



The influence of community sharia literacy on understanding of sharia insurance products

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ABSTRACT

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This study examines the impact of public literacy on understanding and participation interest in sharia insurance products. Sharia insurance offers various products such as life, health, accident, education, and pension insurance, designed in accordance with Islamic sharia principles and supervised by the Sharia Supervisory Board. Case studies in Region of Yogyakarta indicate that good sharia literacy increases public interest in choosing sharia insurance products. Sharia literacy includes understanding the concepts, contracts, and products of sharia insurance, as well as fundamental principles such as the prohibition of riba (interest) and gharar (uncertainty). The study finds that besides sharia literacy, other factors such as religiosity, trust in sharia institutions, and demographic factors also play a role in influencing public interest. Therefore, it is important to enhance sharia literacy in society to improve understanding and participation in sharia insurance products. The findings suggest that effective sharia literacy programs can help sharia insurance companies and regulators increase the acceptance of these products in society.

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Introduction

Sharia insurance is a financial product designed in accordance with Islamic sharia principles, which prohibit usury (interest) and gharar (uncertainty). This product includes various types of insurance such as life insurance, health, accident, education, and pension funds, which are supervised by the Sharia Supervisory Board to ensure compliance with Islamic law. Public interest in sharia insurance products is influenced by various factors, one of which is sharia literacy.

Sharia literacy includes an understanding of the concept, contract, and products of sharia insurance. Research shows that good sharia literacy can increase public interest in choosing sharia insurance products. This is due to a better understanding of the benefits and uniqueness of sharia insurance products compared to conventional insurance. In addition, sharia literacy also helps

people understand the basic principles underlying these products, such as the prohibition of usury and gharar, which makes sharia insurance products more in line with Islamic values (Pramudya, R. M., et al., 2022).

Several studies have discussed the influence of sharia literacy on public interest in participating in sharia insurance products. Case studies in Yogyakarta Province show that sharia literacy has a significant effect on people's understanding of using sharia insurance. Therefore, it is important to improve sharia literacy in the community so that they better understand and participate in sharia insurance products. Thus, sharia insurance companies and regulators can increase the acceptance of this product in the community through effective sharia literacy programs (Seltina, I., et al., 2024).

Method

This study uses a qualitative approach with a literature review method. A literature review is a method of collecting information from books, journals, research articles, research reports, or other written sources related to a research topic. This literature review was conducted to investigate matters related to knowledge and understanding of the influence of community sharia literacy on interest in understanding sharia insurance products. The results of the literature search are used as a theoretical basis and analysis of the phenomena studied.

Result and Discussion

Sharia Literacy

Sharia literacy is an important aspect that every Muslim needs to have in facing the development of the times, especially in the field of sharia finance and economics. Sharia literacy can be interpreted as the ability to understand, analyze, and apply sharia concepts and principles in the context of modern life, especially in economic and financial activities.

The concept of sharia literacy includes three main dimensions, namely knowledge, understanding, and implementation. The knowledge dimension includes an individual's mastery of basic sharia concepts, such as faith, worship, and muamalah. Individuals who have sharia literacy must master knowledge about the sources of Islamic law, such as the Quran, Hadith, Ijma', and Qiyas, and understand the main principles of sharia, such as justice, balance, and benefit (Adiyanto, et al., 2021).

The understanding dimension includes an individual's ability to analyze and interpret sharia concepts in the context of modern life. Individuals must be able to connect sharia principles with

current issues such as financial products, commercial transactions, and technological developments. A deep understanding of sharia law helps individuals make decisions that are in line with Islamic values and ethics. The implementation dimension includes the individual's ability to apply sharia principles in everyday life, including economic and financial activities. Individuals who understand sharia will choose financial products and services that are in accordance with sharia principles, such as: High-interest financial instruments, sharia contracts, and risk management according to sharia principles (Alfajri, A., et al., 2024). The urgency of sharia literacy in the financial industry cannot be ignored. The sharia financial industry is growing rapidly throughout the world, both in Islamic and non-Islamic countries. However, this growth is often faced with challenges in the form of low public understanding of sharia principles in financial activities.

Lack of sharia knowledge can lead to misunderstandings and distrust of sharia financial products and services. Sharia knowledge plays an important role in increasing public trust in the sharia financial industry (Syahira, S., & Very, Y., 2024). Those who have sharia knowledge will be able to better understand the uniqueness and benefits of sharia financial products such as: Fair profit-sharing systems, prohibition of usury and gharar, and the application of sharia ethical principles in all transactions. In this way, the public will be more encouraged to use sharia financial products and services that are in line with their beliefs and values. In addition, sharia competence also contributes to the development of competent human resources in the sharia financial industry (Sari, F.N., et al., 2024). Employees and professionals with sharia knowledge will be better able to design, develop, and deliver financial products and services that are in accordance with sharia principles. This will strengthen the competitiveness of the sharia financial industry and expand its market reach.

