



The Existence of Islamic Banks and Non-Bank Financial Institutions in Promoting Islamic Financial Inclusion

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Abstract

This study is motivated by the persistent gap between Islamic financial literacy and Islamic financial inclusion in Indonesia, despite the continuous growth of Islamic financial industry assets. The research aims to describe the existence of Islamic banks and Islamic non-bank financial institutions (NBFIs) in promoting Islamic financial inclusion in Indonesia. This study adopts a qualitative approach using a descriptive design and a library research method, relying on secondary data analyzed through content analysis techniques. The findings indicate that Islamic banks and Islamic NBFIs, including Islamic insurance, Islamic pension funds, Islamic pawnshops, and Islamic fintech, continue to experience asset growth and service diversification. However, this growth has not been fully translated into a corresponding increase in Islamic financial inclusion. The study also finds that Islamic financial literacy levels are significantly higher than inclusion levels, suggesting that increased public knowledge does not automatically lead to active utilization of Islamic financial services. Furthermore, structural issues such as regulatory inconsistency, limited product innovation, and unequal digital readiness across institutions remain key barriers. The study concludes that stronger synergy among regulators, Islamic financial institutions, academics, and society is required to enhance literacy, promote innovation, harmonize regulations, and optimize digital technology for sustainable Islamic financial inclusion.

Keywords: Islamic Banks, Islamic Non-Bank Financial Institutions, Financial Inclusion, Financial Literacy, Islamic Finance.



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INTRODUCTION

The development of the Islamic economy has accelerated significantly over the past decade, not only through the expansion of Islamic banking but also through the rapid transformation of Islamic non-bank financial institutions that increasingly diversify financial services in response to contemporary economic demands (Mulyawan et al., 2025). The advancement of digital technology has fundamentally reshaped the financial services landscape, enabling both Islamic banks and Islamic non-bank financial institutions to provide more accessible, efficient, and inclusive financial services to wider segments of society while strengthening the competitiveness of the Islamic financial industry in the digital era (Muchammad Iqbal Fatah, 2026). Islamic financial institutions have consequently evolved beyond their traditional role as providers of Sharia-compliant financial products and increasingly function as strategic instruments for promoting equitable economic development and reducing financial exclusion. This transformation demonstrates that the Islamic financial system possesses a considerable capacity to adapt to technological innovation without compromising the fundamental principles of Sharia. The growing integration of digital financial services also creates new opportunities for reaching previously underserved communities, particularly those located in remote areas or belonging to vulnerable socioeconomic groups (Widagdo et al., 2026). At the same time, the increasing convergence between financial technology and Islamic finance has intensified competition among financial service providers, requiring Islamic institutions to continuously improve product innovation, institutional efficiency, and service quality. Such developments indicate that the existence of Islamic banking and Islamic non-bank financial institutions should no longer be assessed solely from the perspective of institutional growth but also from their effectiveness in expanding meaningful financial inclusion across society.

Understanding this broader institutional role therefore becomes increasingly important for evaluating whether the rapid expansion of Islamic financial institutions has translated into greater accessibility and utilization of formal Sharia-compliant financial services.

The existence of Islamic banks in Indonesia has gradually become an integral component of the national financial system rather than merely serving as an alternative financial option for Muslim communities. Islamic banking offers financial services that operate according to Sharia principles emphasizing justice, transparency, risk sharing, and partnership while prohibiting interest-based transactions and speculative activities, thereby providing an ethical framework for financial intermediation (Abdurrozak & Hilalludin, 2026). The strengthening position of Islamic banking is also reflected in the growing commitment of regulators, policymakers, and financial institutions to accelerate the development of the national Islamic financial ecosystem through various regulatory reforms and institutional initiatives (Yaqin, 2024). Despite these positive institutional developments, the increasing presence of Islamic banks has not yet been accompanied by proportional improvements in the utilization of Islamic financial services by the public. According to the 2024 National Survey of Financial Literacy and Inclusion conducted by the Financial Services Authority and Statistics Indonesia, the Islamic financial literacy index reached 39.11%, whereas the Islamic financial inclusion index remained substantially lower at only 12.88% (Otoritas Jasa Keuangan & Badan Pusat Statistik, 2024). This substantial disparity indicates that public understanding of Islamic financial concepts has not been adequately transformed into actual participation in formal Islamic financial services. Previous empirical studies similarly demonstrate that financial inclusion in Islamic banking continues to be influenced by multiple structural factors, including accessibility, product competitiveness, institutional trust, and socioeconomic characteristics of potential users, suggesting that increasing literacy alone is insufficient to encourage financial participation (Mujiatun & Badawi, 2023). Other studies also emphasize that Islamic banks contribute significantly to financial inclusion through product diversification, digital service innovation, and financing accessibility; however, these contributions remain uneven across different demographic groups and geographical regions (Khotimah, 2024). Considering that Indonesia possesses one of the world's largest Muslim populations, this condition simultaneously reflects a substantial untapped market and highlights the necessity of strengthening the practical role of Islamic financial institutions in expanding inclusive financial access throughout the country (Fadhli et al., 2026).

