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# Deposit Insurance and Financial Stability in Indonesian Islamic Banking: A Systematic Literature Review

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**ABSTRACT**

**Introduction/Main Objectives:** This study examines the role of the Indonesia Deposit Insurance Corporation (LPS) in strengthening public trust and supporting financial stability in Indonesian Islamic banking. **Background Problems:** Deposit insurance is fundamental to financial stability and public confidence, but its implementation differs in Islamic banking due to distinct contract structures. Prior studies have examined deposit insurance and financial stability separately, leaving systematic evidence on their link through public trust still lacking. **Novelty:** This study offers a systematic synthesis of empirical evidence on the interrelationship between deposit insurance, public trust, and financial stability in Indonesian Islamic banking, an integration not explicitly addressed by prior systematic reviews. **Research Methods:** A Systematic Literature Review following PRISMA 2020 guidelines was conducted across Scopus, Web of Science, and ScienceDirect for articles published 2016–2026. **Finding/Results:** Five main themes emerged: depositor protection/deposit insurance (9 studies), digital transformation in Islamic banking (8), systemic risk and financial stability (4), bank resolution/regulatory authority (3), and Islamic insurance/takaful (1). LPS appears to strengthen depositor confidence through deposit guarantees, orderly bank resolution, and coordination with financial authorities, with effectiveness depending on alignment with sharia contract structures. Digital transformation remains a growing but largely separate research theme, with limited evidence directly linking it to deposit insurance. **Conclusion:** LPS appears to contribute to public trust and financial stability in Indonesian Islamic banking, conditional on sharia compliance and institutional capacity, while its role in digital transformation and financial inclusion requires further empirical testing.

**KEYWORD:**

Digitalization,
Deposit Insurance Corporation (LPS),
Financial Inclusion,
Islamic Banking,
Public Trust.

**ABSTRAK**

**Introduction/Main Objectives:** Penelitian ini mengkaji peran Lembaga Penjamin Simpanan (LPS) dalam memperkuat kepercayaan publik dan mendukung stabilitas keuangan pada perbankan syariah di Indonesia. **Background Problems:** Penjaminan simpanan merupakan hal fundamental bagi stabilitas keuangan dan kepercayaan publik, namun penerapannya berbeda pada perbankan syariah karena perbedaan struktur akad. Studi-studi sebelumnya mengkaji penjaminan simpanan dan stabilitas keuangan secara terpisah, sehingga bukti sistematis mengenai keterkaitan keduanya melalui kepercayaan publik masih kurang. **Novelty:** Penelitian ini menawarkan sintesis sistematis atas bukti empiris mengenai keterkaitan antara penjaminan simpanan, kepercayaan publik, dan stabilitas keuangan pada perbankan syariah Indonesia, sebuah integrasi yang belum secara eksplisit dibahas oleh tinjauan sistematis sebelumnya. **Research Methods:** Systematic Literature Review dilakukan mengikuti pedoman PRISMA 2020 pada basis data Scopus, Web of Science, dan ScienceDirect untuk artikel yang terbit pada 2020–2026. **Finding/Results:** Lima tema utama teridentifikasi: perlindungan deposan/penjaminan simpanan (9 studi), transformasi digital pada perbankan syariah (8), risiko sistemik dan stabilitas keuangan (4), resolusi bank/otoritas regulasi (3), dan asuransi syariah/takaful (1). LPS tampak memperkuat kepercayaan deposan melalui jaminan simpanan,

resolusi bank yang tertib, dan koordinasi dengan otoritas keuangan, dengan efektivitas yang bergantung pada kesesuaian dengan struktur akad syariah. Transformasi digital masih menjadi tema kajian yang berkembang namun sebagian besar diteliti secara terpisah, dengan bukti terbatas mengenai keterkaitan langsungnya dengan penjaminan simpanan. **Conclusion:** LPS tampak berkontribusi terhadap kepercayaan publik dan stabilitas keuangan pada perbankan syariah Indonesia, secara kondisional bergantung pada kepatuhan syariah dan kapasitas kelembagaan, sementara perannya dalam transformasi digital dan inklusi keuangan masih memerlukan pengujian empiris lebih lanjut.

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## 1. Introduction

The stability of a country's financial system is a fundamental requirement for sustained economic growth, since problems within the banking sector can quickly spread into the broader economy by disrupting the intermediation function that banks perform. Among the most serious risks to this stability is a bank run, a situation in which large numbers of depositors withdraw their funds simultaneously after losing confidence in a bank's capacity to honor its obligations. Deposit insurance is designed to address this vulnerability. As a core macroprudential tool, it works to preserve depositor confidence and contain the spread of panic across the financial system during periods of economic disturbance (Fianto et al., 2025).

Indonesia operates under a dual banking system, in which conventional and Islamic banks coexist within a shared yet complementary regulatory environment. Islamic banking in particular has expanded considerably in recent years. As of July 2023, its assets represented 7.3 percent of total national banking assets, having grown 13.6 percent on a year on year basis (IMF, 2024). This expansion highlights the growing significance of Islamic banking within Indonesia's financial system and reinforces the need for deposit insurance arrangements capable of genuinely safeguarding both stability and public trust in this sector (Mawardi et al., 2024).

A notable development in this context was the establishment, from late 2014 onward, of a deposit insurance scheme that treats conventional and Islamic bank funds separately. This separation appears to have shaped depositor behavior directly, with small deposit accounts in Islamic banks growing at a markedly faster rate than in conventional banks following the policy's introduction (Pamungkas et al., 2025). Such evidence suggests that structuring deposit insurance in accordance with Sharia principles is not simply an administrative matter, but a design choice that meaningfully influences customer financial behavior and, ultimately, the systemic resilience of the Islamic banking sector as a whole.

These innovations open up opportunities to expand financial access for the public, including those previously excluded from formal financial services. However, behind these opportunities lies a crucial challenge that must be anticipated: public trust in the security and stability of Islamic financial institutions. Strengthening public trust in banking is crucial. Therefore, guarantees are needed for customer deposits. The presence of a comprehensively designed and clearly regulated deposit guarantee system can increase public confidence, which in turn strengthens the stability of the banking system as a whole. This trust also fosters a close and trusting relationship between banks and their customers (Sinaga, 2021).

