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PROSPECTS AND DEVELOPMENT CHALLENGES SHARIA INSURANCE IN INDONESIA

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This paper wants to explore more about the prospects and challenges of the development of Islamic insurance in Indonesia. Islamic insurance industry in Indonesia has very good prospects for growth, the demand for insurance products based on shariah will continue to increase. This is supported by a large population of Indonesia and also as the largest Muslim country in the world. However, this industry will also experience a very strong obstacle because of the global economic downturn, as it also conditions the people are not educated about insurance, the free market has begun to be applied, resources are less about Islamic insurance, lack of capital and other on. Therefore it needs the government's role to help to continue to grow, with regulations that support this industry.

Keywords: *Islamic insurance, Challenges, Global Economic.*

PRELIMINARY

Today the challenges faced by the insurance world in Indonesia are getting stronger with the many invasions of foreign insurance as a direct impact of globalization. In the coming era, known as the era of globalization, Indonesian insurance / reinsurance companies in addition to facing "invasion" of foreign insurance / reinsurance companies that have strong capital, as well as reliable technology and human resources, also have the opportunity to operate and develop business insurance and reinsurance in other countries. The development of the sharia economy globally began to increase. More and more Islamic banks are implementing Islamic principles, namely the banking system that does not lend or collect loans with interest loans (usury) and has a prohibition to invest in illegitimate businesses according to Islamic teachings.

This positive development was also seen in the development of Islamic economics in Indonesia with the increase of Islamic banking assets from Rp.49.6 trillion in 2008 to Rp223 trillion in August 2013. With the potential of this sharia product, many insurance companies in Indonesia offer sharia products. The growth of the sharia insurance industry is targeted at 35% per year. Even the latest data from the Authority

Financial Services (OJK), recorded total assets growth in sharia insurance until June 2015 amounting to 24.06 Placement of investment funds managed by Islamic insurance also

increased by 27.59%. While contributions (Islamic premiums) rose by 15.59% compared to the same period in 2014. Trust and optimism about future economic conditions can also affect the performance of human resources in the Islamic finance industry. It can also be said that the growth of Islamic finance in Indonesia is slow but sure because the market share of Islamic insurance has been and still shows its growth. Despite high market interest, unfortunately the industry grew and developed slowly. However, the performance of the human resources of the sharia industry itself shows quite good performance. A large market share reflects interest

Indonesian society is very high towards sharia insurance. Unfortunately the enormous interest in this sharia financial product is sometimes not responded to by the Islamic insurance industry. They see the incompetence of the Islamic industry in separating units from conventional Islamic insurance so that Islamic insurance becomes its own company. With the existence of Islamic insurance, it will be more possible to accelerate the growth rate. At present, there are 20 sharia insurance consisting of 17 sharia life insurance, 20 sharia general insurance, and three sharia reinsurance.

Meanwhile, the market share of the Islamic finance industry itself has continued to grow and the Indonesian market is still wide open for Islamic finance. This is different from various other countries such as in the Middle East, Europe and Malaysia. In the Middle East, the development of Islamic finance depends on oil production, as well as in Europe because there are a lot of banks in the region that still collect funds from oil entrepreneurs in the Middle East. Meanwhile, Malaysia, the development of the Islamic industry is supported by the government so that more funds are managed by government funds. Compared to funds from all three countries, funds in Indonesia are still very far away. However, Indonesia still has a high enough opportunity for the development and growth rate of the Islamic industry. There are so many markets in Indonesia that have not been worked on. Indonesia actually needs another system and concept in finance and arranging its economy and this sharia institution is the most appropriate alternative. Thus, active contributions from both local and foreign investors are very much needed in increasing the market share of Islamic insurance in Indonesia. Of course with government support in helping insurance companies expand their market share. This paper wants to explore more about the prospects and challenges of the development of Islamic insurance in Indonesia.