The development of Indonesia's Islamic financial system has not been driven exclusively by Islamic banking but has also been reinforced by the continuous expansion of Islamic Non-Bank Financial Institutions (NBFIs), which encompass Islamic insurance companies, Islamic financing institutions, Islamic pension funds, Islamic pawnshops, Islamic microfinance institutions such as Baitul Maal wat Tamwil (BMT), and Sharia-compliant financial technology providers (Putra & Majid, 2024). The emergence of these institutions reflects the increasing implementation of Islamic economic principles across diverse financial sectors while simultaneously broadening the range of Sharia-compliant financial products available to society (Rashid, 2024). From an institutional perspective, the Islamic non-bank financial industry operates under the supervision of regulatory bodies, including the Financial Services Authority (OJK), the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), and other supporting institutions that collectively ensure regulatory compliance and Sharia governance. Such institutional support has strengthened the legitimacy and sustainability of Islamic financial services within Indonesia's national financial architecture. Nevertheless, previous studies demonstrate that the performance of individual Islamic non-bank financial subsectors remains uneven despite overall industry growth (Trimulato, 2022). Islamic insurance, Islamic pension funds, and Islamic microfinance institutions have experienced positive asset growth, whereas several financing institutions have shown relatively slower development due to differences in market demand, institutional capacity, and regulatory readiness (Trimulato, 2022). More recent evidence further suggests that effective marketing strategies, product innovation, and institutional collaboration are becoming increasingly important determinants in enhancing the contribution of Islamic non-bank financial institutions toward financial inclusion rather than relying solely on institutional expansion (Irwandi & Arifin, 2025). These findings indicate that institutional existence alone cannot guarantee broader financial inclusion unless accompanied by adaptive strategies capable of addressing the evolving financial needs of contemporary society.

The positive trajectory of Indonesia's Islamic financial industry has continued in recent years, as reflected by the steady increase in total Islamic financial assets and the strengthening performance of various Islamic financial sectors. The sustained expansion of Islamic finance demonstrates that Sharia-based financial institutions have gradually become an important pillar of Indonesia's economic development while contributing to financial system resilience. Despite these encouraging macroeconomic indicators, significant disparities remain across different subsectors regarding their capacity to attract customers and expand market penetration. Islamic insurance, for example, has consistently recorded growth in gross contributions over recent years, yet its market share remains considerably smaller than that of conventional insurance because of limited product innovation, relatively low public awareness, and intense competition within the broader financial services industry (Zakiyah et al., 2023). Similar challenges are also evident within the Islamic financial inclusion agenda, where institutional expansion has not necessarily translated into proportional improvements in public utilization of Sharia-compliant financial services. Previous studies reveal that strengthening financial inclusion requires not only expanding institutional availability but also improving financial literacy, financial self-efficacy, consumer confidence, and the accessibility of digital financial services that encourage individuals to actively engage with Islamic financial products (Muslichah et al., 2023). Institutional approaches have likewise been recognized as essential in promoting Islamic financial inclusion among micro, small, and medium-sized enterprises (MSMEs), particularly by creating collaborative ecosystems capable of reducing structural barriers to financial access (Saifurrahman & Kassim, 2023). Community-based institutions also play an increasingly strategic role, as evidence shows that branchless banking initiatives implemented through mosques have successfully expanded Islamic financial services to underserved populations, thereby demonstrating that financial inclusion depends not only on financial institutions themselves but also on broader institutional networks embedded within society (Sofiani et al., 2025). Collectively, these findings suggest that strengthening Islamic financial inclusion requires a more integrated perspective that recognizes the complementary contributions of Islamic banks, Islamic non-bank financial institutions, technological innovation, and community-based financial ecosystems rather than evaluating each component independently.

