rates among financial institutions, potentially limiting the extent to which Islamic banking can dominate or fully replace conventional practices. Nevertheless, these challenges are generally mitigated by the gradual and well-regulated nature of the Malaysian approach.

Formal territorial compliance in Aceh demonstrates the reach of a mandatory regulatory obligation, but does not by itself establish institutional effectiveness, financial stability or adequate stakeholder protection. Those conclusions would require implementation evidence beyond the doctrinal sources examined here. The relevant legal questions are whether the obligations are authorized, sufficiently clear, compatible with national supervision and accompanied by safeguards for existing contracts and affected parties.

Malaysia's dual banking structure permits Islamic and conventional institutions to coexist under distinct statutory requirements and central-bank supervision.[45] Such coexistence should not be described as a nationwide voluntary conversion programme. Its doctrinal strengths lie in the specificity of licensing and Sharia-governance duties, while the actual adequacy of consumer protection, operational resilience and market outcomes requires separate empirical assessment.

On a shared legal matrix, Aceh has a clearer territorially mandatory direction, while Malaysia has differentiated national statutory pathways for Islamic and conventional institutions. Both require scrutiny of regulatory hierarchy, institutional competence, enforceable Sharia oversight, contractual continuity, dispute remedies and protection of customers, depositors, creditors, shareholders, employees and investors. Financial stability and actual institutional readiness cannot be ranked from these statutes alone. The defensible comparative result is conditional: a mandatory regime requires particularly robust transition

[44] Buang, "The Application of Promise (Wa 'd) in Islamic Banking Contracts in Malaysia: A Maslahah Perspective."

[45] LS Nabyla, "Kerjasama Indonesia-Malaysia Dalam Menangani Kejahatan Transnasional Human Trafficking Pada Pekerja Migran Indonesia (PMI) Di Malaysia Periode …," *… Fakultas Ilmu Sosial Dan Ilmu Politik …*, no. Query date: 2026-06-11 12:35:21 (n.d.).

safeguards, whereas a dual system requires coherent coordination between parallel regulatory structures.

The legal implications of these transformation models are equally significant, particularly in terms of regulatory coherence, legal certainty, and the protection of stakeholders. In the Aceh model, the imposition of mandatory transformation raises important questions regarding the limits of regional authority and the potential impact on economic rights. The integration of Islamic financial law into a regional legal framework must be carefully managed to avoid conflicts with national legislation and to ensure that the rights of financial institutions and consumers are adequately protected. In Malaysia, the legal implications are more focused on ensuring the effective coexistence of dual systems, requiring a sophisticated regulatory framework that can accommodate different legal principles without creating inconsistencies or ambiguities.

The following table provides a comparative overview of the key challenges, effectiveness, and legal implications associated with the transformation models in Indonesia (Aceh model) and Malaysia.

**Table 2.** Comparative Analysis of Challenges, Effectiveness, and Legal Implications of Banking Transformation Models

| Aspect | Indonesia (Aceh Model) | Malaysia |
|---|---|---|
| **Main Challenges** | Rapid transition, institutional readiness, legal harmonization | Dual system complexity, uneven adoption, regulatory coordination |
| **Nature of Implementation** | Territorially mandated; subject to applicable transition provisions | Dual-system coexistence |
| **Effectiveness (Short-Term)** | High compliance with Islamic principles | Stable and controlled development |
| **Effectiveness (Long-Term)** | Potential rigidity and limited adaptability | Sustainable growth and flexibility |
| **Legal Certainty** | Potential issues due to overlapping regulations | High due to centralized legal framework |
| **Regulatory Coherence** | Risk of fragmentation between national and regional laws | Strong integration within national system |

| | | |
|---|---|---|
| **Institutional Capacity** | High pressure on institutions during transition | Gradual capacity development |
| **Market Impact** | Uniform Islamic financial environment | Competitive dual banking environment |
| **Stakeholder Protection** | Requires careful balancing of rights and obligations | More balanced due to flexible approach |
| **Adaptability to Change** | Limited flexibility | High adaptability |

The table above highlights the fundamental distinctions between the two transformation models in terms of their operational challenges, levels of effectiveness, and legal consequences. The Aceh model's strength lies in its ability to achieve immediate and comprehensive transformation, creating a fully Islamic banking environment within a defined jurisdiction. However, this strength is accompanied by significant challenges related to implementation and legal integration, which may affect the overall sustainability of the model. The Malaysian approach, by contrast, emphasizes gradualism and flexibility, allowing for continuous adaptation and long-term stability, although it may not achieve full transformation within a specific timeframe.

From a broader legal perspective, the comparison underscores the importance of aligning transformation strategies with the institutional and socio-economic context of each jurisdiction. A mandatory approach may be suitable in regions with strong political and legal support for Islamic finance, but it requires robust institutional capacity and careful legal design to mitigate risks. Conversely, a voluntary approach may be more appropriate in diverse and complex financial systems, where flexibility and inclusiveness are essential for maintaining stability and public confidence. In both cases, the role of law is central in shaping the direction and outcomes of the transformation process.

Ultimately, the comparative analysis demonstrates that there is no universally optimal model for transforming conventional banks into Islamic banks. Each approach offers valuable lessons regarding the relationship between legal frameworks, institutional mechanisms, and financial system outcomes. The effectiveness of any transformation model depends on its ability to balance regulatory objectives with practical considerations, ensuring that the transition is both legally sound and economically viable. This highlights the need for continued legal

innovation and comparative research to support the evolving landscape of Islamic banking and financial law.

## CONCLUSION

The comparison establishes that Aceh and Malaysia embody different legal architectures for institutionalizing Islamic banking rather than two directly equivalent conversion models. Aceh's territorial mandate derives from its special-autonomy framework and operates alongside Indonesia's national banking and financial-supervision laws; Malaysia's dual structure is founded on distinct national statutory regimes for Islamic and conventional finance. A defensible evaluation of either arrangement must consider the legal authority of the mandate, clarity of supervisory responsibilities, treatment of existing contracts, enforceability of Sharia standards and safeguards for depositors, borrowers, employees, shareholders and other counterparties. Formal compliance alone does not demonstrate effectiveness, nor does coexistence prove superior institutional readiness. From the perspective of maqasid al-Shariah, especially hifz al-mal, maslahah and contractual justice, legal reform is justified only insofar as it protects property and prevents disproportionate harm during regulatory transition. The article therefore contributes a differentiated comparative framework, not a universal ranking of legal models. Its conclusions remain doctrinal and limited to the legal materials examined; determining actual financial stability, stakeholder experiences and implementation outcomes requires further empirical research.

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