DISCUSSION

Understanding of Insurance

In Islamic economics it is known as the existence of financial institutions in the form of banks and non-banking community financial institutions, including Islamic insurance. In Arabic insurance is known by the terms: at Takaful, at Tadamun, and at-Ta'min, which means: bear each other. Insurers are called mu'amin, while the insured is called mu'amman

lahu or musta'min. The definition of at-Ta'min is that someone pays or gives installments so that he or his heirs get a sum of money as agreed, or to get compensation for lost property.

Insurance according to the Encyclopaedia of Islamic Law is called at-Ta'min, a transaction agreement between two parties, one party is obliged to provide full guarantee to the contribution payer if something happens to the first party in accordance with the agreement. According to the fatwa of the National Sharia Council (DSN), insurance is an effort to help one another with intermediaries with a number of money through asset investments or tabarru 'which provide a pattern of returns to face certain risks through contracts that are in accordance with sharia and do not contain gharar (fraud), maysir (gambling), riba, zhalim, bribery and immorality. Understanding of Insurance in Law No. 40 of 2014 concerning insurance, insurance is an agreement between two parties, namely an insurance company with a policy holder, which is the basis or reference for receiving premiums by insurance companies in return for:

1. Provide replacement to the insured or policy holder because of the losses suffered, damage, costs incurred, loss of profits or legal liability to third parties that may be suffered by the policy holder because of an uncertain event; or
2. Paying with reference to the death of the insured or payment based on the life of the insured with the benefit of the amount set and or based on the results of the management of funds.

Insurance Purpose

1. Risk transfer. The main purpose of insurance is to transfer risk. In the theory of risk transfer, the insured realizes that there is a threat of danger to his property or to his soul. If one day the danger befalls his wealth or soul, then he will suffer loss or loss of life or physical disability will affect the life journey of someone or his heir. Insured in this case as a party who is in danger of feeling heavy carrying the burden of risk at any time can occur. To reduce or eliminate the risk burden, the insured party tries to find a way if there is another party who is willing to take over the burden of the risk of danger and he is able to pay counter-performance called premium. In this case the insured enters insurance with the aim of transferring risks that threaten his property or property. By paying a premium to the insurance company (underwriter), since then the risk of switching to the insurer. If until the end of the insurance period an adverse event does not occur, the insurer is lucky to have and enjoy the premium he has received from the insured.
2. Payment of compensation. The next insurance goal is compensation payments. In this case there is an event that causes a loss, then there is no problem against the risks borne by the guarantor. In practice, the danger that threatens it is not always really going to happen. This is a good opportunity for the insurer to collect premiums paid by some insured who bind themselves to him. If at any time there is really an event

that causes a loss, then the insured concerned will be paid compensation in proportion to the amount of insurance. In practice, the losses incurred are partial, not all in the form of total losses. Thus, the insured holds insurance that aims to obtain compensation payments that really suffered.

3. **Payment of Compensation.** The next insurance goal is to pay compensation. Loss insurance and life insurance are also held based on a free (voluntary) agreement between the insurer and the insured. However, the law regulates compulsory insurance, meaning that the insured is bound by the insurer because the law order is not due to the agreement. This type of insurance is commonly referred to as social insurance. Social insurance aims to protect the public from the danger of an accident resulting in death or disability. By paying a number of contributions (a kind of premium), the insured has the right to receive protection from danger. The insured who pays these contributions are those who are bound by a certain legal relationship stipulated by the law, for example work relations, public debt passengers. If they get an accident during their work or while the transportation takes place, they (their heirs) will get a payment of compensation from the SOE guarantor, whose amount has been determined by law to protect the interests of the community and those affected will be given a sum of money.
4. **Member Welfare.** The last insurance goal is for the welfare of its members. If several people meet in an association, the association is located as the insurer, while members of the association are domiciled. If an event occurs that results in loss or death for the member (the insured), then the association will pay a sum of money to the member (insured) concerned.

