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ISLAMIC LAW ANALYSIS OF LPS RATE IN ANTICIPATING DISPLACED COMERCIAL RISK

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ABSTRACT
The determination of the deposit insurance interest rate or LPS Rate by the Deposit Insurance Corporation (LPS) has been applied uniformly to all participating banks, both conventional and SSSSSS, throughout this period. However, the operational system ands principles used by Islamic banks are very different, especially because they adhere to the principle of *profit-sharing* rather than interest. The purpose of this study is to analyze the existence of a gap in legal research by examining the relationship between the LPS's authority to set the LPS Rate and the principle of justice in the *Islamic banking system*. Normative legal research using a normative juridical approach, accompanied by an empirical approach thru case studies and secondary data from academic literature. The research results indicate that setting the LPS Rate without considering the characteristics of *DCR* in Islamic banking has the potential to lead to legal injustice. Islamic legal perspective explains that the establishment of the Deposit Insurance Corporation needs to be reviewed from the principles of justice and the prohibition of usury. Additionally, this policy also has negative implications for the principles of justice, transparency, and sustainability of the Islamic banking system in Indonesia. Therefore, a more inclusive, proportional, and adaptive reformulation of deposit insurance policies is needed for the dual banking system recognized in Indonesia. This effort is expected to enhance the stability of the national financial system, strengthen the competitiveness of Islamic banks, and ensure equal legal protection for all customers of participating banks.

Keywords: Islamic law, LPS Rate, Displaced Commercial Risk

BACKGROUND

The *Islamic banking system* has basic principles of fairness and transparency through *profit-sharing* mechanisms, not interest. Ideally, *Islamic banks* provide returns to customers in accordance with business performance or real profits earned. This is a form of normative idealism based on the principles of *Islamic economic law* that upholds the principles of fairness, honesty, and responsibility in business transactions (Arifin & Adjie, 2022). However, in practice, this principle often clashes with the dynamics of the competitive banking market, especially in terms of determining returns on deposits.

Empirical facts (*das sein*) show the existence of the *Displaced Commercial Risk (DCR)* phenomenon, which is a condition where *Islamic banks* provide returns that do not reflect real business results, but are forced to remain competitive with conventional banks (Ismanto, 2022) . This practice occurs because customers tend to compare returns between financial institutions, without considering the differences in their basic principles. This market pressure causes *Islamic banks* to deviate from their *sharia* principles, resulting in a gap between normative idealism (*das sollen)* and operational reality (*das sein)*. One of the external factors that exacerbates the *DCR* phenomenon is the LPS Rate policy set by the Deposit Insurance Corporation (LPS). In the national system, the LPS Rate is used as a reference for the upper limit of deposit interest rates guaranteed by the state (Jegapuh, 2024) . Normatively, this policy aims to protect customers and maintain financial system stability. However, the LPS Rate, which does not consider the characteristics of *profi- sharing Islamic banks*, puts additional pressure on *Islamic banks* to adjust returns in order to maintain the attractiveness of deposits, thereby pushing them into *DCR* practices.

The inconsistency between LPS Rate regulations and *Islamic banking* operational principles raises legal issues. On the one hand, *Islamic banks* are required to comply with uniform national policies. On the other hand, they must also maintain integrity with regard to *Islamic principles*. This conflict reveals a void or disharmony in the norms of the applicable legal system. Therefore, further study is needed on the legal position of the LPS Rate in the context of *Islamic banks*, as well as how the regulation can be designed to be more fair and inclusive of the systemic differences between conventional banks and *Islamic banks* (Agustin, 2020).

This study is based on legal norms related to the regulation of the *Islamic financial system*, particularly in the context of the LPS Rate set by the state through the Deposit Insurance Corporation (LPS) and its impact on the phenomenon *of Displaced Commercial Risk (DCR)*. *In Islamic economic law*, justice and balance are fundamental values in the implementation of *muamalah* contracts, including in the collection of funds for the purpose of seeking profit. Therefore, every state policy that has an impact on the operations of Islamic banks must be analyzed juridically to ensure that the norms applied do not conflict with *sharia* principles or the principles of justice in national positive law.