In the Islamic economic system, trust (amanah) is the primary foundation of every financial transaction. People demand not only profits but also assurance that their deposits are managed transparently, fairly, and in accordance with Islamic principles. This situation arose because the Indonesian banking system had developed through five stages until 1997. However, the 1998 financial crisis led to the liquidation of many banks and undermined public confidence. Until 2009, the banking system was considered unstable due to weak supervision, the complexity of financial products, and the impact of globalization and information technology (Sinaga, 2021). This is where the role of the Deposit Insurance Corporation (LPS) becomes crucial.

The stability of the banking sector plays a vital role in maintaining economic balance, making the function of the Deposit Insurance Corporation (LPS) even more crucial. The LPS was established with a primary mandate to protect customer funds and maintain the stability of the banking financial system. Through the deposit insurance mechanism, the LPS strives to maintain public trust in the banking system, even during times of financial crisis. This level of trust is crucial to prevent mass withdrawals by customers, which could potentially lead to the collapse of banking institutions (Suhardiono et al., 2025). The existence of the Deposit Insurance Corporation (LPS) also has important implications in supporting the principles of trust and economic justice, where customers place their funds with the expectation of responsible management and guaranteed security. The LPS plays a strategic role in building and maintaining public trust in the Islamic banking system. However, the implementation of deposit insurance in Islamic banking cannot be fully equated with that of conventional banks, given the differences in contract structures and profit-sharing principles that apply (Susamto & Susamto, 2026). Several studies also indicate that the presence of deposit insurance and the lender of last resort mechanism can influence banking systemic risk, particularly in large-scale banks (Mawardi et al., 2024), while the contribution of Islamic banks to national financial stability still shows mixed results depending on the approach and data period used (Sunarsih et al., 2022).

Based on the discussion above, it appears that deposit insurance and financial stability in Islamic banking in Indonesia have each become objects of empirical study, yet both tend to be examined as separate issues, without systematically mapping how the deposit insurance mechanism functions as a link between public trust and the systemic resilience of Islamic banking. Throughout our search of the Scopus, Web of Science, and ScienceDirect databases, no systematic literature review has been found that explicitly synthesizes empirical evidence on the interrelationship among these three aspects, namely deposit insurance, public trust, and financial stability, in an integrated manner within the context of Indonesian Islamic banking. The available studies on this topic are generally conceptual or single case studies, and therefore do not yet provide a comprehensive picture of the extent to which existing findings reinforce one another or instead show contradictory results. This systematic evidence gap is important to address, given that Indonesian Islamic banking operates within a dual banking system with risk characteristics, contract structures, and regulatory frameworks that differ from conventional banking, meaning that findings cannot be generalized across systems without a systematic synthesis of evidence.

Therefore, this study aims to examine the role of the Deposit Insurance Corporation (LPS) in strengthening public trust and financial stability in Islamic banking in Indonesia. Through a systematic literature review approach, this study synthesizes existing literature to

provide a comprehensive understanding of LPS as a strategic pillar in maintaining the resilience of the national Islamic banking system. Accordingly, this study is expected to make a theoretical contribution in the form of a systematic mapping of evidence on the interrelationship among deposit insurance, public trust, and financial stability, as well as a practical contribution in the form of policy recommendations for LPS, OJK, and other stakeholders in strengthening the resilience of Islamic banking in Indonesia.

## 2. Literature Review

### The Deposit Insurance Corporation (LPS) in the Financial System

The Deposit Insurance Corporation (LPS) is an independent institution established under Law Number 24 of 2004 with the primary mandate of protecting bank customer deposits and maintaining the stability of the national financial system. In carrying out its functions, the LPS's duties (Law No. 24/2004, Article 5, paragraphs 1 and 2): 1) Formulate and establish policies for implementing deposit insurance; 2) Implement deposit insurance; 3) Formulate and establish policies to actively maintain the stability of the banking system; 4) Formulate, establish, and implement policies for the resolution of failed banks that do not have a systemic impact; 5) Handle failed banks that have a systemic impact.

The deposit insurance system administered by the Indonesia Deposit Insurance Corporation (LPS) represents a fundamental mechanism for preserving financial system stability and strengthening public confidence in the banking sector. Previous studies commonly evaluate the effectiveness of the LPS deposit insurance framework by examining the extent of depositor protection, the sufficiency of insurance reserves, and the institution’s ability to manage and resolve bank failures in a timely and efficient manner (Agusti et al., 2026).

The Deposit Insurance Corporation (LPS) exists to maintain public confidence in the banking sector, even amidst the financial crisis. This trust serves as a crucial bulwark against mass depositor panicwhich, if left unchecked, could trigger massive withdrawals (bank runs) and shake the foundations of banking (Alamsyah et al., 2020). Beyond providing deposit guarantees, the Deposit Insurance Corporation (LPS) also plays a strategic role in managing failing banks. When a bank is no longer viable, the LPS takes a measured approach: liquidating assets in an orderly manner, paying out guaranteed deposits, and transferring healthy operations to more stable institutions. With these steps, the LPS not only prevents the spread of financial turmoil but also helps maintain the economy's resilience amidst the storm.

### Islamic Banking

Islamic banking operates based on the principles of sharia compliance, which encompass justice, transparency, and freedom from riba (usury), gharar (gharar), and maysir (gambling). Trust is a central element because the relationship between the bank and its customers is a partnership, not simply a credit transaction. In carrying out its activities, Islamic banking adheres to the principles of sharia, economic democracy, and prudence. Its presence is not merely a financial institution, but rather part of a larger effort to support national development, with the goal of fostering justice, strengthening a sense of togetherness, and realizing equitable prosperity for all levels of society (Arnes, 2022).

**The Deposit Insurance Corporation in the Islamic Banking Industry**

In the era of the rapidly developing digital economy, the financial system is undergoing significant transformation. Amidst this dynamic, the Deposit Insurance Corporation (LPS) plays a crucial role in maintaining financial sector stability while protecting depositors' rights. Since its establishment in 2004, LPS has become one of the main pillars of the financial safety net in Indonesia. Its primary duties include providing deposit guarantees to protect public funds and build public trust in banking. With the increasing use of digital banking services and online transactions, the urgency of the LPS's role is growing. In line with these developments, the Deposit Insurance Corporation (LPS) consistently maintains its commitment to protecting customer deposits, both in conventional and digital banks (Alfarizi et al., 2023).