Definition of Sharia Insurance

The definition of Sharia Insurance based on the National Sharia Council (DSN) and the Indonesian Ulema Council (MUI) is an effort to protect each other and help help among a number of people through investments in assets and / or tabarru 'which provide a pattern of returns to deal with certain risks through a contract in accordance with sharia. According to Law No. 40 of 2014, sharia insurance is a collection of agreements, which consist of agreements between sharia insurance companies and policy holders and agreements between policyholders, in the context of managing contributions based on sharia principles to help and protect each other by:

1. Provide compensation to participants or policyholders because of losses, damages, costs incurred, loss of profits, or legal liability to third parties that may be suffered by participants or policyholders due to the occurrence of an uncertain event; or

2. Provide payments based on the death of the participant or payment based on the life of the participant with the benefit of the amount determined and / or based on the results of the management of funds.
3. Sharia is a universal principle or system which can be used by anyone. The theoretical foundation of Sharia Insurance refers to: (1). Aqila: that is to shoulder each other or be responsible for his family. (2). Muwala: namely a guarantee agreement, where a guarantor guarantees someone who does not have an inheritance and is not known to his heirs. If the person guaranteed to die, the guarantor may inherit his property as long as there is no heir. (3). Tanahud: i.e. two people or more in association finance a "need" with the same stock.

Sharia Insurance Products

Sharia insurance products consist of several products that cover various aspects of life ranging from the protection of accidents that result in death to the occurrence of fires even to the occurrence of accidents in transportation. The product is divided into: insurance products that contain elements of savings and non-saving insurance products (Syakir Sula, 2004).

1. Insurance products that contain elements of savings
 - a. Investment Funds. It is a form of protection for individuals who want and plan to raise funds as investment funds.
 - b. Student Funds. It is a form of protection for individuals who intend to provide education funding to scholars.
 - c. Hajj Funds. A form of protection for individuals who want and plan for fundraising for the costs of running the Hajj.
 - d. Dana Hasanah. Is a form of protection for individuals who want and plan to raise funds as business capital.
2. Non-saving insurance products for Individual Health. Programs for individuals who intend to provide inpatient and surgery compensation funds if participants are sick and injured during the agreement period. Individual Personal Accident. The program is intended for individuals who intend to provide compensation for heirs if participants experience accidental deaths due to an agreement. Al-Khirat Individual. This program is intended for individuals who intend to provide compensation for heirs if participants experience a death accident during the agreement period.

Mubarakah Sharia Insurance

There are three types of insurance products offered by Islamic insurance, namely:

1. Emerald Mubarakah. If during the insurance period, the participant dies due to an accident or permanent disability due to an accident to the heirs will be paid death compensation in the amount of Ta'awun Benefits and if there is no risk of death due to accident or permanent disability due to accident until the end of the insurance period, the company will refund participants' cash value

2. Healthy Mubarakah. Aims to maintain the health of participants and their families in the form of reimbursement of care / medical expenses if participants are hospitalized in the hospital.
3. Syamilah Mubarakah. This product aims to meet the various needs of participants and their families in the planned period such as the cost of hajj / umrah education, qurban / aqiqah, child savings and others. The intention and desire of participants is also protected where the participant dies.
4. Mubarakah Personal Protection Plan
 - a. If the insurance participant died because of accident will be paid compensation of 100% Ta'awun benefits and funeral costs amount to 1% of the benefits of Ta'awun.
 - b. If participants experience total / partial permanent disability due to an accident, compensation will be paid according to the provisions (certain percentage) of a maximum of 100% of the benefits of Ta'awun.
 - c. If participants experience an accident, they will be paid a replacement fee for treatment in accordance with a maximum receipt of 10% of the benefits of Ta'awun a year.
 - d. If the participant extends the policy in the second year the benefit of death will be given due to an accident for one participant's designated child by 20% of the benefits of Ta'awun at least 3 months of age.
 - e. If for 5 years (if the insurance period is extended to 5 years) no claims will be made for refunds of premiums up to 25% of the total annual premium.

