



## A review of the regulations and challenges of sharia insurance in Indonesia

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### ABSTRACT

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This article aims to discuss the regulations and challenges faced in implementing the sharia insurance concept in Indonesia. Sharia insurance, which still raises pros and cons in Indonesia, is an interesting phenomenon to study. So, this article tries to explore in detail about sharia insurance regulations in Indonesia and the challenges faced by sharia insurance actors and managers in Indonesia. This research uses a qualitative descriptive approach with the literature study method as a data collection technique. The data obtained was obtained through previous research journals and also the latest phenomena currently occurring regarding sharia insurance in Indonesia. The results of this study show that sharia insurance in Indonesia still faces very complex challenges, especially because it has to compete with conventional insurance which has already existed and is known to the public. There are no specific regulations governing sharia insurance. The laws used are still the same as conventional insurance.

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### Introduction

In line with economic growth and national trade in the needs of public to insurance is increasing. The number of people who plunged into the economy with their efforts and trade raises the need for the protection of welfare for themselves and for their own business. Islamic insurance has progressed quite rapidly, both in terms of managing Islamic insurance assets, as well as in the aspect of reviewing takaful-themed articles. Based on a study conducted by IMARC (Sari, Aldila, & Rahayu, 2024).

The existence of insurance in the modern era is the answer to public unrest in the protection of the economic sector. In addition, insurance companies have also contributed a large contribution or income to the country. However, unfortunately not a few insurance companies that in the implementation are far from the rules of Islamic law. As a country with a majority Muslim population, this is a crucial problem. Reported through the Financial Services Authority website

(OJK) in the end in 1994, Takaful Indonesia was established a pioneering business of the first sharia insurance in Indonesia.

The existence of Islamic insurance in Indonesia continues to develop over time. Public interest in Islamic insurance also continues to increase. This is because sharia insurance is different from conventional insurance. In sharia insurance there are several sharia principles that are enforced such as the principle of justice ('adl), trust (trust), benefit, balance and generality. Sharia insurance also forbids several things such as usury, bribery, ghara and other matters relating to other illicit objects in the financial sector. This is the background of increasing public interest in Islamic insurance. According to data from the Indonesian Sharia Insurance Association (AASI) through the publication of data on the development of the sharia insurance industry, as of 2022 sharia insurance assets in Indonesia increased by 9.68 % or around 45,189 billion rupiah compared to the previous year. This proves the growth of Islamic insurance is growing from year to year.

However, on the other hand the existence of Islamic insurance began to be faced with challenges that from year to year are increasingly diverse.

Special regulations issued by OJK through POJK No. 11/2023 concerning the separation of Sharia Business Units or Spin Off is one of the challenges that must be faced by sharia insurance. In addition, the lack of digitalization in the implementation in every sharia insurance. Then, the principles of Islam that unconsciously began to disappear from some sharia insurance into a big challenge that must be faced and crushed.

There are still many challenges that will be faced by sharia insurance companies in the future. Therefore, this article tries to study each of these challenges in the hope that it can be a picture so that the solution to these challenges can be found and immediately formulated. Through this article, hopefully it can be a subject of learning for all who are interested in the economy world, especially in Islamic insurance.

## **Method**

This study uses a descriptive qualitative approach, with a literature study method. The data listed in this writing was obtained through previous journals which also discussed sharia insurance in Indonesia from history, regulations to the challenges faced. All data are obtained from various literature such as books that review sharia insurance and journals that examine the same thing.

## **Result and Discussion**

### ***Islamic insurance concept***

In terms of understanding, insurance is a form of cooperation between community members by collecting money in the form of savings where the money will later be used as aid fund for those

affected by the disaster (Ichsan, 2020). While sharia are the rules that are in line with Islamic law. Then it can be interpreted that sharia insurance is a form of cooperation in this case insurance that contains Islamic principles in the implementation process. Sharia insurance is usually spoken in Takaful. Takaful itself has the meaning of mutual guarantee, helping and helping others (Ichsan, 2020). Takaful in sharia insurance means a form of agreement between group members who agreed to guarantee and bear each other.

Sharia insurance has a different concept from conventional insurance. Sharia insurance is formed on the basis of Islamic principles related to economic rules in Islam. In addition, sharia insurance is formed through the basis of mutual help, every member in the insurance shares the same risks in order to achieve mutual prosperity.