The LPS's exisce is mandated by Law No. 24 of 2004, which functions to guarantee customer deposits in both conventional and Islamic banks. Islamic banking itself has been present since the early 1990s, beginning with the establishment of Bank Muamalat as the first Islamic bank. To strengthen the legal basis for guarantees in the Islamic sector, the government issued Government Regulation No. 39 of 2005 concerning Guarantees for Bank Customer Deposits Based on Sharia Principles. Furthermore, the DSN-MUI Fatwa No. 118, which forms part of sharia governance, completes the legal framework for Islamic deposit guarantees, is part of the fatwa. This fatwa followed the establishment of the LPS through Law No. 24 of 2004, which was later clarified by Government Regulation No. 39 of 2005, and reinforced by Law No. 21 of 2008 concerning Sharia Banking. Therefore, DSN-MUI Fatwa No. 118 serves as an important guideline for ensuring that bank customer deposit guarantees remain in line with sharia principles (sharia compliance) (Alamsyah et al., 2020).

In the fast-paced digital economy, the role of the Deposit Insurance Corporation (LPS) extends beyond providing guarantees for customer deposits to foster public trust in banking. This protection prevents panic that could trigger systemic failure while maintaining economic stability. As digital banking services increase, the LPS's role as a safeguard of financial security becomes increasingly relevant. Sharia banks create ethical and usury-free services, while LPS provides financial guarantees that strengthen customers' sense of security. This synergy helps create a sharia banking system that is not only sharia-compliant but also stable, sound, and competitive amidst the evolving digital economy.

**Effectiveness of the Deposit Insurance Corporation (LPS) Guarantee Program**

The Deposit Insurance Corporation (LPS)'s vital role in maintaining banking system stability grants it the authority to formulate policies focused on maintaining banking sector stability. This authority includes formulating, establishing, and implementing resolution policies for failed banks that do not have a systemic impact, as well as handling failed banks that do have a systemic impact. Given the complexity of the challenges emerging in the global economic dynamics, policy updates and refinements are urgent steps to ensure effective financial system protection.

Through the existing legal framework, the LPS is mandated to act both preventively and repressively in handling bank failures, while maintaining banking stability by utilizing the public fund guarantee instrument as a key pillar (Thabib & Kurniawan, 2018). Studies on the effectiveness of the LPS guarantee program in several countries have shown mixed results. For example, studies in the United States indicate that the Federal Deposit Insurance

Corporation (FDIC) guarantee program is effective in providing protection to bank customers and maintaining financial system stability. Meanwhile, studies in Europe show that the guarantee program in the European Union (EU) faces various challenges in its implementation and has not proven effective in maintaining financial system stability (Muslimin & Katsirin, 2024).

**Digital Transformation**

The development of digital technology has triggered profound transformations in various aspects of life, including the financial sector. From this dynamic, Financial Technology (FinTech) has emerged, a breakthrough that has fundamentally changed the way people access and utilize financial services. On the global stage, FinTech has emerged as a force breaking down the barriers of conventional financial services. Its rapid growth is driven by its ability to penetrate segments of society previously neglected by the traditional financial system, opening access that was previously nearly unattainable (Rafli et al., 2025). Despite its rapid growth, the use of digital financial services still grapples with a number of challenges-from burdensome costs, threats to service security, to public doubts that still cloud trust in financial technology (Rafli et al., 2025).

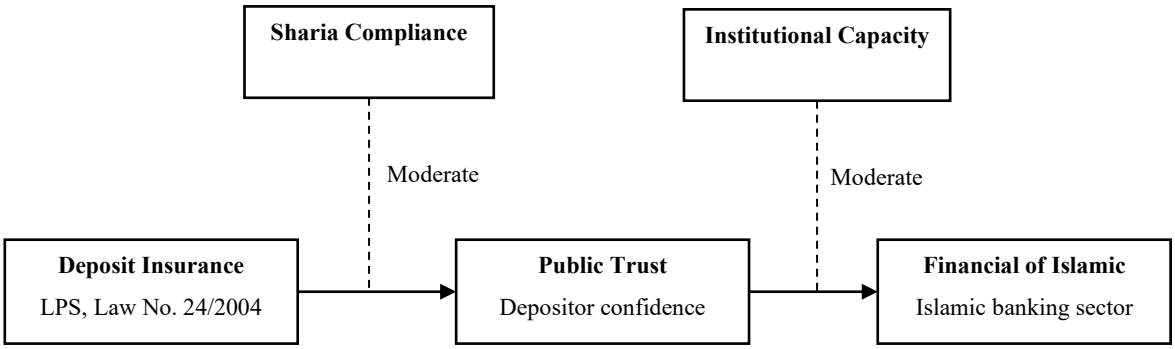
**Conceptual Framework**

Based on the literature review above, this study develops a conceptual framework linking the role of the Deposit Insurance Corporation (LPS) with public trust and financial stability in Islamic banking. LPS, established under Law Number 24 of 2004, carries out its mandate to protect customer deposits and maintain the stability of the national financial system through deposit insurance functions and the handling of failed banks, whether systemic or non systemic in impact. In Islamic banking, this function is reinforced by a specific legal framework, namely Government Regulation Number 39 of 2005 and DSN MUI Fatwa Number 118, which ensure that the insurance mechanism remains in accordance with sharia principles. The existence of this guarantee directly shapes public trust, as it functions as the primary safeguard against depositor panic that could trigger mass withdrawals (bank runs) (Alamsyah et al., 2020). In Islamic banking, this trust carries an additional ethical and religious dimension, given that the relationship between the bank and its customers is built on partnership as well as the principles of fairness, transparency, and freedom from riba, gharar, and maysir (Arnes, 2022), such that the synergy between sharia compliance and the financial guarantee provided by LPS strengthens depositors' sense of security in two dimensions at once (Alfarizi et al., 2023).