Takaful Syariah Insurance

Takaful Syariah Insurance has indeed been engaged in Indonesia even though with conditions that were slow in the beginning of its movement in the insurance sector in Indonesia. However, with the Takaful insurance, which is a pioneer in the field of Islamic Insurance, it has produced good results at this time. It can be said that with a breakthrough in the insurance sector by PT Takaful, a number of sharia-based insurance companies emerged in Indonesia. The products offered by these companies are as follows: General Takaful. The focus is primarily on providing services and assistance regarding insurance in the areas of losses such as protection from fire, transportation, commerce, and motorized vehicles, with the hope of achieving a prosperous Indonesian society with insurance protection that is in accordance with Islamic law. Included in General Takaful insurance are: Takaful Baituna. Protect homes from fires equipped with extra protection devices for a family.

- a. Takaful Surgaina. Providing protection against financial losses and compensation due to accidents resulting in death, suffering from bodily disabilities and / or participant's funeral costs.

- b. Takaful Abror. Giving compensation for motor vehicles caused by accidents, theft and legal responsibility to third parties.
- c. Takaful Ansor. Insurance that is intended for motorbikes for the risk of loss and accident with the addition of life insurance.
- d. Takaful Engineering. Give compensation for loss or damage in an engineering project (construction and or installation), equipment and machinery due to sudden and unexpected events that cause losses to participants (principal, contractor, or equipment owner).
- e. Various Takaful. Give compensation for various risks.
- f. Fire Takaful. Give compensation for damage or loss of buildings.
- g. Transport Takaful and Ship Frame. Give compensation for goods or transportation equipment during transportation.
- h. Motor Vehicle Takaful. Provide compensation for both loss or damage as a whole and the demands of third parties for each motorized vehicle registered due to risks such as collisions, theft and fire.
- i. Takaful Surety Bond. Give compensation for the contractor's project implementation.

Family Takaful. The focus is mainly on providing services and assistance regarding life and family insurance, with the hope of achieving a prosperous Indonesian society with insurance protection that is suitable for Islamic law. Included in Takaful Family insurance are:

a. Takaful Link. Means

invest and also

insured in accordance with Sharia

by offering results

optimal investment.

b. Takaful Investment Fund. Insurance program for individuals to plan hajj fundraising.

c. Takaful Personal Accident. Provide compensation to participants or their heirs if participants die, are disabled, or incur maintenance costs due to an accident.

d. Fulnadi. Provides funding for education to scholars.

Difference between Sharia Insurance and Conventional Insurance

1. Shari'ah insurance has a Sharia Supervisory Board (DPS) that is responsible for overseeing marketed products and managing investment funds. This Sharia Supervisory Board is not found in conventional insurance.
2. The contract that is implemented in the Shari'ah insurance is based on help. While conventional insurance is based on buying and selling
3. Investment funds in shari'ah insurance based on the outcome (mudharabah). Whereas conventional insurance uses interest (usury) as the basis for calculating its investment

4. Ownership of funds in sharia insurance is the right of the participant. The company is only the trustee to manage it. In conventional insurance, funds collected from customers (premiums) belong to the company. So, companies are free to determine their investment allocation.
5. In the mechanism, shari'ah insurance does not recognize cash funds as found in conventional insurance. If during the contract period the participant cannot continue to pay premiums and wants to resign before the reversing period, then the funds entered can be taken back, except for a small portion of funds that have been intended for tabarru'.
6. Payment of claims on shari'a insurance is taken from tabarru' funds (benevolent funds), all participants who have been issued from the start that there is an allowance for funds to be used as funds to help among participants in the event of a disaster.
7. The distribution of profits to the Shari'ah insurance is divided between the company and the participant according to the principle of profit sharing with a predetermined proportion. Whereas in conventional insurance all profits are the property of the company.