Which is the differentiator between sharia insurance and conventional insurance lies in management and also risk. If in conventional insurance the company has the aim of benefit from its fund management, then in sharia insurance the funds are managed by the Takaful company and then the profits from the funds will be returned to the members, after the administrative fees are deducted in accordance with the agreement at the beginning. The person in charge of managing the funds is called mudharib. In takaful or sharia insurance the funds collected will be used in helping members who are having trouble or affected. The concept is termed tabarru', which is a form of voluntary contribution from the members as a form of solidarity. Therefore the funds collected are called the mandate that must be managed by the insurance to be distributed properly and precisely (Noekman, 2020).

### ***History of Sharia Insurance***

Actually, if you see from the history of the implementation of sharia insurance has existed since the time of the Prophet, but in its termination, it is called aqilah, which is to carry each other and be responsible in a family (Soemitra, 2015). Simply put at that time there was a rule that explained that when there was one person from a tribe who was injured or injured because of another tribe, the family of the victim would receive a sum of money called diyat as a form of compensation from the perpetrator's family. So actually, if the implementation of Islamic insurance has been running since the time of the Prophet only the difference is in terms of the term.

Then the concept of sharia insurance began to be found in the contemporary scholar phase. Some of the scholars recorded in the field of sharia insurance are Moh. Ma'shum Billah, Fazlur Rahman and Ibn Abidin. Of the three scholars, Moh. Ma'shum Billah who first sparked the concept of takaful. A concept that is currently known as sharia insurance where there is an agreed collaboration to guarantee and help each other by using the principle of mudharabah. The sharia insurance company is referred to as a mudharib whose duties and responsibilities receive payment

money from Takaful participants to be managed and invested in accordance with Islamic Sharia. While Takaful members are referred to as Shahib al-Mal who will later get protection and profit-sharing funds from the insurance company.



**Figure 1. Inauguration of the establishment of Takaful**  
Source: takaful.co.id

Sharia Insurance in Indonesia Developed in 1994 with the establishment of an insurance company named Takaful Indonesia Insurance, on August 25, 1994. The establishment of the company was inaugurated through the Decree of the Minister of Finance No. Kep-385/KMK.017/1994 and initiated by the insurance forming team TAKAFUL INDONESIA (TEPATI) (Soemitra, 2015). Then the next few years, other sharia insurance companies were established such as PT. "Mubarakah" Sharia Insurance in 1997 and several sharia insurance units from other conventional insurance. Until finally there were 41 Islamic insurance companies that were established in Indonesia.

### ***Sharia insurance regulations in Indonesia***

In Indonesia, there is no special regulation that regulates sharia insurance. The law used is still the same as conventional insurance. The regulations or rules used in regulating sharia insurance in Indonesia are based on sharia standards and are directed by legal experts. One that is used as a legal basis for sharia insurance is Law Number 40 of 2014 concerning Insurance, which provides a legal basis for the implementation of sharia insurance. This law directs various perspectives, ranging from establishment, ownership, to the operation of sharia protection companies. In addition, the Financial Services Authority (OJK) as a budget supervisory institution has an important role in the implementation of the sharia insurance industry.

OJK issued different controls and rules, such as OJK Regulation No. 72/POJK.05/2016 concerning Large Corporate Governance for Insurance Companies. This regulation guarantees that sharia insurance companies carry out their operations straightforwardly, accountably, and understand sharia standards. The National Sharia Council of the Indonesian Ulema Council (DSN-MUI) also has an important role in guaranteeing the truth of sharia law. DSN-MUI issued fatwas

which are the rules in the implementation of sharia insurance, such as fatwas regarding the contract used and the supervisory component of Tabarru's savings. With this comprehensive control, sharia protection in Indonesia can run in accordance with Islamic standards, thus providing reasonable and firm budget security for the community. But as mentioned at the beginning of the lack of regulations or regulations specifically in regulating this sharia insurance. So that the perpetrators both the company and also the community do not have strong legal protection.

### ***Challenges for implementing sharia insurance***

The development of Islamic insurance can indeed be said to develop rapidly in the past few years. But we cannot deny that the development of technology in the digital era is increasingly developing trade and the world economy sector. This is unwittingly hampering the development of Islamic insurance in the current digital era. Inhibition of these developments is based on several factors, namely; First, the low penetration of the sharia insurance market. This is a reason that makes sense in obstructing the development of Islamic insurance. Several other factors that cause the low determination of the sharia insurance market are the lack of market promotions and socialization, lack of sharia insurance and services that are still less superior to conventional insurance and also consumer doubts about the management of Islamic insurance where not a few sharia insurance in its implementation far from Islamic principles (Rahma, 2024).

