

Ending the Stick and Embracing the Carrot: The Middle Way of Spin-Off Policy in Indonesian Islamic Banking

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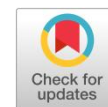
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Abstract

The implementation of the P2SK Law has triggered debate over the mandatory spin-off of UUS from BUK into BUS. This study examines the arguments from both sides to identify potential areas of consensus. It finds that poor communication, particularly on the "purification" issue, has fueled disagreement. Consequently, stakeholders missed the chance to propose a voluntary spin-off mechanism to OJK. Such a proposal should be supported by affirmative government action to grow the Islamic banking sector. This study aims to critically integrate insights from literature and expert perspectives by examining competing arguments surrounding the spin-off policy to develop a robust and evidence-based direction for its optimal design and implementation. It employs a mixed methodology utilizing a structured literature review, in-depth interviews, and FGDs with key stakeholders selected through purposive sampling. The study also incorporates sentiment analysis and utilizes NVivo for thematic mapping and matrix coding. The findings reveal a high degree of discursive convergence between proponents and opponents, identifying the "Middle-Way Policy" as the primary area of consensus. The analysis shows that both groups align on the necessity of regulatory incentives ("carrots") and readiness-based criteria rather than forced compliance ("sticks") to ensure the sustainability and efficiency of the Islamic banking industry. This study recommends that the OJK needs to develop policies that reflect shared goals to expand the Indonesian Islamic banking market share. Importantly, it urges avoiding blanket mandatory spin-offs, as these may harm smaller UUS and unfairly burden regulators.



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Introduction

This study begins by tracing the policy history of the Shariah Banking Law in order to better understand the spirit and aspirations of Indonesia's Shariah banking pioneers. According to Adnan (2023), Law No. 10/98 on Banking, which amended Law No. 7/92, was a watershed moment in Indonesian law because it included Shariah principles for the first time, ushering in the concept and the term of "Shariah Banking". Profit Sharing Bank was the previous term used, and it only applied to *Bank Muamalat Indonesia* (BMI), the only commercial bank at the time, as Shariah Business Unit (*Unit Usaha Syariah* or UUS hereafter) was not yet known.

During President Habibie's tenure, there was a lot of eagerness and zeal among the legislators who made up the Government and House of Representatives of the Republic of Indonesia (*Dewan Perwakilan Rakyat Republik Indonesia* or DPR-RI hereafter). Many of them hoped that Shariah banking would grow quickly and become a major force in Indonesia's banking industry. This enthusiasm was reflected in the inclusion of provisions in Law No. 23/99 concerning the Bank of Indonesia designed to support Shariah monetary policy in the event that Shariah banking achieved a significant or dominant position in Indonesia.

The mandatory spin-off policy for UUS stems from Shariah Banking Law No. 21/2008, where many UUS or Shariah Commercial Banks (*Bank Umum Syariah*, or BUS hereafter) have emerged since the end of the crisis, indicating that the development of Shariah banks has been quite rapid. Previously, in 2005, BI introduced the Indonesian Shariah Banking Architecture, with the goal of capturing 8% of the market in 2008 and playing a significant role in Southeast Asia. This optimism, according to Adnan (2023), appears to underpin the mandatory spin-off policy for UUS market share that has reached 50% or after 15 years since the effective date of the Shariah Banking Law, which will take effect in July 2023.

Umam (2010) raises the legal issue of spin-offs and reveals that spin-offs must be carried out because the UUS's Shariah compliance is in doubt due to financial management that is still mixed between conventional and Islamic units. It is a reasonable conclusion for researchers who do not directly interact with banking operational activities.

In the same year, Imtihani (2010) discusses the spin-off of UUS *Bank Negara Indonesia* (BNI) from the perspective of increasing the market share of Shariah banking in Indonesia. This research concluded that BNI Shariah, as a result of the spin-off, would become more independent, flexible, and efficient in decision-making in business, human resources, technology, as well as product and service development. Furthermore, literature reviews in the following years focused more on performance issues by comparing before and after the spin-off. The majority of spin-off-related researchers consider mandatory spin-off as a policy that cannot be negotiated.

Opportunities for negotiation arose during the drafting of the Financial Sector Development and Strengthening Law (*Pengembangan dan Penguatan Sektor Keuangan*, or P2SK hereafter). Since being processed and passed in December 2022, this law has caused two opposing sides regarding the mandatory spin-off policy. The P2SK law is said to use a transformative institutional approach in carrying out the purification process of Islamic banking.

It is an omnibus law that revises or adds provisions relevant to the financial sector, including Law No. 21 of 2008 on Islamic banking. The spin-off clause is one of the most important articles in Islamic Banking Law that has been revised as a result of this new regulation.

The first draft revision of Article 68 simply deleted the phrase "or 15 (fifteen) years since the enactment of this Law." As a result, the spin-off obligation only applies to UUS with assets equal to or greater than 50% of their parent bank. In fact, none of them meet those criteria as of 2023. The UUS currently accounts for 20-25% of total asset value. Meanwhile, most of the UUS still have asset portions below 15% of their parent assets.

The draft revision of Article 68 was changed to two clauses near the end of the session in 2022, amid controversy between the pro and contra parties: "In addition to the requirements mentioned in clause (1), the Financial Services Authority may request the separation of UUS from BUS for banking consolidation." This clause was passed by the government and DPR-RI at the end of last year.

As a result, the Financial Services Authority (*Otoritas Jasa Keuangan* or OJK hereafter), equipped with its authority and regulatory tools, will now be in charge of determining and enforcing the criteria of mandatory spin-offs. The new P2SK law requires OJK to issue regulations six months after it is enacted. Furthermore, the new policy implies that, beginning in 2023, spin-offs will no longer be required by law; instead, OJK will be in charge of developing rules containing conditions related to UUS spin-offs. However, those who are skeptical of the optimal spin-off policy have not fully supported this new policy. They argue that, while capital will increase following spin-offs, the newly separated BUS from their parent bank may struggle to achieve economies of scale comparable to conventional banks, putting them at a

competitive disadvantage. This viewpoint is consistent with the findings of Garbois et al. (2012), who discovered that firm size is a significant challenge for the Islamic banking industry, which is described as "too small to have economies of scale".

Kasri and Iman (2010) discovered evidence of monopolistic competition in the banking sector, particularly in Islamic banking, at a slightly higher intensity. This situation arises as a result of a small market share, a small consumer base, limited product variants, and a lack of qualified human resources. As a result, spin-offs have several flaws, including the potential loss of joint revenue and business/operational disruption during and after the spin-off. Furthermore, the parent bank may lose the benefits of business diversification (Prasetyo et al., 2019).