The public trust maintained through this insurance mechanism subsequently contributes to overall financial system stability, through the role of LPS in managing failed banks in a measured manner (Alamsyah et al., 2020). However, the effectiveness of this role is conditional, as demonstrated by cross country comparisons: the FDIC program in the United States has proven effective in maintaining stability, while similar programs in the European Union have faced various implementation challenges (Muslimin & Katsirin, 2024; Thabib & Kurniawan, 2018), indicating that the effectiveness of deposit insurance is influenced by the regulatory framework and institutional capacity of each country. Another relevant moderating factor in the current context of Indonesian Islamic banking is digital transformation: the growth of digital financial services has expanded public access, yet has also introduced

challenges related to cost, security, and public doubt (Rafli et al., 2025), meaning that digital transformation can both strengthen and complicate LPS's efforts to build public trust. Accordingly, this study's conceptual framework positions deposit insurance provided by LPS as the primary variable shaping public trust, which in turn contributes to the financial stability of Islamic banking, with sharia compliance and institutional effectiveness serving as moderating factors.

**Figure 2**. Conceptual Framework




Source: processed by researchers (2026)

This diagram illustrates a tiered relationship among three main variables: deposit insurance (LPS) shapes public trust, which in turn contributes to the financial stability of Islamic banking, rather than a direct relationship between LPS and financial stability. This relationship is moderated by two factors: sharia compliance, which determines the strength of deposit insurance's influence on depositor trust (contract structure and DSN MUI fatwa compliance), and institutional capacity, which determines the extent to which public trust actually translates into systemic stability, as reflected in the comparative effectiveness of the FDIC in the United States versus the deposit insurance scheme in the European Union. Accordingly, the effectiveness of LPS in achieving financial stability is conditional, depending on sharia compliance and the institutional capacity that supports it.

## 3. Method

### Research Design

A systematic literature review helps to search for publications based on defined eligibility criteria, assess existing knowledge, and draw reliable findings and recommendations for policymakers, practitioners, and academics. Different protocols used for systematic literature reviews include the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) (Page et al., 2021).

### Research Questions

This review addresses the following research questions:

1. What is the role of the Indonesia Deposit Insurance Corporation (LPS) in strengthening public trust and financial stability in Islamic banking?
2. How does LPS contribute to supporting financial inclusion andsSharia compliant digital transformation in the Islamic banking sector?

**Search Strategy**

The literature search was conducted across three reputable databases: Scopus, Web of Science, and ScienceDirect, with the publication period limited to 2016 to 2026 to capture recent developments in the literature. The search strategy was constructed using Boolean combinations of three main constructs, namely deposit insurance, financial stability, and Islamic banking, restricted to the Indonesian context, with the following search strings:

**Table 1.** Search String

| Database | Search string |
|---|---|
| Scopus | TITLE-ABS-KEY (("deposit insurance" OR "deposit guarantee") AND ("financial stability" OR "systemic risk" OR "bank run") AND ("Islamic bank*" OR "sharia bank*") AND "Indonesia") |
| Web of Science | TS= (("deposit insurance" OR "deposit guarantee") AND ("financial stability" OR "systemic risk" OR "bank run") AND ("Islamic bank*" OR "sharia bank*") AND "Indonesia") |
| ScienceDirect | ("deposit insurance" OR "deposit guarantee") AND ("financial stability" OR "systemic risk") AND ("Islamic banking" OR "sharia banking") AND "Indonesia", filtered on the title, abstract, keywords fields |

Source: processed by researchers (2026)

The search was restricted to peer-reviewed journal articles written in English or Indonesian.

Inclusion and Exclusion Criteria

**Inclusion criteria:**

1. Empirical or conceptual journal articles addressing deposit insurance and/or financial stability within the context of Islamic banking;
2. Focused on the Indonesian context;
3. Published between 2016 and 2026;
4. Available in full text.

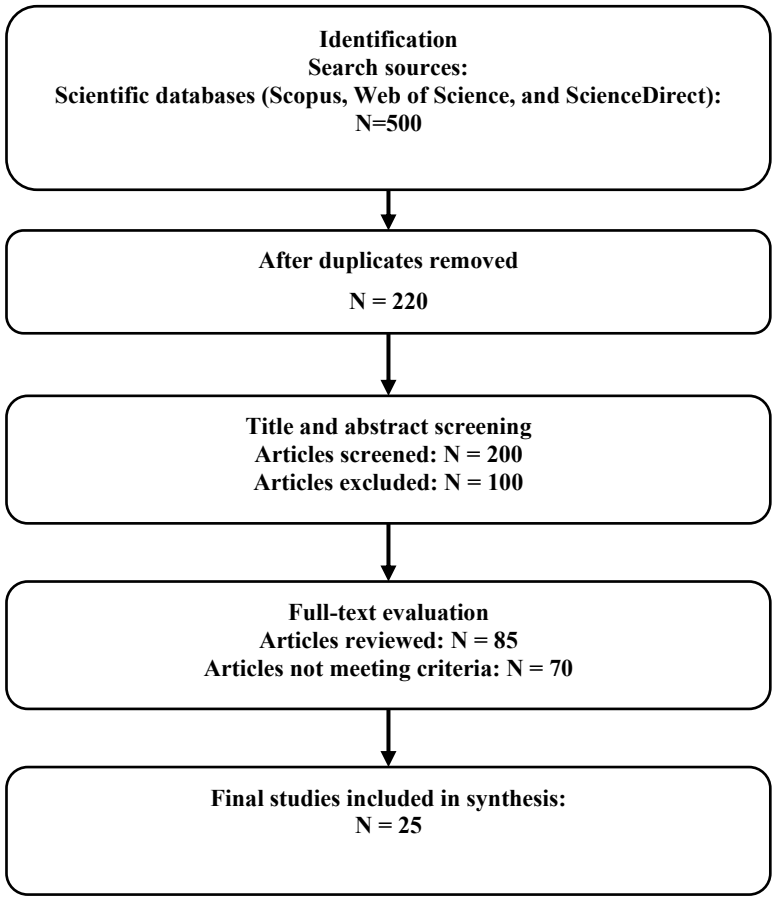
**Exclusion criteria:**

1. Non-empirical articles such as opinion pieces, editorials, or news items;
2. Articles not addressing the Indonesian context;
3. Duplicate publications;
4. Articles not accessible in full text.