One relevant legal theory used in this study is John Rawls' *theory* of *distributive justice*, which emphasizes the importance of fair treatment among actors in the economic system. In the context of the LPS Rate, uniform guarantee interest rates for conventional and *Islamic banks* have the potential to create *asymmetric treatment*. This is evidenced in research by Fatoni and Herlia, which shows that Islamic banks are encouraged to provide disproportionate returns in order to maintain customer loyalty. This normative injustice results in the weakening of the basic principles of *sharia*, namely *profit-sharing agreements* that should reflect the real performance of investments (Herlia, 2022) .

The *DCR* phenomenon itself has been widely studied in academic literature, explaining that *DCR* often occurs in the practice of *mudharabah sukuk* management due to pressure to match the returns of conventional banks (Muhammad, 2020) . This leads to a deviation from *sharia norms*, because *Islamic banks* no longer rely on business performance, but on interest rate competition. Similar studies also confirm that customer expectations of returns are the main trigger for DCR. Thus, it can be concluded that in practice, DCR is a compromise between *Sharia norms* (*das sollen)* and market pressures (*das sein)*.

From a regulatory perspective, Law No. 24 of 2004 concerning the Deposit Insurance Corporation, which was amended by Law No. 4 of 2023, is the main legal basis for determining the LPS Rate. However, research by highlights that this regulation does not explicitly differentiate between *Islamic* and conventional banks (Puspitoningrum, 2024). As a result, the determination of the LPS Rate based on conventional interest rates has become a structural burden for *Islamic banks*, adding that this regulatory inaccuracy risks weakening the function of the LPS as an inclusive and fair *deposit protection scheme* (Siagian, 2023).

Law No. 21 of 2008 on *Islamic Banking* states that all operational activities of *Islamic banks* must refer to *Islamic principles*, namely fairness, transparency, and prohibition of *usury*. In this context, if state policies, including the LPS Rate, force *Islamic banks* to deviate from these principles, there is the potential for a *conflict of norms* between national economic law and *Islamic economic law*. This has been raised by who states that the absence of specific regulations on *Islamic bank* yields contributes greatly to instability in customer preferences and the internal finances of banks (Silviana, 2024).

In addition, it is important to highlight the aspect of consumer protection as stipulated in Law Number 8 of 1999. Husnayati and Adiba in their research emphasize that the uncertainty of returns due to *DCR* can interfere with the transparency of information to customers. When *Islamic banks* set returns outside the real *profit sharing* scheme*,* this can be considered a violation of customers' rights to accurate and accountable information (Silviana, 2024). Therefore, the legal approach to addressing *DCR* must include the protection of customer rights, not just the efficiency of the financial system alone.

Based on the title of this study, the following is a review of previous studies that are related or relevant to this study; Legal Analysis of the OJK's Setting of Minimum Insurance Premium Rates from a Business Competition Perspective, a study by (Isyrofi, 2018) examines the impact of OJK Circular Letter No. 6/SEOJK.05/2017 which sets the lower and upper limits for insurance premium from the perspective of Law No. 5 of 1999 concerning Prohibition of Monopolistic Practices and Unfair Business Competition. The method used is *normative juridical analysis*, with a legal economic approach *(Economic Analysis of Law)* as recommended by the OECD and KPPU. The results show that the insurance premium rate policy has the potential to undermine the principle of fair business competition because the OJK imposes a lower rate limit that could trigger a premium cartel or market distortion. The OJK's rate policy could set an important precedent in analyzing the role of state regulation in maintaining market balance while protecting consumers.

Legal Analysis of the Basic Provisions for Determining Port Service Tariffs, (Tentowi, Sumadikara, & Panggabean, 2016)investigates the legal basis for determining port service tariffs at PT Pelindo II Pontianak in relation to Government Regulation No. 61 of 2009 and other relevant technical regulations (PM 6 of 2013, PM 15 of 2014, PM 95 of 2015). This study highlights external obstacles, such as lengthy negotiations with service associations and regulators, as well as internal obstacles such as cost fluctuations, inflation, exchange rates, and investment constraints. Another research, Legal Analysis of the Setting of Minimum Fares in Aviation from a Business Competition Perspective, (Rosalina, 2020) examines the 35% minimum fare policy in aviation regulated by the Ministry of Transportation (Permenhub No. 20 of 2019 and Kepmenhub No. 106 of 2019), as viewed from Law No. 5 of 1999. Using a normative legal approach, this study finds that the policy contradicts the objectives of the law, namely public welfare and economic efficiency, because the minimum fare can actually hinder competition, especially by low-cost airlines.