Despite the growing body of literature addressing Islamic banking and Islamic non-bank financial institutions (NBFIs) separately, there remains a limited integrated analysis that examines how both institutional components collectively contribute to Islamic financial inclusion within a unified framework. Existing studies tend to focus on specific segments, such as Islamic banking performance, fintech-based inclusion, Islamic microfinance, or the role of individual NBFI subsectors, without sufficiently exploring the systemic interaction between these institutions in shaping overall inclusion outcomes (Mulyawan et al., 2025). This fragmented approach creates a conceptual gap in understanding how Islamic banks and Islamic NBFIs complement each other in expanding access, usage, and depth of Sharia-compliant financial services across different socioeconomic groups. Moreover, most empirical findings emphasize institutional growth, asset expansion, and product diversification, while comparatively fewer studies critically assess whether such developments translate into meaningful financial inclusion, particularly among unbanked and underbanked populations. In addition, the accelerating influence of digital transformation and financial technology further complicates this relationship, as it simultaneously enhances financial outreach while reshaping competitive dynamics among Islamic financial institutions. The coexistence of multiple Islamic financial actors within the same ecosystem also raises questions regarding coordination, efficiency, and overlap of services that may affect inclusion effectiveness. Therefore, a more holistic analytical perspective is required to evaluate the extent to which the integration of Islamic banks and Islamic NBFIs can strengthen inclusive financial ecosystems in Indonesia's evolving economic landscape.

This study aims to analyze the existence and role of Islamic banks and Islamic non-bank financial institutions in promoting Islamic financial inclusion in Indonesia. It seeks to examine how both institutional sectors contribute individually and collectively to expanding access to Sharia-compliant financial services, as well as how their interaction supports broader financial system inclusivity. The study also intends to provide a conceptual understanding of how institutional development, service innovation, and financial ecosystem integration influence the effectiveness of Islamic financial inclusion. By adopting a macro-institutional perspective within the context of economic development, accounting, and global market dynamics, this research is expected to offer a more comprehensive

explanation of the role of Islamic financial institutions in bridging the gap between financial availability and actual financial participation in society.

RESEARCH METHODS

This research adopts a non-empirical qualitative approach using a library research (literature review) design to analyze the existence of Islamic banks and Islamic non-bank financial institutions (NBFIs) in promoting Islamic financial inclusion. The approach is chosen to construct a comprehensive conceptual and theoretical understanding of how Islamic financial institutions contribute to inclusive financial systems within the broader framework of economic development, accounting practices, and global market dynamics. This study does not employ primary data collection, survey methods, or statistical estimation, but instead focuses on synthesizing existing scholarly knowledge. The data sources consist of secondary literature, including peer-reviewed journal articles, academic books, policy papers, and official reports issued by institutions such as the Financial Services Authority (OJK), Bank Indonesia (BI), the National Islamic Finance Committee (KNEKS), and the Central Statistics Agency (BPS). The literature selection process is conducted using a purposive approach based on relevance to Islamic banking development, Islamic NBFIs, fintech integration, financial literacy, and Islamic financial inclusion. In addition, priority is given to recent publications to ensure the analysis reflects current developments in the Islamic financial ecosystem (Mulyawan et al., 2025). Overall, the methodological design emphasizes depth of interpretation rather than numerical measurement.

The analytical method employed in this study is content analysis combined with thematic and interpretative analysis, which aims to identify, classify, and synthesize patterns across the selected literature. The analysis is conducted through systematic stages, including coding relevant concepts, grouping similar themes, and interpreting relationships between Islamic banking institutions and Islamic NBFIs in supporting financial inclusion. Furthermore, the study develops a conceptual framework based on Islamic economic principles and financial inclusion theory to explain how institutional existence translates into broader accessibility, usage, and effectiveness of financial services. The interpretative process also examines the synergistic role between Islamic banks and NBFIs in forming an integrated financial ecosystem that enhances outreach to underserved populations. Structural challenges such as digital divide, institutional fragmentation, and uneven subsector development are also critically discussed to provide a balanced analytical perspective. Finally, the findings are presented in a descriptive and narrative form to deliver a holistic explanation of Islamic financial inclusion dynamics without relying on econometric modeling or hypothesis testing (Muslichah et al., 2023).