**Study Selection Process**

The study selection process followed four stages in accordance with PRISMA 2020, namely identification, screening, eligibility assessment, and inclusion, as presented in Figure 1.

**Figure 1.** PRISMA Diagram – Systematic Literature Selection




**Data Analysis**

The selected studies were analyzed using qualitative content analysis. The findings were coded and grouped into recurring themes, including: (1) the strategic functions of LPS in deposit protection and bank resolution, (2) digital transformation in Islamic banking, (3) digital trust and Sharia governance, (4) deposit insurance and financial stability, and (5) the role of LPS as a pillar of the Islamic financial safety-net framework. These themes were then synthesized to explain how LPS contributes to public trust, financial stability, and the development of a resilient and inclusive Islamic banking ecosystem in Indonesia.

By applying the SLR method, this study provides a comprehensive understanding of the strategic position of LPS in supporting public confidence, Sharia-compliant digital innovation, and the sustainability of the Islamic financial system amid ongoing digital transformation.

## 4. Result and Discussion

This study employs a systematic literature review (SLR) method following the PRISMA 2020 guidelines (Page et al., 2021) to address the research objective, namely mapping and synthesizing empirical evidence on the role of the Deposit Insurance Corporation (LPS) in supporting the stability of the Islamic banking system amid digital transformation. From the initial identification stage (N=700) through the full-text eligibility assessment, 25 final studies met the eligibility criteria and were included in the synthesis. The consistency between the number of studies shown in the PRISMA flow diagram and the results of the evidence

mapping table confirms that the selection process was carried out transparently and is replicable, in accordance with the methodological principles of SLR (Page et al., 2021).

Based on the literature review, previous studies can be grouped into five main themes as presented in the following table.

**Table 2.** Evidence Mapping Table

| Theme/Category | Number of Studies | Representative Studies | Focus Description |
|---|---|---|---|
| Depositor Protection / Deposit Insurance (LPS) | 9 | Agusti et al. (2026); Dewi & Adam (2024); Fianto et al. (2025); Pamungkas et al. (2025); Susamto & Susamto (2026); Susanto & Masri (2020); Suhardiono (2025); Sinaga (2021); Thabib & Kurniawan (2018) | Role of deposit insurance institutions (LPS) in protecting customer deposits, legal protection during bank liquidation, and Sharia-compliant deposit insurance models |
| Bank Resolution / Regulatory Authority | 3 | Tuhana et al. (2025); Lubis et al. (2025); IMF (2024) | Overlapping authorities in banking resolution, regulatory frameworks, and financial system stability assessment |
| Systemic Risk & Financial Stability | 4 | Mawardi et al. (2024); Sunarsih et al. (2022); Hassan et al. (2024); Pambuko et al. (2025) | Bank stability comparisons, risk-and-stability nexus during crises, and financing risk in Islamic banks |
| Digital Transformation in Islamic Banking | 8 | Abu Karsh & Badarin (2024); Almajali et al. (2026); Badawi & Pancabudi (2025); Cherni & Ben Amar (2026); Fitria (2025); Harahap et al. (2023); Masalingi & Sopingi (2025); Robbani et al. (2026) | Digital risk management, digital banking adoption, and digitalization's impact on Islamic banking operations |
| Islamic Insurance / Takaful | 1 | Wang et al. (2024) | Broader research agenda on Islamic insurance products |
| **Total** | **25** | | |

Source: processed by researchers (2026)

This literature review identifies a total of 25 studies grouped into five main themes. The most extensively examined theme is depositor protection/deposit insurance (LPS) with 9 studies, which discuss the role of deposit insurance institutions in protecting customer funds,

legal protection during bank liquidation, and Sharia-compliant deposit insurance models. This is followed by the theme of digital transformation in Islamic banking with 8 studies highlighting digital risk management, digital banking adoption, and its impact on Islamic banking operations. The theme of systemic risk and financial stability is addressed in 4 studies examining bank stability comparisons and financing risk during crises, while the theme of bank resolution and regulatory authority is covered in 3 studies related to overlapping institutional authority and financial system stability frameworks. Meanwhile, the theme of Islamic insurance (takaful) is examined in only 1 study, indicating that this topic remains underexplored and represents a potential gap for future research.

**Digital Transformation in Islamic Banking**

The largest thematic cluster in the evidence mapping is digital transformation, comprising six studies. This finding is consistent with global research trends showing growing academic attention to the digitalization of Islamic banking services. Abu Karsh and Badarin (2024) and (Almajali et al., 2026) highlight how digital risk management and digital capabilities mediate the success of Islamic banking service innovation. This finding is reinforced by Badawi & Pancabudi, (2025) who confirm that digital transformation has a significant impact on Islamic economic performance in Indonesia, as well as Masalingi and Sopingi (2025), who found that the adoption of Islamic digital banking and fintech directly increases customer trust and investment interest.

These findings are also consistent with the broader international literature Cherni & Ben Amar, (2026) , in the Journal of Islamic Accounting and Business Research, found that digitalization also influences the effectiveness of Sharia board oversight, while Harahap et al., (2023) in the Journal of Islamic Monetary Economics and Finance confirmed that customers' intention to use Islamic digital banking services in Indonesia is influenced by perceived ease of use and trust. A bibliometric study by researchers in the International Journal of Research and Innovation in Social Science further affirms the accelerating convergence of fintech and Islamic banking as a continuously growing research direction globally.

The digital transformation of Islamic banking has substantially enhanced the efficiency, accessibility, and Sharia compliance of financial services. The long-term success of digital Islamic banking depends on continuous technological innovation and a regulatory framework that ensures compliance with ethical and Sharia-based financial standards (Fitria, 2025).

However, as found by Robbani et al., (2026).in their systematic review, the adoption of digital technology in Islamic financial institutions still faces challenges related to Sharia compliance and uneven digital literacy, a finding also underscored by Fitria (2025). This indicates that digital transformation, while driving efficiency and customer trust, has not yet been fully integrated with adequate risk mitigation mechanisms.