Both pros and cons in the debate over this policy use different perspectives, despite their common interest in the development of the Islamic banking industry. Yuspin et al. (2023) discuss the type of study that raises polemics against the spin-off policy, in which this researcher attempted to find a legal solution so that mandatory spin-off could be changed into corporate action.

The main issue in this study is the need to discuss the mandatory spin-off policy for UUS proportionally and objectively, using a clear problem mapping with the intention to find what is best for industry development. It is crucial that OJK, as the regulator, can fully understand the various issues that arise and formulate appropriate, effective, and substantive policies to support the development of the Islamic banking industry. Accordingly, this study raises three main research questions: what are the positions of the pros and cons in the literature and the arguments they present; what are the positions and arguments of experts regarding this policy; and what is the ideal condition and policy that should be pursued. The novelty of this research lies in its effort to examine the logical construction of both the supporting and opposing groups by referring to the history of policy development, *fiqh*-based approaches, and considerations of bank consolidation policies as an intermediary goal toward the regulator's ultimate aim, a sound Islamic banking industry.

Literature Review

Indonesian Islamic Banking Regulations and UUS Spin-Off Policy

The banking sector is thought to be one of the most crucial to the economy. As a financial institution, the banking industry has grown significantly and has become an important engine of growth in national and regional economies (Naseri et al., 2019). It is due to the banking sector serving as a financial intermediary, and bank performance has an indirect impact on a country's economic growth. The growth of the Islamic banking industry following the passage of Law Number 10 of 1998 can at least meet the needs of Muslim communities seeking financial products and services based on Islamic economic concepts and Shariah principles, particularly those that do not involve *ribawi* (interest-based) transactions.

However, the performance of the Islamic banking industry, after the enactment of Law Number 10 of 2008, is considered not yet optimum. In order to support and accommodate the acceleration of the performance of the Islamic banking industry, the government issued Law Number 21 of 2008 concerning Shariah Banking, which provides a stronger and more directed operational foundation for the Islamic banking industry. Through this regulation, the government seeks to assure the Muslim community that there is no business activity of Indonesian Islamic banks that contradicts Shariah principles, such as *riba*, *maisir*, *gharar*, *haram*, and *zhalim*.

The government's efforts have paid off. Data show that the Islamic banking industry's growth is gaining traction, with an increasing proportion of assets compared to the overall banking industry. In comparison, ten years before the implementation of Law Number 21, Islamic bank assets accounted for only 2% of total banking industry assets in Indonesia. Meanwhile, Islamic bank assets are expected to reach 6.2% of total banking assets in Indonesia in the decade following the regulation's implementation in 2019. In other words, asset growth in Islamic banking has more than doubled since the regulation was issued.

In addition, Shariah Banking Law Number 21 of 2008 introduced and strengthened the UUS business model, which was later regulated by Bank Indonesia regulations. As a result, over the last six years, the UUS's

contribution to increasing the market share of Islamic banking has increased; according to OJK, Islamic banking assets will have increased from 1.1% to 6.7% of total banking assets in 2021. Specifically, the expansion of the Islamic banking network is supported by the use of conventional banking infrastructure, the development of Islamic banking products created by banking experts who conduct the UUS leveraging model on their parent banks properly and in compliance, and exposure to customers through the parent bank's UUS portfolio.

Among the legal foundations included in Law Number 21 of 2008, the policy that attracts attention, especially for Islamic banks, is the regulation of the separation deadline or spin-off of UUS from its conventional parent bank (*Bank Umum Konvensional* or BUK hereafter), which is stipulated in Article 68, paragraph 1. The full text of the article is "In the event that the Conventional Commercial Bank has a UUS whose asset value has reached at least 50% (fifty percent) of the total asset value of its parent bank or 15 (fifteen) years since the enactment of this law, then BUK is obliged to separate the UUS into a full-fledged Islamic Commercial Bank (BUS)".

The spin-off policy was further strengthened with the issuance of Bank Indonesia Regulation Number 10/11/PBI 2009 regarding UUS by Bank Indonesia, which at that time acted as the regulator of the banking industry in Indonesia. In addition, Bank Indonesia, through Bank Indonesia Regulation Number 10/11/PBI 2009 concerning UUS, also requires a paid-up capital of IDR 500,000,000,000 (five hundred billion rupiahs) for UUS that will undergo spin-off.

This phenomenon then became an important issue that received the attention of several experts and economic actors because the requirements imposed by banking regulators in Indonesia, through Law No. 21 of 2008 and PBI No. 11/10/PBI 2009, were considered too burdensome for UUS to fulfill. On the other hand, if the UUS is not ready to be separated from its parent company, its business license can be revoked. In other words, based on these two regulations, the spin-off policy for UUS to become BUS is mandatory.

The Pros and Cons of Mandatory Spin-Off in Indonesia

The underlying reason for this mandatory spin-off policy is to strengthen the role of Islamic banking in financial intermediation and development, where Islamic financial institutions must have greater flexibility in their operations. Becoming a full-fledged bank can enable them to grow faster. The policy is expected to increase the market share of Islamic banks, which is currently stagnant at around 6%. Siswanto (2014) argues that the spin-off of UUS can bring several opportunities, such as improved financial performance, expansion, restructuring of financial structures, and independent management. In addition, customers may prefer their Islamic banks to stand as independent entities, where full-fledged Islamic banks are considered to guarantee the purity of products and services in accordance with Shariah (Umam & Antoni, 2018).

In addition to Siswanto (2014), who introduced the term purification in this spin-off process, other researchers in Indonesia, such as Atsani (2022), Umam and Antoni (2018), Atsani (2017), as well as Anshori (2008) explicitly divide the periodization of Islamic banking industry development into three parts, namely the introduction phase, the recognition phase, and the purification phase. According to them, the purification phase is marked by the spin-off of UUS from BUK. Meanwhile, concerning the nature of the purification of the Shariah compliance process, Thomas et al. (2005) emphasized the importance of a sound regulatory framework that can reduce the systemic risk faced by the global Islamic financial industry. It is due to the fact that there were no adequate global Shariah standards and modest integration of systems and regulations between conventional and Islamic banking until the 1990s.

However, if referring to Khan (2019) as seen in Figure 1, it is explained that the process of Islamic finance evolution (including Islamic banking) begins with "avoidance of *haram* assets and towards substantive Shariah values (*maqashid*)" measured using the value-based intermediation (VBI) approach. Khan (2019) does not consider the format or form of the Islamic windows model as something that needs to be changed, but rather considers more substantive issues using a *maslahah* approach based on *maqashid* Shariah.