RESULTS AND DISCUSSION

Islamic Financial Institutions and Their Institutional Development in Indonesia

Islamic banking in Indonesia has developed into a central component of the national financial system, moving beyond its initial role as a niche alternative for Muslim consumers. Its institutional existence reflects a financial intermediation model grounded in Sharia principles that emphasize justice, transparency, and risk-sharing while prohibiting interest-based transactions and excessive uncertainty (Abdurrozak & Hilalludin, 2026). Over time, Islamic banks have expanded their operational scope through product diversification, digital transformation, and integration into broader financial ecosystems. This development is reinforced by increasing regulatory support from national authorities, which position Islamic banking as part of Indonesia's long-term financial inclusion strategy. The expansion of Islamic banking assets and branch networks also indicates growing institutional maturity within the sector. However, this structural growth does not automatically translate into proportional utilization by the public, as gaps between awareness and actual usage remain evident in national financial surveys. The institutional evolution of Islamic banking therefore represents both progress and unresolved challenges in achieving inclusive financial participation.

In parallel with Islamic banking, Islamic Non-Bank Financial Institutions (IKNB) have become increasingly significant in supporting the diversification of Sharia-compliant financial services. These institutions include Islamic insurance companies, Islamic financing institutions, Islamic pension funds, Islamic pawnshops, microfinance institutions such as Baitul Maal wat Tamwil (BMT), and Islamic fintech platforms (Putra & Majid, 2024). Their presence reflects the broadening implementation of Islamic economic principles across multiple financial sectors beyond traditional banking activities.

Each subsector plays a distinct role in addressing different financial needs of society, ranging from risk protection to micro-scale financing. The diversification of IKNB institutions also contributes to expanding financial access for segments of the population that are not fully served by formal banking systems. Nevertheless, the development trajectory of these institutions remains uneven across subsectors, indicating structural disparities in growth and institutional capacity. This uneven development highlights the complexity of building an integrated Islamic financial ecosystem that is both inclusive and sustainable.

Digital transformation has become a defining factor in the evolution of both Islamic banks and Islamic non-bank financial institutions. The adoption of financial technology has enabled Islamic financial institutions to improve service efficiency, reduce operational barriers, and expand outreach to underserved communities (Widagdo et al., 2026). Digital platforms such as mobile banking, online financing systems, and Sharia-compliant fintech applications have significantly altered the delivery of financial services. This transformation is particularly relevant in a geographically diverse country such as Indonesia, where physical access to financial institutions remains uneven. The integration of digital systems has also enhanced competitiveness among Islamic financial providers, encouraging innovation in product design and service delivery. However, the digital divide remains a critical challenge, especially in rural and low-income areas where access to technology and digital literacy is limited. Consequently, digital transformation must be accompanied by inclusive capacity-building strategies to ensure equitable access to financial services.

From an institutional perspective, the development of Islamic financial institutions is strongly influenced by regulatory frameworks and governance structures. In Indonesia, Islamic financial institutions operate under the supervision of the Financial Services Authority (OJK), Bank Indonesia (BI), and the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). These institutions provide legal certainty, Sharia compliance assurance, and systemic stability for the Islamic financial sector. Regulatory support has contributed to increased investor confidence and institutional legitimacy within the global Islamic finance industry. However, coordination among regulatory bodies and harmonization of policies across subsectors remain ongoing challenges. Differences in regulatory maturity between banking and non-banking sectors also contribute to disparities in institutional performance. Strengthening regulatory coherence is therefore essential to ensure that the Islamic financial system develops in a balanced and integrated manner.