**Systemic Risk and Banking Stability**

The second prominent theme is systemic risk and banking stability (six studies). Agusti et al. (2026) specifically highlight the role of the LPS in mitigating systemic risk in Indonesia, a finding aligned with the study by Lubis et al. (2025) in Jurnal Dialektika Hukum, which confirms that the LPS serves as the frontline guardian in maintaining financial system stability through strict supervisory policies and regulation. A comparative analysis by Mawardi et al. (2024), published in PLoS ONE, further reinforces this finding by showing

differences in stability patterns between the Islamic and conventional banking sectors in Indonesia using a Markov Switching Dynamic Regression approach.

These findings reinforce the argument made by Sunarsih et al. (2022) in the Journal of Islamic Monetary Economics and Finance that the relationship between risk and the stability of Islamic banks is contextual and influenced by external shocks, such as pandemics or global financial sector turmoil.

**Digital Trust and Sharia Governance in the Transformation of Islamic Banking**

As institutions operating based on sharia principles, Islamic banks are not only obligated to maintain the confidentiality of customer information in accordance with banking regulations but also bear a moral responsibility to protect that data. Data security is a crucial factor in building public trust, which is the main foundation for the sustainability of Islamic banking services. Therefore, it is necessary to utilize cutting-edge technologies, such as encryption systems, reliable network security, and authentication mechanisms, to prevent threats in the digital world. Data protection not only maintains security but also serves as a strategy to strengthen the reputation and competitiveness of Islamic banks. Therefore, Islamic banks need to implement policies and technologies that guarantee information security in accordance with applicable laws and Islamic values. As a financial institution that upholds the principles of fairness and transparency, all customer data management must be carried out ethically and responsibly (Qomar & Zuhra, 2025).

Digital transformation in the Islamic banking sector has improved operational efficiency, strengthened financial stability, and promoted competition and innovation within the industry. Digitalization also enhances customer satisfaction by providing faster, more accessible, and data-driven financial services, with adoption accelerating significantly during the COVID-19 pandemic (Abu Karsh & Badarin, 2024). However, digital transformation has also increased several risks, particularly cybersecurity threats, data integrity issues, and operational disruptions that may adversely affect the reputation of Islamic banks. Furthermore, the implementation of digitalization continues to face challenges, including inadequate infrastructure, limited human capital, budget constraints, and the need to ensure compliance with Sharia principles.

Islamic Digital Banking plays an important role in enhancing public trust in Islamic financial services. This trust is primarily influenced by the quality of digital services that are transparent, accessible, reliable, and compliant with Sharia principles. The digitalization of Islamic banking is also regarded as a form of *tajdid* (renewal) that supports the achievement of *maqashid al-shariah*, particularly through facilitating ease of service (*taysir*) and ensuring transaction clarity (*wuduh*). Consequently, digital innovation not only improves operational efficiency but also preserves Islamic values (Masalingi & Sopingi, 2025).

Islamic Digital Banking has a positive influence on interest in Sharia-compliant investment. The digitalization of Islamic banking services can increase investment participation, especially among younger generations, by fostering positive attitudes toward financial services that are aligned with Islamic values. These findings are supported by the Theory of Planned Behavior, which explains that positive attitudes can strengthen investment intentions, and by the Technology Acceptance Model (TAM), which emphasizes the importance of perceived usefulness, perceived ease of use, and trust in encouraging technology adoption and investment decisions (Masalingi & Sopingi, 2025).

**Analysis of the Deposit Insurance Mechanism**

An analysis of the deposit insurance mechanism implemented by the Indonesia Deposit Insurance Corporation (Lembaga Penjamin Simpanan, LPS) indicates that several fundamental aspects influence the effectiveness of the system. As a deposit insurance institution, LPS provides legal certainty and financial security to depositors regarding the funds they place in banks, particularly during periods of economic instability or potential bank failure. This protection helps reduce public panic and minimizes the likelihood of bank runs that could disrupt banking sector liquidity. The sustainability of LPS is further supported by a risk-based deposit insurance premium mechanism. Premiums are calculated based on the average monthly balance of total deposits, enabling LPS to accumulate sufficient reserves to meet insurance claim obligations in the event of bank failures without imposing excessive financial pressure on the banking industry (Dewi & Adam, 2024).

In terms of bank resolution, the findings of Sinaga (2021) and Thabib and Kurniawan (2018) are in line with the IMF's (2015) study on the Islamic bank resolution framework, which emphasizes the importance of a single resolution authority that understands both conventional banking principles and Sharia compliance, including mechanisms such as purchase and assumption, bridge bank, and bail in, which need to be adjusted so as not to violate Sharia principles. This is relevant to the context of Indonesia, where the LPS holds dual authority to resolve failed banks with both systemic and non systemic impacts (as regulated in the P2SK Law and reaffirmed by Lubis et al., 2025).

From the depositor’s perspective, understanding the maximum deposit insurance coverage limit and the procedures applicable in the event of bank liquidation is essential for effective personal financial risk management. Such knowledge encourages depositors to make more informed financial decisions and to utilize the available protection mechanisms in accordance with prevailing regulations. Overall, the deposit insurance system administered by LPS contributes not only to the protection of public deposits but also to the preservation of national financial system stability. A comprehensive understanding of the deposit insurance mechanism enables depositors, banks, and regulatory authorities to work together in fostering a banking environment that is secure, transparent, and capable of maintaining public confidence in the financial sector.

**Strategic Functions of the Deposit Insurance Corporation (LPS)**

The theme of the strategic functions of the LPS covers five studies that consistently affirm that the LPS carries out a dual function as both a deposit guarantor and a bank resolution authority. Susanto & H. Masri, (2020), in Relasi: Jurnal Ekonomi, confirm that the LPS plays a central role in managing Indonesia's Financial System Stability through its coordination with the Financial System Stability Committee (KSSK), whose members include the Ministry of Finance, Bank Indonesia, and the Financial Services Authority (OJK). This dual role is further explicitly confirmed by Tuhana (2025) in the Journal of Law and Economic Development, who found that following the enactment of Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (P2SK Law), the LPS mandate expanded significantly from a paybox model (merely paying out guarantee claims) into a risk minimizer model (an authority with comprehensive resolution and risk mitigation powers), a transformation that has simultaneously raised new legal challenges concerning the LPS's

independence and the potential overlap of authority with other institutions in the bank resolution process.