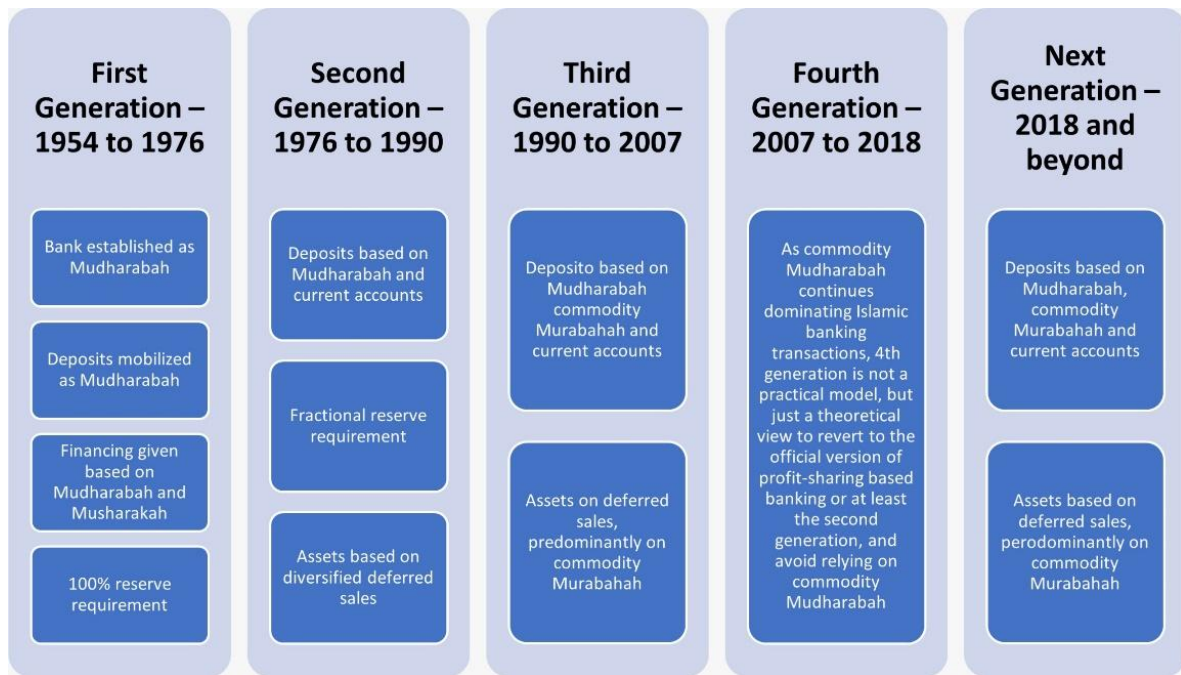


Figure 1. Evolution of the Islamic Finance Transformation Industry
(modified from Khan, 2019)

A number of studies have also highlighted research on issues related to Islamic banking spin-off from the perspective of regulatory support and policy making process. Pambuko and Sriyana (2023) perform a bibliometric review on spin-off policy in Islamic banking development. They admit that Islamic banks' spin-off decisions are most popularly studied, considering that spin-off policy is perceived as one of the leading strategies for Islamic banking development in Indonesia. For that reason, studies are focused on assessing the impact of spin-offs on the Islamic banks' performance, although there is no consensus on the research findings so far.

Meanwhile, Putra (2024) presents a comparative analysis of spin-off policies of Islamic banks in Indonesia and Malaysia. He notes that in Indonesia, the spin-off policy is triggered by the achievement of a certain proportion of assets by the UUS to its parent BUK, whereas in Malaysia, the focus is more on strengthening the independence of the bank's management as a business entity in the industry.

In maintaining a significant market share and sustainable growth of Malaysian Islamic banks, the Malaysian government consolidated the Islamic banking industry by accomplishing the amalgamation and robust policy direction into two new Acts, namely the Financial Services Act 2013 (FSA) and the Islamic Financial Services Act 2013 (IFSA) (Suzuki & Pramono, 2021; Othman, 2017). Krasicka and Nowak (2012) conclude that there are two key factors for the success of the Islamic banking development in Malaysia; firstly, optimum utilization of the common platform of the conventional bank's infrastructure by the Islamic banking window; and secondly, the effective policies of the Malaysian government in supporting Islamic banks with substantial tax and fiscal incentives. However, Suzuki and Pramono (2021) note that Indonesia's Islamic banking was unsuccessful in implementing the strategic program to vastly open the UUS to leverage the conventional banking infrastructure.

Spin-Off from the Perspective of Corporate Action Theory

Corporate action is a term used in the stock market that refers to the strategic activities of listed companies or issuers that affect the interests of shareholders. Corporate actions include issuer strategic actions such as dividend distribution, stock splits, stock consolidations, bonus shares, limited public offerings, stock buybacks, and initial public offerings. However, in the current Islamic banking industry, corporate action specifically involves mergers, acquisitions, and spin-offs (Umam & Antoni, 2018). The spin-off is one form

of corporate action in which a company separates its business into separate and independent entities, intending to reduce operating costs and increase business efficiency (Chemmanur & Yan, 2004). From the perspective of corporate action theory, spin-offs can provide benefits to the parent company by allowing it to focus on its core business and increasing shareholder value. However, there are risks associated with spin-offs, as the new entity may not be financially successful or able to compete in the market (Rokhmawati et al., 2022). It is due to the fact that when conducting a spin-off, companies must consider several factors, such as the new entity's ownership and control structure, as well as the tax implications of the transaction. Companies must also ensure that the new entity has enough resources to operate on its own. Furthermore, spin-offs must be approved by regulators and shareholders, according to (Grahn & Saren, 2018). In conclusion, the spin-off is one form of corporate action that can provide benefits to the parent company by allowing it to focus on its core business and increasing shareholder value. However, spin-offs also have risks, so companies must consider certain factors before engaging in this transaction.

Research Method

Research Design: Qualitative-Dominant Mixed-Methods

This research adopts a qualitative-dominant mixed-methods design, in which qualitative stakeholder analysis constitutes the primary empirical foundation, while a structured literature review provides conceptual grounding and analytical framing. The mixed-method configuration is sequential and complementary. First, a structured literature review is conducted to map existing scholarly positions regarding the mandatory spin-off policy. Second, qualitative stakeholder analysis, through in-depth interviews and Focus Group Discussions (FGD), is undertaken to examine how regulatory actors, practitioners, and academics interpret and negotiate the policy in practice. The qualitative component is dominant because the study's core objective is interpretive: to understand stakeholder reasoning, discursive positioning, and policy preferences rather than to test statistical causality. Therefore, this study utilizes two approaches of studies, which are a structured literature review (study 1) for conceptual mapping and a qualitative stakeholder analysis as the primary empirical component (study 2).