8. Sharia insurance in Indonesia

Seeing the development and growth of the insurance industry in Indonesia is very rapid and moreover with Adaya BPJS (Social Security Agency) Indonesian people have been guaranteed from their social life such as health. In the past few years, many conventional insurance companies have offered their latest insurance products, namely sharia insurance, the growth of the Islamic insurance industry must be supported by the government and the Indonesian people who are the largest Muslim countries in the world. which is rapid considering that the majority of Indonesia's population is Muslim.

Countries with a majority Muslim population such as Indonesia, generally have a relatively lower penetration rate and insurance density compared to other countries. This is due to what is referred to as religious barriers, namely religious beliefs that do not allow conventional insurance practices. Besides being able to overcome these religious barriers, the nature of Islamic insurance will have the potential to develop in Indonesia due to several reasons including the majority of the population being Muslim will tend to respect solutions originating from their own religion, the Indonesian economy which is significantly dependent on the Micro, Small and Medium Enterprises sector (MSMEs) will be compatible with the risk management approach through the concept of helping in Islamic insurance, the nature of Islamic insurance that allows participants to get a fairer share of results.

High and stable economic growth in Indonesia which then gave birth to a significant number of new middle class In the Asian Development Bank (ADB) report entitled "The Rise of Asia's Middle Class 2010" it was stated that the number of middle class in Indonesia grew rapidly in 10 years last one. In 1999 the middle class only reached 25 percent or 45 million people, but a decade later surged to 42.7 percent or 93 million. Whereas the number of poor

groups decreased from 171 million to 123 million. With the number of Indonesia's growing middle class allowing the insurance industry to grow very well and also supported by the implementation of Good Corporate Governance (GCG), it will encourage clean business processes so that the impact is conducive to the emergence of sharia insurance and sharia insurance. practices that contain elements of uncertainty and gambling will be in line with prudent business practices in the global economic environment. The basic concept of Islamic insurance, especially those using the Wakalah system, is the concept of insurance that will be free from business uncertainty in the insurance sector.

In addition to the prospect of developing the insurance industry, especially sharia insurance in Indonesia, towards a positive direction, there are also challenges faced by the Indonesian sharia insurance industry. The Financial Services Authority (OJK) stated that there are still many challenges for the insurance industry in Indonesia to continue to grow in the future. The results of the financial literacy survey conducted by OJK in 2013 revealed that only 18 percent of the people understood insurance products and only 12 percent of the people used insurance products. To continue to grow, the insurance industry must be able to optimize various measures to provide education about the importance of insurance. An industry wants to move forward so it must be supported by many factors, where the factors that might be the challenges of the Indonesian insurance industry going forward are:

1. An economic slowdown that will reduce insurance market demand and also the condition of the capital market, growth in general insurance depends on the performance of the real sector with the economic slowdown in the past one to two years, making insurance industries face a slowdown because people are more likely to meet their basic needs first than to take insurance.
2. In terms of capital of the insurance industry in this case the insurance company must meet a minimum capital requirement of around Rp. 100 billion.
3. There is open competition to face the Asean Economic Community (MEA) where Indonesia participates in it.
4. Lack of human resources that understand Islamic insurance.
5. The low awareness of the importance of insurance for the community, the low growth of insurance, one of which is due to the low education of the Indonesian people and also the people are still anti-insurance.
6. Many insurance products are still conventional.
7. There is still a lack of insurance products that can reach the lower middle and lower classes, because so far insurance is a costly product that innovates low insurance products.

COVER

At present the Islamic insurance industry in Indonesia has very good prospects for growth. Demand for sharia-based insurance products will continue to increase, the growth of

the sharia insurance industry must also be supported by the ease of access to information about the benefits of sharia economics compared to the conventional economy, especially supported by the large population of Indonesia and also the largest Muslim country in world. But the industry will also experience very strong obstacles due to the weakening of the world economy, also our country, people who have not been educated about insurance, free markets have begun to be applied, less resources about sharia insurance, lack of capital and so on. the role of the government is needed to help keep developing, with regulations that support this industry.

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