The Indonesia Deposit Insurance Corporation (LPS) guarantees various types of deposits held by customers in banks, including current accounts, time deposits, certificates of deposit, savings accounts, and deposit products based on Sharia principles. The guaranteed deposit amount includes the account balance recorded at the time the bank's operating license is revoked, including additional principal derived from interest, profit-sharing returns, and the present value calculated using the applicable discount rate at the time of claim settlement (Dewi & Adam, 2024).

To maintain and enhance public confidence in Indonesian banking, the Deposit Insurance Corporation (LPS) has taken various strategic steps. One of these is providing public understanding of the deposit insurance system, ensuring customer peace of mind and protection. LPS also establishes clear criteria regarding the value of guaranteed deposits and plays an active role in preventing bank failures. This supervisory function is carried out through monitoring balance sheets, credit policies, and investment strategies to detect early signs of financial distress that could lead to bankruptcy. In this role, LPS is at the forefront of reducing customer panic and ensuring that their deposits remain safe even when banks are under pressure (Sinaga, 2021).

LPS was designed and established as part of Indonesia's financial safety net, which encompasses four elements:

1. Regulation and supervision of financial institutions and markets;
2. Acting as a lender of last resort;
3. Deposit insurance scheme; and
4. Crisis management.

The Deposit Insurance Corporation (LPS) serves as a vital part of the government's instrument to create a banking safety net while maintaining financial system stability. As a banking safety net, LPS plays a role through deposit insurance programs and the management of troubled banks. Meanwhile, its role as a financial safety net is realized through the management of surpluses and accumulated premiums invested in Bank Indonesia Certificates (SBI) and Government Securities (SUN). With its capital and reserves, LPS has the opportunity to act as a market maker, both in the primary and secondary markets, in the trading of these securities (Sinaga, 2021).

As the institution responsible for deposit insurance, LPS not only protects customer funds but also performs a supervisory function by ensuring that participating banks comply with established financial soundness and safety standards. In addition, LPS contributes to mitigating systemic risk within the banking sector. Through its deposit insurance mechanism, LPS helps prevent bank runs and minimizes potential disruptions to financial system stability that may arise from financial distress affecting one or more banks (Dewi & Adam, 2024).

**Deposit Insurance Corporation (LPS) in Financial Stability**

Themes on depositor protection (four studies) and bank resolution (two studies) show relatively fewer studies compared to the previous two themes, indicating a research gap in the context of Islamic banking. Pamungkas, Lepetit, and Rugemintwari (2025), in the Journal of Islamic Monetary Economics and Finance, found that Sharia based deposit insurance schemes influence fund flow patterns in dual banking systems, while Susamto and Susamto (2026), in

the Journal of Islamic Accounting and Business Research, propose an alternative model of Islamic deposit insurance aligned with the principles of maqashid sharia. Fianto et al. (2025) add an important dimension by highlighting the role of deposit insurance in supporting Islamic microfinance institutions, a segment that has so far received limited attention in mainstream literature.

The limited number of studies on these two themes is further confirmed by the systematic review of Hassan et al., (2024) in the journal Risk Management (Palgrave Macmillan), which mapped the global research agenda on Islamic banking risk and found that bank resolution issues and depositor protection mechanisms remain relatively underdeveloped sub themes compared to topics such as credit, liquidity, and operational risk. A similar point is made by Wang, (2024) in the Journal of Financial Services Marketing, who note that research on sharia based protection and insurance schemes is still at a nascent stage compared to the much more mature conventional insurance literature.

In the specific context of Indonesia, the study by Pambuko et al., (2025),published in a PMC/BMC indexed journal on the impact of spin off policy on the financing risk of Islamic banks, is also relevant, as it confirms that changes in the institutional structure of Islamic banking following a spin-off have direct implications for the need for resolution and guarantee mechanisms that are more adaptive to the characteristics of newly independent sharia business units.

From the perspective of financial stability, the timely intervention carried out by the Indonesia Deposit Insurance Corporation (LPS) is essential for limiting the contagion effects that may arise from bank failures. The existence of a credible deposit insurance scheme helps reduce depositor uncertainty and minimizes the risk of widespread panic withdrawals that could affect other financial institutions. This function is particularly critical for rural banks, whose sustainability depends largely on public trust and the confidence of local depositors. Therefore, prompt compensation payments and transparent bank resolution mechanisms not only safeguard depositors but also strengthen the stability and resilience of the regional banking sector (Agusti et al., 2026).

The Indonesia Deposit Insurance Corporation (LPS) plays a significant role in promoting financial stability through several interconnected functions. First, LPS safeguards depositors by providing insurance coverage for eligible deposits, thereby preserving public trust in the banking system. Second, it ensures an orderly resolution process for failed banks through structured liquidation and settlement procedures that reduce uncertainty during periods of financial distress. Third, in coordination with the Financial Services Authority (OJK) and other relevant regulatory institutions, LPS helps contain systemic risk by facilitating transparent and well-organized resolutions of troubled banks. Together, these functions enhance the resilience of Indonesia's banking institutions and strengthen the overall effectiveness of the national financial safety-net system.

## The Deposit Insurance Corporation (LPS) as a Pillar of Islamic Financial System Stability

The LPS was established to implement a bank customer deposit guarantee program to support a healthy and stable banking system. A healthy and stable banking system is essential for realizing a stable, robust, and resilient national economy. The LPS provides protection against two risks: irrational run and systemic risk (Susanto & H. Masri, 2020). Since the

concept of Islamic economics was introduced and implemented in Indonesia, the financial services sector has implemented a dual system encompassing both conventional and Islamic services. This system can be found in various sectors, such as banking, insurance, financing (multifinance), pawnshops, and pension funds. Since its inception, the Deposit Insurance Corporation (LPS) has provided guarantees for customer deposits, including in the Islamic banking industry.