Study 1: Structured Literature Review

Study 1 serves as a conceptual and discursive overview of the pro-contra debate on mandatory spin-off within Indonesian Islamic banking literature. It provides a structured analytical synthesis to: (1) Identify dominant argumentative clusters (purification vs. efficiency/performance); (2) Map the evolution of scholarly positions over time; (3) Develop analytical categories used to guide stakeholder interviews and FGD discussions. Thus, the study functions as an intellectual foundation and problem-mapping exercise for the empirical phase.

For selecting the literature to be included in the study, a number of criteria were taken into consideration. The literature should be: (1) Direct relevance to UUS spin-off, Islamic banking restructuring, or regulatory transformation; (2) Published in peer-reviewed journals, working papers, academic books, or official regulatory documents; (3) Analytical content containing normative, empirical, or evaluative arguments; (4) Temporal relevance to the regulatory period surrounding Law No. 21/2008 and the P2SK reform. Duplicated, purely descriptive, or non-analytical sources were excluded from the study.

For identifying the pros and cons of the literature on the spin-off policy, a Pro/Contra Analytical Classification was conducted manually. It is done through close reading and interpretive synthesis, not through software-assisted sentiment detection. The analytical results classified the literature into three positions: (1) Pro-spin-off: Emphasizing purification, governance strengthening, institutional independence, and market-share expansion; (2) Contra-spin-off: Emphasizing economies-of-scale concerns, capital readiness, structural risk, and operational inefficiency; (3) Conditional/Neutral: Recognizing potential benefits but advocating readiness-based or incentive-driven approaches.

Study 2: Qualitative Stakeholder Analysis

Study 2 represents the dominant empirical phase. Primary data were collected through in-depth semi-structured interviews and Focus Group Discussion (FGD). In-depth semi-structured interviews allow participants to articulate institutional reasoning and policy preferences, while FGDs enable interactive deliberation and identification of consensus or divergence. Interview protocols were informed by findings from Study 1, particularly the purification narrative, performance concerns, structural risks, readiness issues, and regulatory incentives. For FGDs, it was conducted by bringing together selected participants in structured discussion sessions guided by open-ended questions. Discussions continued until data saturation was achieved, ensuring that no new significant themes emerged and that all relevant perspectives were adequately captured.

To ensure multi-actor triangulation across normative, operational, and regulatory perspectives, participants of the interviews and FGDs were selected using purposive sampling to ensure representation of key stakeholder groups. Six participants representing major stakeholder groups associated with the mandatory spin-off of UUS in Indonesia, including academics, Islamic banking practitioners representing BUS, UUS, and Regional Development Banks (*Bank Pembangunan Daerah* or BPD), and members of the Shariah Supervisory Board (*Dewan Pengawas Syariah* or DPS hereafter).

Development of Interview and FGDs Questions

The interview and FGD questions are developed based on the research objectives and existing literature on Islamic banking restructuring and regulatory compliance. The questions are designed using open-ended responses, allowing participants to express critical views, practical insights, and policy-oriented recommendations. The interview framework focused on two key dimensions, which are arguments supporting the mandatory spin-off policy and arguments opposing or critiquing the mandatory spin-off policy.

In particular, the questions are also designed to gather the information related to: (1) Stakeholder perceptions of the mandatory spin-off of UUS into BUS in Indonesia; (2) Stakeholder experiences in implementing the mandatory spin-off policy; (3) Perceived benefits and challenges associated with the mandatory spin-off; (4) Stakeholder recommendations for improving policy implementation.

Data Analysis

The transcripts of interviews and FGDs in Study 2 were analyzed using thematic analysis supported by NVivo software. For Study 1, it does not involve NVivo-assisted coding. Instead, as stated in the earlier section, it utilizes a Pro/Contra Analytical Classification that was conducted manually.

The utilization of NVivo software in this study is justified as a critical methodological instrument to ensure the validity and reliability of qualitative data analysis through systematic transcript management, thematic mapping, and the application of Matrix Coding Queries to objectively measure stakeholder consensus. This approach aligns with contemporary advancements in qualitative research methodology, as supported by Jackson and Bazeley (2019) and Silver and Lewins (2014). They emphasize that technology-assisted systematic evaluation is essential for validating complex data interpretations and generating "deeper insights at scale" beyond traditional manual coding. NVivo's Matrix Coding Query was used for comparing thematic intensity across stakeholder groups, identifying convergence and divergence patterns, as well as for measuring discursive similarity using Jaccard's coefficient. It allows the study to move beyond descriptive interpretation toward measurable qualitative convergence (Jackson & Bazeley, 2019; Silver & Lewins, 2014).

The thematic analysis using N-Vivo software was conducted in six systematic stages: (1) Data transcription, in which audio and video recordings from interviews and FGDs are transcribed verbatim and reviewed to ensure accuracy and coherence; (2) Data preparation and import, in which cleaned and verified transcripts are imported into NVivo for analysis; (3) Coding process, in which relevant words, phrases, and statements were coded to identify patterns and dominant themes. A minimum threshold of coded

references was applied to enhance analytical robustness; (4) Thematic mapping, in which NVivo’s project mapping tools are used to visualize relationships among themes and concepts, facilitating deeper analytical interpretation, (5) Theme consolidation, in which main nodes are developed by integrating responses from all data sources to highlight dominant themes related to stakeholder acceptance and policy implementation, (6) Literature validation, in which findings are validated through comparison with relevant international literature and regulatory studies on Islamic banking spin-offs, strengthening the credibility and analytical rigor of the study.

The final analytical stage integrates Study 1 (discursive overview of literature) and Study 2 (empirical stakeholder analysis). This convergence analysis allows the study to identify the alignment between scholarly discourse and stakeholder reasoning, the areas of persistent polarization, and the emergence of the “Middle-Way Policy” as a consensus-driven framework. The analysis was conducted using a hybrid coding strategy through: (1) Deductive coding, based on categories derived from Study 1; (2) Inductive coding, allowing new themes to emerge from participant narratives. Nodes were organized into thematic clusters reflecting pro, contra, and convergence positions. By clearly distinguishing between conceptual literature synthesis and NVivo-assisted stakeholder analysis, the study enhances methodological transparency, strengthens analytical validity, and aligns with contemporary standards of qualitative-dominant mixed-method research.

Results and Discussion

Study 1: Overview of Pros and Cons in Literature

In analyzing the pros and cons related to the mandatory spin-off policy in the literature, the authors analyzed 181 articles, of which eight (8) were excluded due to duplication. Among the included studies are Nur et al. (2018) and Elgammal et al. (2021).