Thus, based on existing literature, it can be concluded that legal norms related to the determination of the LPS Rate are still general in nature and are not yet sufficiently accommodative to the characteristics of *Islamic banks* (Johan, 2022) . This study attempts to fill the gap in legal studies by examining the relationship between the LPS's authority in setting the LPS Rate and the principle of fairness in the *Islamic banking system*. Juridical thinking that is not only normative but also responsive to the unique operational realities of *Islamic banks* is needed so that legal norms can function effectively and fairly amid the dualism of the banking system in Indonesia.

This study is important given the significant growth of the *Islamic banking* industry in Indonesia, which still faces serious challenges in terms of regulation and risk management. Without contextual and responsive legal reforms, *Islamic legal idealism* will remain a normative doctrine that is difficult to realize (Laila, 2025) . Therefore, a legal approach is needed that can bridge *das sollen* and *das sein,* taking into account market realities and the principles of justice in Islam.

RESEARCH METHOD

This research is a normative legal study using a normative or doctrinal legal approach, which examines law as written norms contained in legislation, legal principles, and relevant legal doctrines (Kurniasih, 2025) . This approach was chosen to examine in depth how the legal provisions regarding the authority of the Deposit Insurance Corporation (LPS) in determining the LPS Rate are applied and whether this policy is in line with the principles of justice and the principles of *Islamic banking law*. This study also examines the legal norms contained in Law Number 24 of 2004 in conjunction with Law Number 4 of 2023 concerning the LPS, Law Number 21 of 2008 concerning *Islamic Banking*, and Law Number 8 of 1999 concerning Consumer Protection.

Data collection techniques were carried out through a literature study of laws and regulations, court decisions, circular letters, and policy documents related to deposit insurance and *Islamic banking* regulations. In addition, scientific literature such as journal articles, theses, and previous studies relevant to the phenomenon of *displaced commercial risk* (DCR) (Rouetbi, Ftiti, & Omri, 2023), were also used. Data analysis was conducted qualitatively using a triangulation approach, which integrates the legal theoretical framework, positive legal norms, and findings from the literature to obtain objective and holistic conclusions.

DISCUSSION

Legal Analysis and Determination of LPS Rates

Deposit Insurance Agency or LPS is an independent institution that guarantees bank customer deposits in Indonesia. This agency was established based on Law Number 24 of 2004 concerning the Deposit Insurance Corporation, which was enacted on September 22, 2004 (LPS Law). This law came into effect 12 months after its enactment, so that the establishment and operation of LPS began on September 22, 2005. The enactment of this law marked the beginning of the restoration of public confidence in the banking system in Indonesia. Law No. 24 of 2004 on the Deposit Insurance Corporation explains the functions, authorities, and duties of the LPS. Articles 4(a) and 4(b) of the LPS Law explain that the functions of the LPS include guaranteeing depositors' savings and actively participating in maintaining the stability of the banking system in accordance with its authority. It is explained that there are two tasks of the LPS, which basically involve guaranteeing, protecting, and maintaining depositors and banks(Eka Fadila Nur Faizah, 2024).

Furthermore, Article 5 paragraphs (1) and w(2) of the LPS Law explain the duties of the LPS, among others, in carrying out the functions as referred to in Article 4 letter a namely, formulating and determining policies implementation deposit guarantees; and implementing deposit guarantees. In carrying out the functions as referred to in Article 4 letter b, the LPS has the task, among others, of formulating and establishing policies in order to actively maintain the stability of the banking system; formulating, establishing, and implementing policies for the resolution of failed banks (bank resolution) that do not have a systemic impact; and implementing the handling of systemically important failed banks (Roring, 2025) .

The authority of the LPS is explained in Article 6 paragraphs (1) and (2) of the LPS Law. The authority of the LPS based on Article 6 paragraph 1 of the LPS Law includes determining and collecting s of guarantee premiums; determining and collecting contributions when a bank first becomes a participant; managing the assets and liabilities of the LPS; obtaining customer deposit data, bank health data, bank financial reports, and bank audit reports as long as it does not violate bank confidentiality; reconciling, verifying, and/or confirming the data referred to in letter d; determining the terms, procedures, and conditions for claim payments; appointing, authorizing, and/or assigning other parties to act for the benefit and/or on behalf of the LPS, to carry out certain specific tasks; providing guidance to banks and the public on deposit insurance; and impose administrative sanctions (Hadi, 2025) . In paragraph 2, the authority of LPS includes taking over and exercising all rights and authorities of shareholders, including the rights and authorities of the General Meeting of Shareholders; controlling and managing the assets and liabilities of the rescued Failed Bank; reviewing, canceling, terminating, and/or amending any contract binding the rescued Failed Bank with a third party that is detrimental to the bank; and selling and/or transferring the bank's assets without the consent of the debtor and/or the bank's liabilities without the consent of the creditor.