Community Literacy

Community Literacy is the ability of a community to access, understand, analyze, evaluate, create, communicate, and use information and ideas effectively, whether in the form of writing, numbers, images, or other media. Simply put, community literacy is the collective ability of a community to read, write, calculate, and use information to solve problems, develop themselves, and actively participate in community life.

Community literacy plays a very important role in the development of a nation. Some of the reasons why community literacy is important are: Communities with high literacy tend to be more innovative, productive, and able to adapt to changing times. A literate society will be more active in social, political, and economic activities. Literacy allows individuals to obtain accurate and

relevant information, so that they can make better decisions for themselves and their families. Literacy helps communities to appreciate and preserve cultural diversity (Sinambela, K. A., & Mandai, S., 2023).

To improve community literacy, various efforts are needed, including: Improving the quality of education at all levels. Building libraries, providing internet facilities, and developing quality digital content. Holding various literacy programs, such as writing competitions, reading books, and skills training. Building cooperation between government, non-governmental organizations, the private sector, and the community to improve literacy.

Community literacy, especially financial literacy and sharia literacy, plays an important role in increasing understanding and interest in financial products, including sharia insurance. Good financial literacy allows individuals to understand the benefits and needs of sharia insurance protection, and make wiser decisions in choosing products that suit their needs.

Sharia Insurance

Understanding Sharia Insurance

Sharia insurance is a form of insurance that operates based on Islamic sharia principles. This product is designed to meet the protection and protection needs of the Muslim community, while still adhering to sharia rules that prohibit elements such as usury (interest), gharar (uncertainty), and maysir (speculation).

Based on the DSN MUI fatwa 21/DSN-MUI/X/2001 concerning General Guidelines for Sharia Insurance, the definition of sharia insurance is an effort to help each other and share among a number of people or parties through investment in the form of assets or tabarru which provides a return pattern to face certain risks using a contract in accordance with sharia.

According to the National Sharia Council, sharia insurance is an effort to protect and help each other among a number of people, where this is done through investment in the form of assets (tabarru) which provides a return pattern in facing certain risks through a contract (bond) in accordance with sharia principles (Akhtar, M.N., & Kaj Hussain, M., 2012).

Differences between Sharia Insurance and Conventional Insurance

Sharia insurance adopts the principle of sharing risk where participants help each other in facing risks. This concept is based on the tabarru' (mutual assistance) and mudarabah (profit sharing) contracts. The funds collected are managed transparently and the profits are shared with the participants. In contrast, conventional insurance uses the principle of transfer of risk where the participant's risk is transferred to the insurance company. The insurance company then

manages the funds and provides compensation if a risk occurs. Other key differences between the two:

- 1) Contract: Sharia insurance uses the hibah (gift) and mudarabah contracts, while conventional insurance uses the insurance contract.
- 2) Ownership of funds: Funds in sharia insurance are jointly owned by participants, while in conventional insurance they are owned by the insurance company.
- 3) Underwriting surplus: Sharia insurance has the concept of underwriting surplus, which is excess funds that can be distributed to participants.
- 4) Supervision: Sharia insurance is supervised by the Sharia Supervisory Board, while conventional insurance is supervised by the Financial Services Authority.
- 5) Prohibited transactions: Sharia insurance avoids transactions that are prohibited in Islam such as usury, gharar, and maisir.
- 6) Halal: All transactions in sharia insurance must be halal.
- 7) Forfeited funds: Sharia insurance does not recognize the concept of forfeited funds

Pillars of Sharia Insurance

The pillars of sharia insurance are elements that must be present and fulfilled so that a sharia insurance contract is considered valid according to sharia. Differences of opinion regarding the number and types of pillars of sharia insurance still occur among scholars. However, in general, there are several pillars that are often mentioned, namely:

- 1) Aqid: The parties involved in the insurance contract, namely the party that binds themselves in the contract (the guarantor) and the party that receives the bond (the guarantor).
- 2) Ma'qud: The object that is insured. This object must be clear, halal, and beneficial.
- 3) Ijab and Qabul: Statements of mutual acceptance between the two parties. Ijab is a statement from the party that binds themselves, while qabul is a statement of acceptance from the party that receives the bond.

Valid Conditions for Sharia Insurance Contracts

In addition to the pillars, there are several requirements that must be met for a sharia insurance contract to be valid, including:

- 1) Achievement of Object: The insured object must be achievable or occur.
- 2) Clarity of Benefits: The benefits to be received by the policyholder must be clear and certain.
- 3) Uncertainty of the Time of the Event: The time of the insured event must be uncertain.