The study by Nur et al. (2018) takes a counter position toward the spin-off of UUS in the Indonesian setting. The authors argue that the spin-off policy is not the only strategy that can be applied to enhance the efficiency of Islamic banks in Indonesia. Their findings indicate that improving Islamic bank performance depends not solely on structural separation but also on other factors such as product innovation, managerial efficiency, and regulatory support. In contrast, Elgammal et al. (2021) present a pro stance on the spin-off or closure of Islamic windows within conventional banks in the Qatari scenario. Their research concludes that closing Islamic windows does not significantly affect the overall performance of conventional banks in Qatar. Instead, customer numbers and profitability remain the main determinants of bank performance. Therefore, the spin-off policy is viewed as a step that could enhance focus and operational efficiency within Islamic financial institutions. Table 1 summarizes the details of both studies to provide a glance at the sentiment analysis of the 173 articles being analyzed.

Table 1. Sentiment Analysis Results

No.	Studies	Article Title	Position on Spin-Off	Key Reason	Main Conclusion
1	Nur et al. (2018)	<i>Spin-Off policy and efficiency in the Indonesian Islamic banking industry</i>	Contra	Spin-Off is not the only strategy for improving efficiency	Spin-Off is not the only means to improve the efficiency of Islamic banks in Indonesia
2	Elgammal et al. (2021)	<i>The Perceptions of Closing Islamic Windows within the Conventional Banks in Qatar and its Influence on the Bank Performance</i>	Pro	Customer number and profit are the main performance drivers	Closing Islamic windows does not significantly affect bank performance but enhances focus on Islamic operations

In addition to Table 1, Figure 2 presents the dispersion of the 173 studies related to spin-offs included in this study based on the publication year. The figure shows that spin-off studies have been increasing, reaching their peak in 2021. The significant decline in 2022 could be attributed to the COVID-19 pandemic. Next, it was found that the number of articles that were pro towards the mandatory spin-off policy was 62 articles, and those that were against the mandatory spin-off policy amounted to 40 articles, while the rest were neutral or irrelevant. It shows that the sentiment analysis indicates that scientific studies related to spin-offs have diverse perspectives, including those that are pro, contra, and neutral.

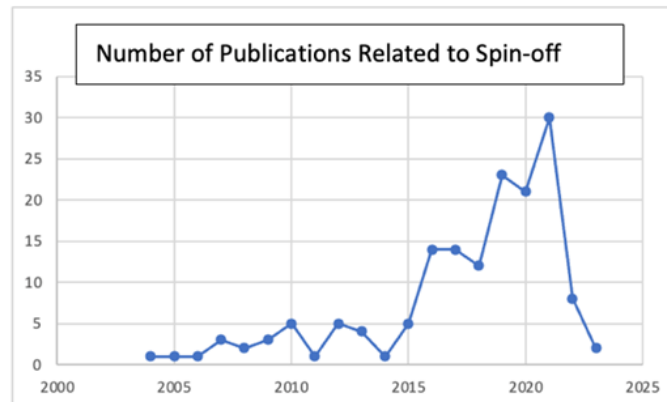


Figure 2. Graph of Scientific Publication Related to Spin-Off

Pro articles conclude that the performance of a subsidiary after spin-off has improved compared to before the spin-off, with the majority of them being case studies that do not consider which spin-off is pure and which is combined with a merger of the acquired entity. It can be seen in the failure to take into account the economic scale of banks that carry out spin-offs. Rokhmawati et al. (2022) conclude that there are differences in findings between pure and non-pure spin-offs, with non-pure spin-offs providing significantly higher ROA than pure spin-offs. Non-pure spin-offs, on the other hand, provide a higher but not significant BOPO. Finally, non-pure spin-offs have a much higher FDR than pure ones.

Contra articles, on the other hand, conclude that the performance of a subsidiary after the spin-off did not improve or even deteriorate, becoming worse than before the spin-off. This finding is consistent with the findings of Santoso et al. (2020), who discovered that spin-off banks faced increased financing risk while UUS performance outperformed BUS. An intriguing finding from this literature review is that the same researcher changed their position on the mandatory spin-off policy from pro to contra, as seen in Al Arif (2014) and Al Arif et al. (2017).

The relatively insignificant difference between the number of pro and contra articles shown in Figure 2 indicates that the expected performance improvement after spin-off varies and cannot be generalized, or depends on management conditions, capital, governance, the form of pure spin-off or combined with a merger, and other factors that determine its effectiveness and efficiency. In addition, from all the studies that have a pro and con nature, they all use two approaches, namely the purification aspect and the financial performance aspect, which will affect the market share of Islamic banking in Indonesia. Based on the literature review, the discussion of the pros and cons of the mandatory spin-off is motivated by two reasons: purification issues and the performance of UUS after the spin-off, which will affect the effort to develop the market share of Islamic banks.

Study 2: Analysis of In-Depth Interviews and FGDs Results

In general, the pro group of the informants believes that a mandatory spin-off policy will be effective in increasing the market share and purification of Islamic banks. Incentive policies in the form of UUS, which should be temporary and immediately terminated through a mandatory spin-off, to maintain policy

credibility and increase the market share of Islamic banks. Support for the mandatory spin-off is also accompanied by arguments for Shariah purification with operational and situational technical arguments, such as the bargaining power of the DPS in supervision being different between a full-fledged Islamic Bank (BUS) and a UUS. DPS in UUS is considered to have less pressure strength than DPS in BUS.

In addition, there are concerns that the management of UUS funds, directly or indirectly, will be related to non-Shariah-compliant businesses such as the cigarette industry and businesses that support Shariah-violating activities, which are not beneficial to the community. Meanwhile, the contrary group argues that increasing the market share of Islamic banks requires greater affirmative and incentive policy support from the government and banking authorities. UUS is seen to have an important role in developing market share because it can operate more efficiently and have better product innovation capabilities. They also disagree with purification arguments because UUS has remained compliant with Shariah principles and maintained Shariah compliance in all business activities. The historical basis for mandatory spin-off as a purification goal does not have a strong Shariah basis because BI, which proposed the concept of the Shariah channeling office at the beginning of the formation of UUS, can reassure the concerns of the Shariah Banking Expert Committee in terms of not mixing non-halal funds in BUK. Essentially, Shariah compliance risk can occur in both UUS and BUS in different forms and scales. The response to this should be more focused on governance enforcement rather than mandatory spin-off implementation, as the basis used by the Pro side.

Mandatory spin-off policy will have a greater impact on small UUS of Regional Development Bank (BPDs) due to small capital and political support conditions that are in very complex situations. The spin-off is seen to be more effective if it is conducted voluntarily with a more systematic and planned policy direction.

Study 2: Pros and Cons Situational Analysis

Based on an analysis of in-depth interviews and FGDs results, this study highlights a shared interest between both parties in developing the Islamic banking industry. However, differences arise in how each group frames the spin-off issue. The pro group tends to link the spin-off process to purification matters, which prompts the cons group to respond defensively, arguing that they have already complied with Islamic banking regulations. This difference in perspective prevents an agreement on mandatory spin-off criteria and shifts the discussion toward the possibility of voluntary spin-offs with specific standards, accompanied by affirmative action from the government and incentive policies from regulators.