Beside that, in *Islamic law* the determination of the LPS Rate (Deposit Insurance Corporation Rate) needs to be reviewed from the principles of justice and the *prohibition of usury*. The LPS Rate is essentially the fee paid by banks to the LPS to guaranty customer deposits. If the LPS Rate is considered a form of compensation for insurance services that does not involve the multiplication of the principal amount, then it is acceptable. However, if the LPS Rate is viewed as an additional cost imposed by the LPS on banks, which could then impact the fees charged to deposit customers, it is necessary to consider whether this addition falls into the category of prohibited usury. *Sharia principles* emphasize that every financial transaction must be based on public interest, justice, and avoiding exploitation.

To ensure the compatibility of the LPS Rate with *Islamic law*, a fatwa or in-depth study from competent *sharia* authorities is necessary. This study should specifically analyze the mechanism for setting and the purpose of the LPS Rate, as well as its impact on *the Islamic banking system*. If the LPS Rate is positioned as a protection mechanism for depositors and the overall stability of the financial system, and does not involve interest or speculation, then it could be in line with Islamic principles. However, if there are doubts or potential violations of *Islamic principles*, then alternatives or adjustments are needed to align with *Islamic teachings* (Adi Saputro, Triyono Amalia et al., 2022).

In addition to Law No. 24 of 2004, subsequent developments regarding LPS regulations were also stipulated in Perpu No. 3 of 2008 concerning Amendments to Law No. 24 of 2004 concerning the Deposit Insurance Corporation. Then, in the following year, this Perpu was enacted into law through Law Number 7 of 2009 concerning the Stipulation of Government Regulation in Lieu of Law Number 3 of 2008 concerning Amendments to Law Number 24 of 2004 concerning the Deposit Insurance Corporation into Law. In addition to these regulations and laws, there are also other regulations related to the LPS, namely Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector and Law Number 9 of 2016 concerning the Prevention and Handling of Financial System Crises (Eka Fadila Nur Faizah, 2024).

John Rawls, in his work A Theory of Justice, introduced justice as fairness with two main principles, namely, the Principle of Liberty, which states that everyone has the same right to the most extensive basic liberties compatible with similar liberties for others. The Difference Principle and Fair Equality of Opportunity state that social and economic inequalities can only be justified if they are arranged in such a way as to provide the greatest benefit to those who are least advantaged (difference principle). this is related to positions and jobs that are open to everyone under conditions of fair equality of opportunity (Isman & Muttaqin, 2023). This Rawlsian framework emphasizes a balance between economic efficiency and distributive justice so that the results of public policy not only benefit the dominant group, but also secure the interests of vulnerable groups.

When analyzed using Rawls' theory of justice, the LPS Rate can be viewed as a legal policy that balances individual freedom (the right of customers to save and choose savings products) with distributive justice (protection for small customers). The principle of freedom is that the LPS Rate policy continues to give the public the freedom to deposit money in banks, but with the condition that the guarantee only applies if the interest rate does not exceed reasonable limits. This is not a form of restriction of freedom, but rather a regulation to maintain fairness among customers and the stability of financial institutions. The Principle of Difference is that small depositors, who are generally more vulnerable, greatly benefit from the interest rate guarantee limit. Without this rule, small or unhealthy banks could attract public funds by offering very high interest rates, but ultimately risk defaulting. If failure occurs, small depositors will be the most disadvantaged. With the TBP, the LPS ensures that interest rate inequality between banks does not harm vulnerable groups. Equality of Opportunity is a policy that also provides a more level playing field between banks. Large banks with strong capital do not necessarily dominate, while small banks can still compete healthily because they are all subject to the same interest rate cap. Thus, legally, the LPS Rate fulfills the aspect of justice as fairness, because it protects the interests of small depositors without sacrificing the principle of freedom of transaction, while maintaining the stability of the banking system as a public interest.