A literature review indicates that this dual system has led to the development of the Sharia-based guarantee scheme currently in place. To raise and distribute funds, Islamic banks utilize various contracts, such as wadiah (deposit), qardh (loan), murabahah (margin-based sale and purchase), and mudharabah (profit-sharing). The Islamic Banking Law defines deposits as funds entrusted by customers to banks under a wadiah contract, while funds placed under a mudharabah contract are categorized as investments. Nevertheless, funds raised through mudharabah contracts remain covered by the Deposit Insurance Corporation (LPS) guarantee (Alamsyah et al., 2020).

A literature review indicates that the LPS provides protection up to a certain nominal limit. Customers who meet the eligibility criteria will receive reimbursement, for example, by not receiving interest or returns that are not in accordance with Sharia law. This guarantee allows Islamic banks to operate more stably, while customers feel more secure in their deposits, as an independent institution guarantees the continuity of their rights in accordance with Sharia law and principles. The analysis shows that the Deposit Insurance Corporation (LPS) guarantee for Islamic banks is a protection mechanism for customers who place their funds in Sharia-compliant banking institutions. The LPS, established under Law No. 24 of 2004, is mandated to guarantee customer deposits in both conventional and Islamic banks, in order to maintain financial system stability and enhance public trust.

The LPS guarantee for Islamic banks is implemented in accordance with Government Regulation No. 39 of 2005 concerning Guarantees for Bank Customer Deposits Based on Sharia Principles. This regulation ensures that the guarantee scheme is aligned with Sharia-compliant contracts, such as wadiah and mudharabah, which form the basis for fundraising in Islamic banks. To strengthen Sharia compliance, the DSN-MUI Fatwa No. 118 was issued as an operational guideline governing deposit guarantees in accordance with Sharia principles. With this legal basis and fatwa, LPS can provide protection that not only covers positive legal aspects, but also meets sharia standards, thereby maintaining public trust in the sharia banking industry in Indonesia.

## 5. Conclusion

A systematic review of the 25 studies synthesized in this research indicates that the Deposit Insurance Corporation (LPS) serves as one of the important pillars supporting public trust and the financial stability of Islamic banking in Indonesia, although this role is conditional and cannot be separated from factors of Sharia compliance and institutional capacity. The theme of depositor protection/deposit insurance constitutes the largest research cluster (9 studies), indicating that the basic function of LPS in protecting customer deposits and providing legal certainty during bank liquidation processes has been fairly extensively researched, including the development of alternative Sharia-compliant deposit insurance models aligned with maqashid sharia principles. On the other hand, digital transformation in Islamic banking (8 studies) emerged as the second-largest theme, indicating that the literature

is beginning to pay attention to how digitalization affects customer trust and investment interest, although challenges related to Sharia compliance and digital literacy gaps remain issues that have not been fully resolved.

Findings on the theme of systemic risk and financial stability (4 studies) indicate that the relationship between risk and stability in Islamic banks is contextual, influenced by external shocks such as pandemics and global financial sector turmoil, so generalizations across periods need to be made cautiously. Meanwhile, the themes of bank resolution/regulatory authority (3 studies) and Islamic insurance/takaful (1 study) show a relatively limited number of studies, indicating that these two topics remain underdeveloped compared to other themes in the Islamic banking literature, and could potentially represent relevant directions for further research.

Overall, the available evidence indicates that the effectiveness of LPS in strengthening public trust and the financial stability of Islamic banking is potentially determined by the extent to which the guarantee scheme aligns with Sharia contract structures (wadiah, mudharabah), as well as by institutional capacity in carrying out the bank resolution function in a transparent and responsive manner. However, evidence regarding LPS's specific contribution to financial inclusion or digital technology adoption remains limited, given that most studies discussing digital transformation do not explicitly link it to the deposit insurance function. Therefore, claims regarding the role of LPS in supporting the digital transformation of Islamic banking should be understood as an area requiring further empirical testing, rather than as a definitive conclusion of this review.

**Theoretical Implications**

This study offers a theoretical contribution in the form of a conceptual framework that links deposit insurance (LPS), public trust, and financial stability in a tiered structure, with sharia compliance and institutional capacity serving as moderating factors, thereby enriching a literature that has generally examined these three aspects separately. The findings regarding the role of contract structure compliance with sharia principles affirm that conventional deposit insurance models cannot be applied directly to Islamic banking without structural modification, while also reinforcing the importance of developing an alternative sharia based deposit insurance model grounded in maqashid sharia and confirming the relevance of sharia compliance as a moderating variable rather than merely a control variable.

**Practical and Policy Implications**

For LPS, the findings of this study recommend strengthening the harmonization between the deposit insurance scheme and sharia contract structures, particularly regarding clarity in the coverage of guarantees for funds raised through profit sharing based contracts, given that the profit sharing nature of these contracts inherently carries risks different from full conventional guarantees. In addition, since digital transformation is the second largest research theme yet has not been explicitly integrated with the deposit insurance function, LPS needs to consider strengthening digital risk oversight as part of its systemic risk mitigation function amid the accelerating digitalization of Islamic banking services. For OJK and related authorities, the findings regarding overlapping authority in bank resolution indicate the need for greater clarity in the division of roles between LPS and OJK, particularly regarding the transition of LPS's mandate from a model focused solely on claim payments to an authority with broader

resolution and risk mitigation powers, so as to avoid institutional ambiguity that could weaken the effectiveness of bank resolution in the future. For DSN MUI and stakeholders in sharia governance, the relevance of operational guidelines for sharia based deposit insurance needs to be continuously evaluated as digital Islamic banking products continue to develop, in order to ensure that sharia compliance principles are maintained amid increasingly complex service innovation.

**Limitations**

This study has several limitations that should be taken into account in future research. First, the relatively small number of studies on the themes of bank resolution and Islamic insurance limits the generalizability of the findings in these two areas. Second, this review is qualitative and thematic in nature, and therefore does not measure the strength of the relationships among variables statistically; future research is recommended to conduct a meta-analysis or direct empirical study to test the conceptual framework proposed in this study, particularly regarding the moderating roles of sharia compliance and institutional capacity, which have so far only been examined to a limited extent in the available literature.

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