The pros believe that eliminating mandatory spin-offs could hinder the growth of the Islamic banking market share. Nevertheless, empirical evidence indicates that the market share growth of UUS is higher compared to that of BUS. On the other hand, the cons argue that mandatory spin-offs are primarily applicable to UUS and would not significantly affect market share development. In fact, they may even be harmful, particularly for UUS with relatively small assets, a position supported by findings in several scientific studies.

The clash of views generates friction, as both groups are driven by pragmatic interests. Such dynamics reinforce the relevance of agency theory and stakeholder theory. Unfortunately, these frictions and pragmatic assumptions obscure the core issue: the underdevelopment of the Islamic banking industry, which remains an infant industry in terms of size and capacity. To address this, the industry requires stronger incentives from regulators and more concrete affirmative action from the government.

Another challenge lies in the gap in understanding between the pro and con groups regarding the potential of Islamic finance. Despite Indonesia's large Muslim population, which should logically translate into a high volume of Shariah-compliant transactions, the expected growth has not been fully realized. The limited affirmative action by the government in supporting Islamic banking further contributes to this gap. Therefore, the mandatory spin-off issue should not be perceived as the main barrier.

The slow growth of the Islamic banking market share is shaped by many actors, all of whom must play their respective roles effectively, rather than being attributed solely to UUS's reluctance to comply with the

spin-off obligation. A potential middle ground can be found in the consistent implementation of the "Islamic First" program, which reflects the concept of the Dual Banking Leverage Model (DBLM). This approach allows for the natural conversion of BUK into BUS once UUS assets surpass those of BUK. Such a framework could provide a meeting point for both groups, aligning their shared goal of expanding the market share of Islamic banking in Indonesia.

In general, a spin-off policy is a policy that separates certain business units from a company to form a separate company to improve performance and efficiency. However, there are different views on the effectiveness of the spin-off policy in directly increasing Shariah banking market share. Some studies show that spin-off policy can hurt the performance of Islamic banks and increase financing risk, such as Santoso et al. (2020). Other studies also found that conversion strategies produce better results than pure spin-off strategies, as found by Rokhmawati et al. (2022), where the ROA of non-pure spin-offs accompanied by mergers produces better ROA than spin-offs alone. Therefore, other stronger affirmative policy efforts are needed to increase the Shariah banking market share.

However, the goal of the spin-off policy should be to strengthen the role of Islamic banks and improve their performance, efficiency, and risk management. Permana (2021) explains that the priority of the effective strategy of implementing a spin-off policy is to ensure maximum leveraging, such as strengthening networks, technology, human resources, and brand. Based on this, a spin-off policy cannot be done in a general or mandatory way because it must consider specific things precisely and in accordance with the conditions of each bank. Failure due to forced spin-offs will impact the reputation risk of Islamic banks, where the public will see Islamic banks as a failed banking model.

Santoso et al. (2020) examined the effects of the spin-off policy of Shariah Commercial Banks (BUS) driven by Law No. 21/2008 on Shariah banking between 2008 and 2019. Their research showed that the performance and efficiency of BUS were significantly lower than those of Shariah Business Units (UUS). This condition even tends to persist for up to four years after the spin-off. Furthermore, financing risk increased after the spin-off, which automatically increases the reputational risk of Shariah banks.

Theoretically, banks are defined in the regulations as "business entities," which means that banks are basically profit-oriented enterprises. This definition not only appears in conventional banking regulations but also Shariah banking regulations. In the context of Shariah banking, UUS are business units within conventional commercial banks that carry out financial intermediary functions and banking financial services based on Shariah principles.

The implementation of Shariah-based financial intermediary functions and banking financial services in Indonesia has regulations that apply to both the full-fledged Islamic bank entity model and the Shariah Business Unit model run by a conventional commercial bank. These regulations include various Shariah rules.

From the perspective of market share in the Shariah banking sector, Naseri et al. (2019) conduct a pertinent study to view the banking industry through the lens of "too big to fail and too small to succeed". "Too-big-to-fail" companies, according to Ben Bernanke in Naseri et al. (2019), are those with a large size, complexity, interdependence, and critical roles. If such a company declares bankruptcy or liquidates, the entire financial system and economy suffer. Such institutions can potentially create significant risks to financial system stability and can cause moral hazard and unfair competition.

In the Shariah banking sector, although concerns about "too-big-to-fail" have not yet been seen because its market share is still small, concerns are more related to "too-small-to-succeed" because small Shariah banks still face challenges of inefficient costs, fierce competition with conventional banks, and compliance with regulatory and Shariah requirements. Currently, most UUS assets are at less than 10% of their respective parents' assets. Although small banks are not considered dangerous to systemic stability, the experience of the Savings and Loans crisis in the United States shows that many small banks experiencing difficulties at the same time can cause a crisis.

The research by Naseri et al. (2019) further shows that the size of a bank has a nonlinear influence on its profitability and efficiency in developing countries that implement a dual banking system. When a bank

is still small, increasing its size up to a certain limit will increase profitability but decrease efficiency. However, after surpassing that limit, profitability will decrease, and efficiency will increase as the bank grows in size. In essence, there is a trade-off between profitability and efficiency where the optimal bank size is around USD 5 billion. The phenomenon of the impact of bank size on financial performance is more or less the same between Islamic and conventional banks.

Therefore, it is important to consider the overall condition of Islamic banking and take cautious steps when implementing spin-off policies. Spin-offs are more effective when done voluntarily and with consideration of assets, core capital, UUS growth targets, and BUK requirements to create a UUS development blueprint.

Concerning the target of Islamic bank asset growth, Kasri and Iman (2010) explain that the structure of the Islamic banking industry deserves special attention because, between 2003 and 2008, a monopolistic phenomenon was discovered not only in the banking industry in general, but also on a slightly smaller scale in the Islamic banking industry. It is relevant to the current situation, in which the industry structure has drastically changed following the merger of three Islamic banks into *Bank Syariah Indonesia* (BSI), because BSI has become a very large bank that dominates the Islamic banking market share. When UUS is mandated to spin-off, all of these UUS will morph into small BUS, which will become increasingly difficult to develop because they are not comparable to BSI.

Another aspect to consider is customer trust when these small BUS are unable to provide competitive services with BSI. The findings from Ratnasari et al. (2021) show that knowledge about Islamic banking has not been well socialized in the community, even though they are bank users and Islamic banking itself has been around for more than 20 years. It also shows that many Muslim bank users still view Islamic banks, both UUS and BUS, as "yet another bank," so when choosing a bank, they easily compare it with the quality of services provided by conventional banks and do not have much motivation to increase their knowledge about Islamic banking.