The Deposit Insurance Corporation (LPS) plays an important role in maintaining financial system stability and providing guarantees for customer deposits, as stipulated in Law No. 24 of 2004 in conjunction with Law No. 4 of 2023. In carrying out its duties, the LPS sets the LPS Rate, which is used as a reference for determining the upper limit of guaranteed deposit yields. Normatively (Sheila Aida Fitriani, 2025), the LPS Rate is valid and constitutional because it serves to maintain public confidence in the Indonesian banking system. However, the application of a uniform LPS Rate for conventional banks and *Islamic banks* presents problems due to the fundamental differences between the two systems, namely in the mechanism for managing returns.

As a legal object in this case, the LPS Rate has a significant impact on the operational practices of *Islamic banks*. *Islamic banks*, which operate based on sharia principles, do not use interest instruments in determining returns. Instead, they use contracts such as *mudharabah* and *musyarakah*(Alam, Raditya Sukmana, Bayu Arie Fianto, & Azzam Izzuddin, 2022) . When the LPS Rate is set uniformly, Islamic banks are forced to change their business strategies to adapt to market expectations, which risks compromising the Sharia principles that form the basis of the bank's operations. This shows that a uniform LPS Rate has the potential to create unfairness for Islamic banks, which ultimately affects the stability and integrity of the Islamic banking system itself (Witjaksono, 2020).

Displaced Commercial Risk (DCR) in the Islamic Banking System

The phenomenon of *Displaced Commercial Risk (DCR)* is one of the consequences of the mismatch between the LPS Rate and the *Islamic banking system*. *DCR* refers to a situation where *Islamic banks* must adjust their deposit interest rates to remain competitive with conventional banks that follow the LPS Rate. *DCR* can reduce the profit margin of *Islamic banks*, as they tend to sacrifice some of their profits to maintain customer loyalty(Pramesti, 2024). In a legal context, this has the potential to cause maladministration if there are no regulations that accommodate the characteristics of *Islamic banking* proportionally. *Displaced Commercial Risk* is faced by *Islamic banks* where the risk occurs because the returns paid by *Islamic banks* to depositors are unable to compete with the returns provided by conventional banks. In a study conducted by Musri and Rama, it was stated that the interest rate factor is a factor in the occurrence of *DCR*.

A study conducted by (Ahmad Fatoni, 2022) reveals that *DCR* causes inconsistency between *sharia principles* and the commercial strategies of *Islamic banks*. *Islamic banks* that are pressured by the LPS Rate ultimately try to balance compliance with *sharia principles* and the need to offer competitive returns. In the long term, this practice could lead to the operational unsustainability of *Islamic banks*, as they would have to sacrifice basic principles such as profit and loss sharing (Adiba, 2024). From a legal perspective, this incompatibility between LPS policy and *sharia principles* could be viewed as a violation of the principles of economic and legal justice that should be accommodated in national regulations.

Displaced Commercial Risk (DCR) can be understood as the risk that arises when *Islamic banks* decide to give investment account holders a higher return than the real profit obtained from the investment portfolio. This is usually done so that *Islamic banks* can remain competitive with conventional banks, which offer more stable and often more attractive interest rates. In other words, *Islamic banks* "transfer" a portion of the profits that should rightfully belong to shareholders to investment account holders, thereby creating a balance between the bank's attractiveness to customers and the sustainability of its business.

The *DCR* concept was born due to the unique characteristics of *mudharabah* and *musyarakah* contracts, where the *profit-sharing* system should be determined based on the actual results of the investment. However, in practice, if the actual investment results are lower than market expectations, customers may potentially withdraw their funds and switch to conventional banks. To avoid the risk of large-scale withdrawals (withdrawal risk), *Islamic banks* then shift the commercial risk by bearing part of the burden of the return.

There are several key factors driving *DCR* in the *Islamic banking system*. First, market competition pressure. *Islamic banks* operate in a financial system that runs parallel to conventional banks. As a result, many customers compare the returns on Islamic investment products with the interest rates offered by conventional banks. If the difference is too great, Islamic banks risk losing third-party funds.

Second, customer expectations regarding return stability. Although *sharia* investment products are based on *profit-sharing* principles, in reality many customers expect stability similar to fixed interest rates. This has given rise to "deposit-like behavior," whereby customers treat *sharia* investment accounts similarly to conventional deposits, thereby encouraging *sharia banks* to maintain return levels that are not too different from the market.

Third, fluctuations in the performance of financed assets. In *profit-sharing* financing, the level of profit is highly dependent on the performance of the financed business. Macroeconomic conditions, real sector risks, and market volatility can reduce the profits of *Islamic banks*, which in turn will have an impact on the returns of investment account holders.