Overall, the institutional development of Islamic financial institutions in Indonesia reflects a dynamic interplay between growth, innovation, and structural challenges. Islamic banks and Islamic non-bank financial institutions collectively contribute to the expansion of Sharia-compliant financial services, yet their effectiveness in promoting financial inclusion remains influenced by multiple internal and external factors. These include regulatory alignment, technological readiness, institutional capacity, and public financial literacy. The coexistence of strong institutional growth and persistent inclusion gaps suggests that expansion alone is insufficient without deeper systemic integration. A more holistic understanding of institutional roles is therefore required to assess their true contribution to economic development and financial inclusion. This includes evaluating not only the existence of institutions but also their functional effectiveness in reaching underserved populations. Such an approach provides a stronger analytical foundation for understanding Islamic financial development within contemporary economic and global market contexts.

Development of Islamic Non-Bank Financial Institutions (IKNB) in Indonesia

Islamic Non-Bank Financial Institutions (IKNB) in Indonesia have developed as an essential pillar within the broader Islamic financial system, complementing the role of Islamic banking in expanding financial access. These institutions include Islamic insurance, Islamic financing companies, Islamic pension funds, Islamic pawnshops, Islamic microfinance institutions such as Baitul Maal wat Tamwil (BMT), and Islamic fintech platforms (Putra & Majid, 2024). The expansion of these institutions reflects the increasing institutionalization of Sharia principles across diverse financial service sectors. Their presence is particularly important in reaching segments of society that are not fully served by formal banking institutions, especially micro and informal economic actors. Over time, IKNB institutions have contributed to diversifying financial instruments that comply with Islamic legal and ethical standards. However, their development trajectory is not uniform across subsectors,

indicating differences in market readiness and institutional capacity. This uneven expansion suggests that the Islamic non-bank financial sector is still undergoing structural consolidation.

The transformation of IKNB institutions has been strongly influenced by technological advancements and the increasing adoption of digital financial services. The integration of fintech-based systems has allowed Islamic non-bank institutions to enhance service efficiency and expand their outreach to previously underserved populations. Digital platforms facilitate faster transactions, reduce operational costs, and improve accessibility for users in geographically remote areas (Widagdo et al., 2026). This digital shift is particularly relevant in the context of Indonesia's large unbanked population, where physical access to financial institutions remains limited. Despite these advantages, the level of digital adoption varies significantly across subsectors depending on infrastructure readiness and institutional capability. Some institutions have successfully integrated digital solutions into their operations, while others continue to rely on conventional service models. As a result, digital transformation has created both opportunities for expansion and challenges related to inequality within the IKNB ecosystem.

Regulatory frameworks play a central role in shaping the growth and stability of Islamic non-bank financial institutions in Indonesia. These institutions are supervised by the Financial Services Authority (OJK) in coordination with Sharia governance authorities such as the DSN-MUI, ensuring compliance with both financial regulations and Islamic principles. This dual governance structure strengthens institutional legitimacy and enhances public trust in Islamic financial services. However, regulatory development is not evenly distributed across all subsectors, creating differences in institutional maturity. Certain sectors such as Islamic insurance and financing companies have relatively well-established regulatory frameworks, while others such as Islamic pension funds and venture capital institutions still face regulatory limitations (Trimulato, 2022). These inconsistencies may hinder the pace of innovation and restrict the expansion potential of less-developed subsectors. Therefore, regulatory harmonization remains a critical requirement for strengthening the overall Islamic non-bank financial system.

Empirical literature indicates that the performance of IKNB subsectors in Indonesia varies significantly in terms of growth and market penetration. Islamic insurance and pension funds demonstrate relatively stable growth, supported by increasing awareness of long-term financial planning and risk management. In contrast, Islamic financing companies have experienced slower growth due to intense competition and structural inefficiencies in credit distribution mechanisms. Islamic microfinance institutions continue to play a vital role in supporting grassroots economic activities, although their scale remains limited. The most dynamic growth is observed in Islamic fintech, which has expanded rapidly due to strong demand for digital financial services and technological innovation. Conversely, Islamic pawnshops have shown declining performance as consumer behavior shifts toward digital financial solutions (Trimulato, 2022). These variations demonstrate that sectoral performance is highly dependent on adaptability to technological change and market dynamics.