The spin-off policy should be viewed as a more natural corporate action because the Islamic banking market is still small. Affirmative actions from the government and authorities should also be increased and strengthened to increase the market share of Islamic banking.

A company with several business units (not subsidiaries) within its organization may, at some point, take corporate action by separating one of its business units into a separate legal entity from its original legal entity, known as a "spin-off." This is quite common in business. Separating a business unit into a separate entity is done to obtain new capital or because the business unit is thought to be more valuable if managed as a separate entity. Thus, the spin-off action is part of a company's business strategy to obtain financing or in order to manage its business portfolio to achieve an optimal bottom line. The decision to go or not go in a spin-off will be dominated by considerations related to the bottom line.

To evaluate how these strategic considerations translate into stakeholder perspectives, this study utilized a systematic thematic analysis facilitated by NVivo software. By conducting a Matrix Coding Query, the qualitative data is cross-tabulated to map the frequency of key themes against various respondent groups, including academics, business practitioners, and Shariah scholars. This empirical approach provides a clear visualization of the consensus and divergence regarding spin-off drivers, which is summarized in Table 2.

The Matrix Coding Query results reveal that the Middle-Way Policy theme serves as the primary node of convergence, recording the highest intensity with 81 references. This indicates a significant discourse alignment across different expert groups. Despite the initial sharp divergence between proponents and opponents, the consistent emergence of this theme across all participants suggests a broad consensus toward an incentive-based and readiness-oriented policy approach.

The themes of purification narrative, Shariah legitimacy, and Shariah Supervisory Board (DPS) Authority are predominantly driven by the pro-policy group, reflecting a normative and institutional orientation in supporting the mandatory spin-off. In contrast, themes such as structural risk, economies of scale, and operational cost show the highest intensity among the opposing group. It reinforces the argument

that forced separation poses a significant threat to industrial sustainability, particularly for UUS with limited scale.

Table 2. Matrix Coding Query Result

No	Theme/Node	Pro-1 (Acad.)	Pro-2 (BUS)	Pro-3 (DPS)	Contra-1 (UUS)	Contra-2 (BPD)	Contra-3 (Acad.)	Total
1	Mandatory Spin-Off	14	12	11	9	8	10	64
2	Purification Narrative	18	15	17	2	1	3	56
3	Shariah Legitimacy	16	14	18	3	2	4	57
4	SSB/DPS Authority	12	11	16	1	1	2	43
5	Structural Risk	3	2	4	15	17	14	55
6	Economies of Scale	2	3	1	16	18	15	55
7	Operational Cost	1	2	2	14	16	13	48
8	Market Share Performance	4	6	3	17	14	18	62
9	Readiness of UUS	6	5	4	16	18	17	66
10	Voluntary Spin-Off	10	11	9	13	15	16	74
11	Regulatory Incentives	9	8	7	14	13	15	66
12	Governance Strengthening	11	10	12	9	8	10	60
13	Middle-Way Policy	13	14	12	14	13	15	81

(Source: Primary data processed)

Notably, the themes of readiness of UUS, voluntary spin-off, and regulatory incentives appear prominently within both groups. It signifies a discursive shift from policy polarization toward a focus on policy sequencing and design, demonstrating that the policy conflict does not stem from the ultimate goal of the spin-off, but rather centers on the mechanisms, timing, and regulatory support frameworks required for implementation. Regarding the discursive similarity of the participants' discussion, Table 3 presents the results of the similarity test using N-Vivo.

Table 3. Similarity of Discussion between Participants

File A	File B	Jaccard's Coefficient
Pro-1 (Academic)	Pro-3 (DPS)	0.86
Pro-2 (BUS)	Pro-1 (Academic)	0.82
Contra-3 (Academic)	Contra-1 (UUS)	0.81
Pro-3 (DPS)	Pro-2 (BUS)	0.79
Contra-2 (BPD)	Contra-1 (UUS)	0.76
Pro-1 (Academic)	Contra-3 (Academic)	0.75
Pro-2 (BUS)	Contra-1 (UUS)	0.71
Contra-3 (Academic)	Contra-2 (BPD)	0.71
Pro-3 (DPS)	Contra-1 (UUS)	0.69
Pro-1 (Academic)	Contra-2 (BPD)	0.69
Pro-2 (BUS)	Contra-3 (Academic)	0.69
Pro-3 (DPS)	Contra-3 (Academic)	0.67
Pro-1 (Academic)	Pro-2 (BUS)	0.67
Contra-1 (UUS)	Contra-3 (Academic)	0.67
Pro-2 (BUS)	Contra-2 (BPD)	0.65
Pro-3 (DPS)	Contra-2 (BPD)	0.65
Contra-1 (UUS)	Pro-1 (Academic)	0.65
Contra-2 (BPD)	Contra-3 (Academic)	0.63
Contra-2 (BPD)	Pro-2 (BUS)	0.63
Contra-1 (UUS)	Contra-2 (BPD)	0.63

(Source: Primary data processed)

According to Jackson and Bazeley (2019), a Jaccard's coefficient exceeding 0.60 indicates a robust level of discursive convergence in qualitative policy research. The coding similarity analysis shown in Table 3 reveals a high degree of discursive alignment among participants across both proponent and opponent groups. The highest coefficient was observed between Pro-1 (Academic) and Pro-3 (DPS) at 0.86, signifying a strong consensus on Shariah legitimacy, purification, and governance enhancement as the core justifications for the spin-off policy.

Conversely, substantial discursive consistency was also identified within the opposing group, particularly between Contra-3 (Academic) and Contra-1 (UUS) at 0.81. It reinforces a unified argument regarding structural risks, the erosion of economies of scale, and institutional unreadiness triggered by mandatory spin-off requirements.

Notably, several cross-group pairings (proponents and opponents) displayed relatively high similarity values (≥ 0.70), such as Pro-1 (Academic) and Contra-3 (Academic) at 0.75, as well as Pro-2 (BUS) and Contra-1 (UUS) at 0.71. These findings suggest that despite divergent normative stances, there is a shared conceptual ground regarding the necessity for a policy framework centered on industrial readiness and incentive structures.

The Middle-Way Policy: An Integration between Study 1 and Study 2

As stated in the data analysis section, the final analytical stage of the study is intended to integrate the findings of Study 1 and Study 2 and was conducted using a hybrid coding through deductive and inductive coding. The deductive coding is based on categories derived from Study 1 reports a number of themes related to spin-off policy, including purification, economies of scale, structural risk, regulatory incentives, and voluntary spin-off. The inductive coding found new themes to emerge from participant narratives, which are middle-way policy, natural conversion, and readiness-based key performance indicators (KPIs). This convergence analysis found the alignment between scholarly discourse and stakeholder reasoning, the areas of persistent polarization, and the emergence of the "Middle-Way Policy" as a consensus-driven framework. Table 4 presents the cooperation table as a result of the analysis using N-Vivo.