Conceptually, *DCR* is a compromise between *Sharia* idealism and market realities. On the one hand, pure *Sharia principles* require that profits and losses be shared according to the actual results of investments. However, in practice, *Islamic banks* cannot completely ignore market conditions and customer expectations. Thus, *DCR* can be seen as an adjustment mechanism that maintains the sustainability of the *Islamic banking industry* amid global competition. However, in order not to erode the principles of fairness and transparency, the application of *DCR* must be carried out proportionally, transparently, and in accordance with *Sharia standards* set by the relevant authorities. The principle of legal justice requires that every policy implemented must consider the conditions and characteristics of the legal subjects involved. In this case, the legal subjects referred to are *Islamic banks* as entities operating under *Sharia principles*, and the legal object is the LPS Rate policy that applies uniformly to conventional banks and *Islamic banks*(Silviana, 2024) . Normatively, a uniform LPS Rate policy has the potential to violate the principle of justice because it does not accommodate the fundamental differences between the two banking systems.

Displaced Commercial Risk (DCR) is a unique risk faced by Islamic banks, especially in a dual banking system. This risk arises when Islamic banks, in order to retain customers and maintain their competitiveness, feel "compelled" to disregard the principle of pure profit-sharing and instead offer higher returns on deposit products (third-party funds). This pressure arises from direct competition with conventional banks that offer attractive and stable interest rates. If Islamic banks do not provide competitive returns, customers holding investment accounts *(mudharabah)* could potentially move their funds to conventional banks, which could ultimately threaten the liquidity and sustainability of the Islamic bank itself.

The implications of DCR on the operations of Islamic banks are very significant. Fundamentally, DCR can erode the profit and loss sharing principle, which is at the core of Islamic banking. Instead of letting returns fluctuate according to the actual performance of the investment, Islamic banks might be tempted to "adjust" the profit share so that it is equal to or higher than conventional bank interest. This creates a practice that could deviate from Sharia, where account holders effectively receive a guarantyd return on their investment. This practice can damage the trust of Sharia-conscious customers and tarnish the reputation of Sharia banking as a fair and ethical alternative. To manage DCR, Islamic banks employ various mitigation strategies. One common method is to establish a Profit Equalization Reserve (PER). PER is a fund proposal formed from a portion of the Islamic bank's profits before distribution to customers. The goal is to stabilize returns for customers, especially when the bank's profits are declining. However, the use of this PER is still debated among jurists and practitioners, as it can be seen as reducing the customer's right to receive profit sharing that is in accordance with actual profits. Therefore, the challenge for Islamic banks is to balance retaining customers and financial stability while remaining steadfast in their fundamental Islamic principles.

Rawl's theory of legal justice emphasizes the importance of treating legal subjects with *different* characteristics differently. In a dualistic banking system, where there are *Islamic* and conventional banks, there needs to be a difference in treatment in the policies applied by the LPS. Setting a uniform LPS Rate ignores the principles of distributive and procedural justice that should be applied. Therefore, a more flexible and responsive regulatory approach to the characteristics of *Islamic banking* needs to be developed. According to (Herliana, Fihan, Saputri, Arimbi, & Hidayati, 2025) , policies that take into account the differences in these financial systems are very important to avoid imbalances that could potentially harm *Islamic bank*. From the perspective of John Rawls' theory of justice, the uniform LPS Rate policy can be seen as contrary to the difference principle, which states that inequality can only be justified if it provides the greatest benefit to the least advantaged. In this context, *Islamic banking* is often at a disadvantage compared to conventional banking due to limited instruments, customer base, and different risk characteristics. Therefore, if the LPS applies the same policy without taking these structural differences into account, then the principle of substantive justice as outlined by Rawls is not fulfilled.

Furthermore, Rawls also emphasized the importance of the equal liberty principle, whereby every financial institution is entitled to fair regulatory protection in order to compete healthily within the national financial system. If the LPS does not differentiate its policies, *Islamic banking* could potentially suffer structural losses that hinder its development, thereby preventing its fundamental rights as part of the national financial system from being fulfilled in a balanced manner. Thus, the application of Rawls' theory of justice requires the LPS to consider the fundamental differences between *Islamic* and conventional banks in setting deposit insurance interest rate policies.