Overall, the development of Islamic Non-Bank Financial Institutions reflects a complex interaction between institutional diversification, technological transformation, and regulatory evolution. While the sector has expanded significantly in terms of institutional variety, its internal disparities indicate that structural challenges remain unresolved. The coexistence of high-performing and underperforming subsectors suggests that the ecosystem is still in a transitional phase toward full maturity. Strengthening institutional capacity and improving digital integration are essential steps for enhancing overall sector performance. In addition, regulatory alignment across subsectors is necessary to reduce fragmentation within the Islamic non-bank financial system. The development of IKNB institutions should therefore be understood not only as sectoral growth but also as a process of systemic adjustment within Indonesia's Islamic financial architecture. Such an understanding is essential for evaluating their true contribution to financial inclusion and economic development.

Performance and Structural Gaps in Islamic Financial Sub-Sectors

The performance of Islamic financial sub-sectors in Indonesia reflects a highly heterogeneous pattern that indicates uneven development across the Islamic financial ecosystem. Empirical literature shows that each subsector, including Islamic insurance, Islamic pension funds, Islamic microfinance institutions, Islamic financing companies, Islamic pawnshops, and Islamic fintech, exhibits distinct growth trajectories (Trimulato, 2022). This variation suggests that Islamic financial development cannot

be interpreted as a single unified trend, but rather as a collection of sector-specific dynamics. Islamic fintech demonstrates the highest growth due to its strong alignment with digital transformation and increasing demand for technology-driven financial services. In contrast, Islamic financing companies and pawnshops experience negative growth due to structural inefficiencies and shifts in consumer behavior toward digital platforms. Islamic insurance and pension funds show relatively stable but moderate growth, indicating gradual acceptance but limited market penetration. These differences collectively highlight the presence of structural imbalances within the Islamic financial system.

Table 1. Growth Performance of Islamic Financial Sub-Sectors in Indonesia

| Sub-Sector | Growth Rate (%) | Performance Condition |
|-----------------------------|------------------------|------------------------------|
| Islamic Insurance | 6.26 | Moderate Growth |
| Islamic Pension Funds | 17.79 | Strong Growth |
| Islamic Microfinance (BMT) | 2.24 | Low Growth |
| Islamic Fintech | 85.54 | Very High Growth |
| Islamic Financing Companies | -7.78 | Declining |
| Islamic Pawnshops | -6.95 | Declining |

The table illustrates significant disparities in performance across Islamic financial sub-sectors, with fintech clearly dominating in terms of growth rate. This dominance indicates that digitalization plays a crucial role in determining institutional competitiveness within the Islamic financial ecosystem. The strong performance of pension funds also reflects increasing awareness of long-term financial planning among the Muslim population. However, the decline in financing companies and pawnshops suggests structural inefficiencies and reduced competitiveness in traditional service models. Islamic microfinance institutions continue to show limited but positive growth, indicating their ongoing relevance in supporting grassroots economic activities. Overall, the data confirms that Islamic financial development in Indonesia is uneven and highly dependent on institutional adaptability. These disparities raise important questions regarding the inclusiveness and balance of sectoral development.

From an analytical perspective, these performance gaps can be explained through institutional theory and technological adaptation frameworks. Institutions that are more flexible in adopting innovation tend to achieve higher growth and broader market reach compared to more rigid organizations (Mulyawan et al., 2025). Islamic fintech benefits from scalability, low operational costs, and high accessibility, which significantly enhance its competitiveness. Conversely, traditional institutions such as financing companies and pawnshops face structural constraints that limit their ability to adapt to rapid technological changes. Regulatory differences across subsectors also contribute to uneven development, as some institutions receive stronger policy support than others. In addition, disparities in human capital and digital infrastructure further widen the performance gap across subsectors. This theoretical perspective emphasizes that structural inequality is driven by both internal institutional capacity and external environmental conditions.

The existence of structural disparities has significant implications for the effectiveness of Islamic financial inclusion in Indonesia. Uneven performance across subsectors creates fragmented access to financial services, where certain populations benefit more from advanced digital platforms while others remain underserved. This situation reduces the overall efficiency of the Islamic financial ecosystem in achieving inclusive development objectives. It also suggests that financial inclusion is not solely determined by institutional presence, but also by institutional performance and adaptability. The dominance of fintech may shift financial intermediation toward digital ecosystems, but it may not fully address the needs of populations with limited digital access. Therefore, reliance on a single dominant subsector may create new forms of exclusion within the system. A more balanced development approach across all subsectors is necessary to ensure equitable financial access.