Table 4 demonstrates that a middle-way approach to spin-off policy necessitates a complementary cross-actor collaboration framework rather than a unidirectional, hierarchical relationship. Regulators function as policy enablers by providing incentives and readiness criteria, while Shariah banks act as operational executors responsible for testing policy viability at the practical level.

The Shariah governance (DPS) role serves as the nexus between normative and implementation dimensions, specifically ensuring that the spin-off process, whether voluntary or phased, maintains Shariah legitimacy without compromising institutional sustainability. Meanwhile, academics contribute as knowledge brokers who bridge the gap between normative discourse, empirical evidence, and data-driven policy design. This cooperative structure confirms that an "ending the stick and embracing the carrot" policy cannot be effectively executed through regulatory mandates alone. Instead, it requires interdependence, continuous feedback loops, and established policy learning mechanisms.

The findings demonstrate that while academic literature presents the mandatory spin-off debate as relatively polarized between purification-oriented and performance-oriented arguments, stakeholder perspectives reveal a more nuanced and convergent pattern. The literature review identifies a near balance between pro and contra positions, primarily framed around Shariah legitimacy versus structural efficiency concerns. However, the qualitative analysis shows that despite differing normative emphases, both groups strongly recognize themes such as institutional readiness, regulatory incentives, governance strengthening, and voluntary spin-off mechanisms. The Matrix Coding results indicate that the "Middle-Way Policy" emerges as the most intensively coded theme across all respondent categories, and Jaccard's coefficients above 0.60 confirm substantial cross-group discursive similarity. These findings suggest that although the debate appears dichotomous at the theoretical level, practical stakeholder discourse reflects a significant degree of alignment, particularly regarding the need for an incentive-based and readiness-oriented regulatory approach.

Table 4. Cooperation between Expert Groups in the Middle-Way Spin-Off Policy

Actor	Regulator	Islamic Bank (BUS/UUS)	Shariah Governance (DPS)	Academic Experts
Regulator	—	<ul style="list-style-type: none"> • Provide regulatory incentives for voluntary spin-off • Establish readiness-based criteria • Facilitate transitional support mechanisms 	<ul style="list-style-type: none"> • Strengthen Shariah governance framework • Ensure regulatory clarity on compliance standards 	<ul style="list-style-type: none"> • Utilize evidence-based policy inputs • Engage academics in policy evaluation
Islamic Bank (BUS/UUS)	<ul style="list-style-type: none"> • Comply with readiness indicators • Provide feedback on policy feasibility 	—	<ul style="list-style-type: none"> • Coordinate on Shariah compliance implementation • Enhance DPS authority within institutions 	<ul style="list-style-type: none"> • Share operational data for empirical studies • Participate in policy-oriented research
Shariah Governance (DPS)	<ul style="list-style-type: none"> • Advise on Shariah implications of policy options • Align regulatory goals with Shariah principles 	<ul style="list-style-type: none"> • Oversee compliance during transitional spin-off phase • Strengthen internal governance mechanisms 	—	<ul style="list-style-type: none"> • Contribute normative insights on Shariah legitimacy • Validate conceptual policy frameworks
Academic Experts	<ul style="list-style-type: none"> • Provide policy analysis and impact assessment • Offer international best practices 	<ul style="list-style-type: none"> • Evaluate performance and sustainability implications • Develop readiness and incentive models 	<ul style="list-style-type: none"> • Conceptualize purification and governance discourse 	—

(Source: Primary data processed)

Conclusion

This study concludes that the polarized debate regarding the mandatory spin-off of UUS into BUS, which is characterized by a conflict between "purification" narratives (Pro) and "economic efficiency" concerns (Contra), can be resolved through a widely supported "Middle-Way Policy". The research identifies that while stakeholders differ on the *method* of separation, there is a robust consensus (Jaccard's coefficient > 0.60) on the necessity of regulatory incentives and institutional readiness as the primary drivers for spin-offs, rather than arbitrary legal deadlines. The Matrix Coding Query Result highlights a critical demand for a "Middle-Way Policy" to bridge divergent stakeholder perspectives. While proponents emphasize the "Purification Narrative" and "Shariah Legitimacy," opponents raise significant concerns regarding "Structural Risk," "Operational Cost," and the potential loss of "Economies of Scale". Consequently, it is recommended that the Financial Services Authority (OJK) transition from a coercive "stick" approach of mandatory deadlines to an incentive-based "carrot" strategy. Under this framework, spin-offs are treated as natural corporate actions determined by asset capability and capital readiness rather than a rigid blanket mandate that risks creating "too-small-to-succeed" entities.

Furthermore, the adoption of a "Natural Conversion" mechanism through the Dual Banking Leverage Model (DBLM) is essential to maintain industrial stability. This model allows UUS to utilize parent bank infrastructure to achieve economies of scale and cost efficiency until it reaches the critical mass necessary to become a resilient, independent entity. To support this organic growth, the regulator should replace statutory deadlines with clear Key Performance Indicators (KPIs) for readiness, supplemented by

affirmative government actions such as tax incentives and infrastructure support. Ultimately, a collaborative governance framework is required where regulators act as enablers, practitioners focus on meeting readiness metrics, and the Shariah Supervisory Board (DPS) balances the dual role of ensuring Shariah legitimacy while supporting the financial sustainability of the spin-off process. By adopting this adaptive, readiness-based approach, Indonesia can avoid the pitfalls of forced compliance and build a stronger, more efficient Islamic banking industry capable of genuine market expansion.

This study contributes to the existing literature on the necessity of spin-off in Islamic banking, offering a Middle-Way Policy approach to spin-off and DBLM. For the practical contribution, this study provides a recommendation to OJK to develop policies that reflect shared goals to expand the market share of Islamic banking in Indonesia. Importantly, it urges avoiding blanket mandatory spin-offs, as these may harm smaller UUS and unfairly burden regulators.

Though this study has been conducted thoroughly, there is still space for improvement. As NVivo was used strictly as a data organization tool, a thematic clustering instrument, and a cross-group comparison facilitator, it was not used for automated sentiment detection, artificial text interpretation, or algorithmic conclusion generation. Thus, all thematic interpretations and theoretical integrations remained researcher driven. Therefore, future researchers could use complementary tools such as text or sentiment analysis to further enrich understanding and strengthen the empirical basis of adaptive regulatory strategies in Islamic banking. They may also extend this work by applying longitudinal or mixed-method approaches to test the proposed “Middle-Way Policy” and DBLM in different contexts.

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