Legal Implications: Customer Protection and Financial System Stability

The legal implications of customer protection and financial system stability are fundamental issues in modern banking systems, both conventional and *Islamic*. Customer protection is understood as a legal obligation inherent in financial institutions to provide security, transparency, and legal certainty for public funds deposited in banks. This is important considering that banks function as intermediary institutions that collect funds from the public and then channel them back in the form of financing or credit to those in need. Without adequate legal protection, public trust in financial institutions may decline, which will ultimately disrupt the stability of the financial system as a whole.

Within the framework of Indonesian positive law, customer protection is not only regulated by Law No. 10 of 1998 concerning Banking, but is also reinforced by the existence of the Deposit Insurance Corporation (LPS), which guarantees customer deposits up to a certain limit. The LPS not only provides legal certainty for public funds, but also contributes significantly to the stability of the financial system by preventing a rush or large-scale withdrawal of funds in the event of a bank failure. Customer protection is a very important aspect in any banking system, including *Islamic banking*. LPS rates that are not in line with the characteristics of *Islamic banks* can harm customers, especially if *Islamic banks* are unable to provide competitive returns (Ferdinan Tambing, 2023)this has the potential to cause an outflow of funds (fund withdrawal) from *Islamic banks* to conventional banks that offer higher returns. In this context, failure to protect customer return expectations can be categorized as a violation of consumer protection as regulated in Law Number 8 of 1999.

In the legal context, financial system stability is protected through various regulations, including Law No. 9 of 2016 on the Prevention and Handling of Financial System Crises (PPKSK). This law explicitly provides a legal framework for preventing and handling financial crises through coordination between authorities, such as Bank Indonesia, the Financial Services Authority (OJK), the Ministry of Finance, and the LPS. The legal implication is that there is procedural certainty in dealing with crisis situations, so that rescue measures are no longer carried out on an ad hoc basis, but are based on a clear legal framework. From the customer's perspective, the regulation provides assurance that the state has legal instruments to protect them from systemic risks that could destroy the financial system. Meanwhile, from the bank's perspective, this regulation provides legal certainty regarding the rescue mechanism for banks experiencing difficulties, thereby eliminating uncertainty in the banking industry. Thus, customer protection and financial system stability are two inseparable aspects in the study of the legal implications of banking.

Legal protection for customers is also realized through the obligation of information transparency. The OJK has stipulated that banks are required to provide accurate, clear, and non-misleading information to customers, whether related to deposit products, credit, or *sharia financing*. This obligation is legal in nature, so violations are subject to administrative and criminal sanctions in accordance with applicable regulations. This transparency is an important part of maintaining public trust, as customers can make financial decisions based on accurate information. The legal implications of customer protection do not only concern administrative and civil law, but also criminal law. For example, when banks or managers commit banking crimes such as embezzlement, money laundering, or abuse of authority, legal protection for customers is enforced through criminal law. This is important so that justice is not only formal in the form of regulations, but also material in the form of real action against perpetrators of legal violations.

Systemically, DCR can threaten the stability of *Islamic banking* itself. If this issue is not handled properly, public trust in the *Islamic banking system* will be disrupted, which will ultimately affect *Islamic financial* inclusion in Indonesia. According to (Fatoni, 2022) , the failure of *Islamic banks* to compete with conventional banks can weaken the overall stability of *Islamic banking*. Therefore, LPS policies need to be revised to take into account the specific conditions of *Islamic banking* in order to maintain the sustainability of the national financial system. The case that occurred at *BPRS Sarana Prima Mandiri Pamekasan*, as reported by(Iqbal Rafiqi, 2023), shows that small *Islamic banks* are often pressured by customers to provide returns equivalent to those offered by conventional banks. In an effort to maintain customer loyalty, the bank was forced to divert part of its operating profits to cover the margin shortfall that should have been distributed to customers. Although this strategy is effective in the short term, it threatens the bank's financial health in the long term.

This phenomenon shows that *DCR* is not just a theory, but a reality faced by *Islamic banks*. Therefore, it is important for LPS and other financial authorities to develop policies that take into account the characteristics of *Islamic banking* (Yehezkiel Steferd Kristo Hitalessy, 2025) . This could take the form of incentive or compensation mechanisms that can help *Islamic banks* remain competitive without compromising *sharia principles*. In the long term, a regulatory approach that is responsive to the dynamics of Islamic banking will help create healthy and fair competition in the Indonesian banking sector.