Overall, the analysis of performance and structural gaps indicates that Islamic financial development in Indonesia is characterized by both progress and imbalance. While certain subsectors demonstrate strong growth, others continue to lag behind due to structural, technological, and regulatory constraints. These disparities suggest that institutional existence alone is insufficient to ensure equitable

financial inclusion outcomes. Instead, sectoral performance and adaptability play a crucial role in determining the effectiveness of the Islamic financial system. Without addressing these structural gaps, the potential of Islamic finance to support inclusive economic development may remain partially unrealized. Policy interventions should therefore focus on strengthening weaker subsectors while maintaining innovation in high-performing areas. This integrated approach is essential for achieving a more balanced and inclusive Islamic financial ecosystem.

Financial Inclusion, Digital Transformation, and System Integration

Financial inclusion within the Islamic financial system in Indonesia reflects the extent to which Islamic banks and Islamic non-bank financial institutions (NBFIs) succeed in translating institutional growth into actual financial service utilization. Despite continuous expansion in assets and institutional coverage, national survey data consistently indicate that inclusion levels remain significantly lower than literacy levels (Otoritas Jasa Keuangan & Badan Pusat Statistik, 2024). This gap demonstrates that awareness of Islamic financial products has not been fully converted into active usage behavior among the population. Several structural barriers such as limited access, uneven financial infrastructure, and low product customization continue to restrict inclusion outcomes. Institutional trust and service convenience also play a decisive role in shaping user preferences between Islamic and conventional financial services. In addition, regional disparities further reinforce unequal access to financial services across Indonesia. These conditions confirm that financial inclusion is a multidimensional issue that extends beyond institutional availability.

The relationship between financial literacy and financial inclusion reveals a persistent structural imbalance within the Islamic financial ecosystem. Although literacy levels have shown gradual improvement, inclusion growth remains relatively stagnant, indicating weak transmission from knowledge to actual financial behavior. This suggests that individuals may understand Islamic financial concepts but still hesitate to adopt Islamic financial products due to perceived complexity or limited benefits. Behavioral and institutional factors such as trust, accessibility, and product competitiveness strongly influence this gap. Furthermore, limited innovation in certain Islamic financial products reduces their attractiveness compared to conventional alternatives. The persistence of this disparity highlights inefficiencies in the linkage between education, perception, and financial decision-making. As a result, financial literacy alone is insufficient to ensure broader financial participation without systemic improvements.

Digital transformation has become a central driver in expanding Islamic financial inclusion by improving accessibility and service efficiency. The integration of fintech-based platforms within Islamic finance has enabled institutions to reach previously underserved populations, particularly in remote and rural areas (Widagdo et al., 2026). Digital financial services reduce transaction costs, shorten processing times, and eliminate geographical barriers that traditionally hindered financial access. This transformation is particularly relevant in Indonesia, where geographical fragmentation poses significant challenges to financial service delivery. However, digitalization also introduces new risks such as cybersecurity threats, uneven digital literacy, and unequal access to digital infrastructure. These challenges may create a new dimension of financial exclusion for populations lacking technological capabilities. Therefore, digital transformation must be accompanied by inclusive digital capacity development to ensure equitable benefits.

Table 2. Financial Literacy vs Financial Inclusion and Digital Transformation Indicators in Indonesia

| Indicator | 2024 Value | 2025 Value | Key Observation |
|----------------------------------|------------|------------|---------------------|
| Islamic Financial Literacy | 39.11% | 43.42% | Increasing trend |
| Islamic Financial Inclusion | 12.88% | 13.41% | Slow growth |
| Literacy-Inclusion Gap | 26.23% | 30.01% | Widening gap |
| Digital Financial Access (proxy) | Moderate | Higher | Uneven distribution |

The table illustrates that although financial literacy is increasing, financial inclusion is not growing at the same pace, resulting in a widening gap. This pattern indicates that improvements in

knowledge do not automatically translate into increased usage of Islamic financial services. The moderate improvement in digital access also suggests that technological adoption is progressing but remains uneven across regions and population groups. The widening gap between literacy and inclusion highlights structural inefficiencies in the Islamic financial ecosystem. It also shows that digital transformation alone cannot fully resolve inclusion challenges without addressing behavioral and institutional constraints. Furthermore, unequal digital access reinforces disparities in financial participation. These findings emphasize the need for integrated policy interventions.