Second, regulations that are not sufficient in regulating Islamic insurance. The absence of special regulations or special laws that discuss sharia insurance is one of the challenges in the development of sharia insurance in Indonesia. In addition, the other obstacles are the lack of support from the State Policy Stakeholders or from the government for sharia insurance (Rahma, 2024). Full support from various parts of the party, especially from the government, scholars, academics and the community, is very necessary in the process of organizing Islamic insurance operations.

Third, there is still a lack of socialization to the public regarding the management of Islamic insurance. The community needs to get socialization on how sharia insurance manages the funds they contribute. Ignorance of the community regarding sharia insurance products and fund management mechanisms in sharia insurance is the biggest obstacle for the growth of sharia insurance at this time. This results in a lack of public trust so they prefer to use conventional insurance. Most people claim that sharia insurance is the same as conventional insurance. Because not a few Islamic insurance is far from the word sharia in the process of managing the funds (Rofiah, 2013).

**Table. 1**

Sharia Insurance	
Strengths	Weaknesses
Based on sharia principles, using tabarru and tijarah contracts	Limited only to investment according to sharia, sometimes the contract is not understood by the general public
The risk is divided evenly to all members	More limited investment options
Investment is carried out in accordance with the Shari'a there is no element of usury and gharar	Requires high transparency and appropriate supervision of investment
Dana dikelola sebagai suatu amanah yang harus disalurkan	Lack of variations of investment products

**Table. 2**

Conventional insurance	
Strengths	Weaknesses
Based on business principles and flexible laws	Because it is not fixated on the principle of sharia, it is feared that it contains the element of usury.
Risk borne by insurance companies. Unlimited investment and more profitable	Customers do not share risks There are elements of usury and gharar
Funds are managed by the company with the aim of profit	More focused on company profits than customers

From this description it can be concluded that sharia insurance in Indonesia faces different challenges despite the fact that the company has shown significant progress. One of the biggest challenges is the level of education and openness of the community's understanding of sharia protection. Many people still do not understand the concepts and benefits of Islamic insurance, so that awareness in using this insurance product is still constrained. More serious education and socialization is needed to expand open understanding of the importance of sharia protection.

In addition, sharia insurance infiltration is still relatively low compared to customary protection. This can be caused by the need for product development and attractive promotional procedures. Sharia insurance companies must continue to improve and create products that are suitable for the needs of the community and utilize computerized technology to expand the range of exhibitions. Another challenge is the increasingly fierce competition with conventional insurance that has been formed. Sharia insurance companies must be able to offer competitive advantages that can attract consumers, such as much better benefits, strict sharia compliance, and more diverse products.

From an administrative point of view, although there is a legal system in overseeing sharia insurance, there are still challenges in the implementation and supervision (Ash'ari, 2019). There must be an increase in participation between supervisors, industrial players, and sharia teachers to ensure compliance and sustainable improvement in the sharia protection industry. In the end, overseeing reserves in Islamic protection is also a challenge. Funds collected must be monitored in accordance with sharia standards, which often limit alternative speculation. Sharia insurance companies must find productive and safe ways to manage participant funds so that they can provide competitive benefits without misuse sharia standards. By overcoming these challenges, sharia protection in Indonesia has extraordinary potential to create a faster and significant impact on guarantees related to public money in accordance with Islamic values.

## Conclusion

The conclusion that can be drawn from the discussion in this article is that the existence of sharia insurance in Indonesia still faces very complex challenges, especially because they have to compete with conventional insurance that has been more *duhulu* and known by the public. The biggest challenges include the level of community literacy regarding sharia insurance that is still low and the need for efforts to improve products and marketing strategies. In addition, supervision of insurance funds that must be managed in accordance with sharia standards is also an obstacle or challenge. But with more serious coaching, expanding collaboration between partners, and endless development, sharia insurance has extraordinary potential to create and take important commitment in providing budget security that is in harmony with Islamic values. In addition, special protection from the government is also needed in the form of special legislation that discusses and protects sharia insurance.

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