Customer protection and financial system stability are two fundamental pillars in the regulation of the financial services sector. Legally, the implications of these two concepts are very closely intertwined and mutually influential. Customer protection not only aims to ensure consumer rights are met, but also to build public trust in financial institutions. This trust is essential for maintaining the smooth and stable operation of the financial system as a whole. Without strong legal protection guaranties, customers or investors could lose confidence, potentially triggering mass withdrawals or market turmoil that could damage stability. Regulations focused on consumer protection cover a wide range of aspects, from product transparency and contract clarity to fair dispute resolution mechanisms. The law requires financial institutions to provide accurate and complete information about their products and services, including inherent risks. For example, consumer protection laws in many countries provide a legal basis for customers to sue for damages if they are harmed by unfair or misleading business practices. The implementation of this regulation prevents exploitative behavior and ensures that customers can make informed financial decisions.

Meanwhile, financial system stability focuses more on the macroeconomic framework and the collective health of institutions. The law regulates capital adequacy requirements, risk management, and good governance for financial institutions. The goal is to prevent the failure of a single institution that could have systemic effects or spread throughout the system. Monetary and regulatory authorities, such as central banks or the Financial Services Authority (OJK), have a legal mandate to oversee and intervene if necessary. For example, the OJK can impose administrative sanctions or even revoke a bank's business license if a bank is deemed unhealthy or poses a potential threat to system stability. The reciprocal relationship between the two is very clear. An unstable financial system will not be able to provide adequate protection for its customers, as the risk of institutional failure will always loom. Conversely, without effective consumer protection regulations, unethical business practices could proliferate, leading to significant losses for customers and ultimately eroding the stability of the system itself. For example, the 2008 global financial crisis showed how complex and less transparent financial products (lack of consumer protection) led to the collapse of major institutions (systemic instability).

Therefore, the ideal legal framework is one that harmoniously integrates consumer protection and financial system stability. Regulations must be designed in such a way that they are mutually reinforcing. Supervisory authorities need to have strong powers to address violations at both the micro level (consumer protection) and the macro level (system stability). Thus, a robust legal framework not only protects individuals but also creates a strong foundation for sustainable and healthy economic growth. This ensures that the financial system can function as a reliable and trustworthy engine for society. Thus, it can be concluded that the legal implications of customer protection and financial system stability are a comprehensive regulatory system, ranging from banking law, consumer protection law, *sharia law*, to criminal law. All of these legal instruments work together to create fairness, certainty, and benefits in the national financial system.

CONCLUSION

This study shows that setting a uniform LPS Rate for conventional and *Islamic banks* is inconsistent with the principle of legal justice, as it does not take into account the fundamental differences between the two banking systems. This is evident in the emergence of the *Displaced Commercial Risk (DCR)* phenomenon, which forces *Islamic banks* to sacrifice the principle of *profit-and-loss sharing* in order to compete with conventional banks.Form an *Islamic legal* perspective explains that the establishment of the Deposit Insurance Corporation needs to be reviewed from the principles of justice and the prohibition of usury. The theoretical implication is that the *LPS Rate* policy is inconsistent with the principles of legal justice and *Islamic economics*, which could erode the operational principles of *Islamic banks* and undermine the stability of the *Islamic financial system*. The practical implication is that this policy risks weakening the competitiveness of *Islamic banks*, harming customers, and threatening *Islamic financial inclusion* in Indonesia, if there is no policy reformulation that takes into account the specific characteristics of *Islamic banks*. Therefore, there is a need for Regulatory Harmonization LPS regulations must be aligned with other relevant laws, such as the *Islamic Banking Law* and *the Law on the Development and Strengthening of the Financial Sector (P2SK Law)*. This will ensure that all regulations work synergistically to support the growth of an inclusive and fair financial system.

An analysis of Islamic law regarding the LPS rate in the face of commercial risk displacement (DCR) shows the need for a more adaptive and Sharia-compliant approach. The main suggestion is to shift the perspective from LPS as an "insurance premium" to a joint contribution fund *(tabarru')* for mutual assistance among Islamic banks. Additionally, it is important to increase transparency and education for customers. Islamic banks must clearly distinguish between profit-sharing products *(mudharabah)* that carry the risk of loss, and safekeeping products *(wadi'ah)* where the principal is guaranteed. This will reduce customer misconceptions and the pressure to deliver high returns. Finally, regulators can explore guaranty models that are not based on a percentage of deposits, but rather on the individual risk level of each bank, making them fairer and more aligned with the principle of profit sharing.

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