System integration between Islamic banks and Islamic NBFIs is increasingly recognized as a critical strategy for improving financial inclusion outcomes. A fragmented financial ecosystem reduces efficiency and limits the ability of institutions to provide comprehensive financial solutions. Integration across banking, insurance, microfinance, and fintech sectors can create a more cohesive financial structure that enhances service delivery. Each institution plays a complementary role, where banks provide capital strength, fintech enhances accessibility, and microfinance supports grassroots economic participation. However, effective integration requires harmonized regulatory frameworks and interoperable digital systems. Without such coordination, institutional collaboration may remain fragmented and inefficient. Therefore, system integration is essential for optimizing the performance of the Islamic financial ecosystem.

Overall, financial inclusion in the Islamic financial system is shaped by the interaction between literacy, digital transformation, and institutional integration. While Islamic financial institutions continue to expand, their impact on inclusion remains constrained by structural gaps and behavioral limitations. The persistence of the literacy-inclusion disparity indicates that awareness alone is insufficient to drive financial participation. Digital transformation offers significant opportunities but also introduces new challenges related to inequality and accessibility. System integration emerges as a necessary approach to align the functions of Islamic banks and NBFIs within a unified ecosystem. Strengthening these interconnected dimensions is essential for achieving a more inclusive, efficient, and sustainable Islamic financial system in Indonesia.

CONCLUSION

Islamic banks and Islamic non-bank financial institutions (NBFIs) play a strategic role in supporting the development of Islamic financial inclusion in Indonesia. Their existence reflects a continuously evolving financial ecosystem that integrates Sharia principles into modern financial practices. The expansion of Islamic financial institutions is evidenced by increasing total assets, broader institutional coverage, and the diversification of financial products and services across various sectors. Islamic banks function as core intermediaries in mobilizing and distributing funds, while Islamic NBFIs such as Islamic insurance, Islamic microfinance institutions, Islamic pawnshops, and Islamic fintech expand financial outreach to underserved segments of society. The integration of digital technology further strengthens their capacity to deliver more efficient and accessible financial services. This development demonstrates that Islamic financial institutions are increasingly adaptive to technological change and market demands. However, their contribution to financial inclusion is still influenced by structural and behavioral constraints within the financial system.

Despite the positive development of Islamic financial institutions, the level of Islamic financial inclusion in Indonesia remains relatively low compared to financial literacy levels. This gap indicates that increasing public understanding of Islamic financial concepts has not been fully translated into actual usage of Islamic financial products and services. Several structural challenges contribute to this condition, including limited product innovation, uneven development across financial subsectors, regulatory inconsistencies, and gaps in technological readiness. In addition, differences in institutional capacity among Islamic banks and NBFIs also affect their ability to reach wider segments of society. The persistence of this gap highlights that financial inclusion is not solely determined by institutional availability but also by accessibility, trust, and suitability of financial products. Therefore, improving financial inclusion requires more than institutional expansion, as it must also address systemic inefficiencies within the Islamic financial ecosystem. These findings emphasize the importance of strengthening both demand-side and supply-side factors simultaneously.

To enhance Islamic financial inclusion, a more integrated and collaborative approach involving multiple stakeholders is required. Regulators, financial institutions, academics, and communities must work together to strengthen financial literacy, improve regulatory harmonization, and encourage

product innovation that aligns with societal needs. The development of digital financial infrastructure should also be prioritized to expand access to financial services, particularly for unbanked and underserved populations. Islamic fintech, in particular, holds significant potential to bridge accessibility gaps due to its scalability and efficiency. However, its development must be accompanied by improved digital literacy and robust regulatory oversight to ensure sustainability and consumer protection. Ultimately, strengthening synergy among Islamic banks, NBFIs, and supporting institutions is essential to creating a more inclusive, resilient, and equitable Islamic financial system that contributes meaningfully to national economic development.

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