- 4) Existence of Interest: Both parties must have an interest in the contract being made.
- 5) Existence of Tabarru' Fund: The existence of a tabarru' fund which is a joint fund to cover the risks of all insurance participants.
- 6) Permissibility of Object and Benefits: The insured object and the benefits received must be halal.
- 7) Mutual Agreement: Both parties must agree on all the contents of the contract.

Types of Sharia Insurance Products

Sharia insurance offers various types of products designed to meet the protection and protection needs of the Muslim community. Some of the main products in sharia insurance include:

- 1) Sharia Life Insurance: This product provides financial protection for heirs if the participant dies. This product can also be used to meet investment and savings needs.
- 2) Sharia Health Insurance: This product provides protection and coverage for medical and health care costs for insurance participants.
- 3) Sharia Personal Accident Insurance: This product provides protection against the risk of accidents that can cause injury or death.
- 4) Sharia Pension Fund Insurance: This product aims to provide financial protection for participants after entering retirement age.

Interest in Product Understanding

Interest in Product Understanding is a person's desire to know more about a product, be it a physical product or a service. This interest covers various aspects, from the features and benefits of the product, to how the product works. Interest in product understanding is very important for several reasons: By understanding the product in depth, consumers can choose the product that best suits their needs and preferences. Consumers who understand their products will find it easier to use the product and tend to be more satisfied. Consumers who feel informed and appreciated tend to be more loyal to a brand. Products that are well understood by consumers will be considered more valuable (Amin H. dan Chong, R., 2011).

In the context of sharia insurance, literacy is a concern in product selection. Sharia literacy refers to the understanding and knowledge of sharia principles in economic and financial activities. The more you know about sharia, the more likely you are to choose products and services that are in accordance with sharia principles, including sharia insurance products. Those who have sufficient knowledge of sharia will find it easier to recognize and understand its

uniqueness and benefits. Insurance products compared to traditional insurance. They understand that sharia insurance not only provides financial protection, but is also in line with the Islamic values and principles that they are committed to. This can influence their attitudes and perceptions towards sharia insurance products, which ultimately increases their interest in choosing these products.

Furthermore, sharia literacy can also influence subjective criteria in choosing sharia insurance products. People who have good sharia knowledge tend to live in a social environment that supports the application of sharia principles in economic and financial activities. This social environment can provide normative pressure to choose sharia insurance products that are in accordance with Islamic teachings. Therefore, it is very important to improve sharia knowledge among the Muslim community and increase interest and understanding of sharia insurance products. Various parties, including the government, sharia financial institutions, and educational institutions, must continue to carry out educational activities and socialization of sharia principles in economic and financial activities, including sharia insurance.

The Influence of Community Sharia Literacy on Understanding of Sharia Insurance Products

Sharia literacy is closely related to public understanding of sharia insurance products. Sharia literacy refers to the understanding and knowledge of sharia principles in economic and financial activities, including insurance. People who have good sharia knowledge are more likely to use sharia-compliant financial products and services, such as sharia insurance products.

Research conducted by Mr. Amin and Mr. Chong found that sharia knowledge has a positive impact on the intention to use sharia banking products and services. The study also showed that trust and knowledge of sharia principles affect people's interest in using sharia financial products and services (Amin, H., et al., 2011).

Another study conducted by Mr. Akhtar and Mr. Hussain analyzed the factors that influence the interest of Pakistani citizens in choosing sharia insurance products. The results of the study showed that sharia knowledge, trust in the sharia system, and awareness of the benefits of sharia insurance products have a positive impact on people's interest in choosing sharia insurance products (Akhtar, et al., 2012).

In the Indonesian context, Wiryaningsih et al. Their research investigated the influence of sharia knowledge and religiosity on people's interest in using sharia insurance products in Yogyakarta. The study found that sharia knowledge has a positive and significant effect on people's interest in using sharia insurance products. Furthermore, religiosity factors have a positive effect

on people's interest in using sharia insurance products (Wirdyaningsih, Bachtiar, Y., Ferdian, I.R. kaj Abubakar, S., 2017).

Overall, it can be analyzed that sharia knowledge has a positive effect on the interest in choosing sharia insurance products. Those who understand sharia will easily understand the uniqueness and advantages of sharia insurance products compared to traditional insurance. They know that sharia insurance not only provides financial protection but is also in line with sharia values and principles.

In addition, sharia knowledge can also influence individual perceptions and attitudes towards sharia insurance products. Those who understand that sharia insurance is based on sharia principles such as justice, solidarity and mutual cooperation will actively support this product. Ultimately, this increases interest and willingness to choose sharia insurance products. However, it should be emphasized that sharia knowledge is not the only factor that influences interest in choosing sharia insurance products. Other factors such as religion, belief in the Islamic system, benefits perceived from the product, advertising and education by sharia insurance companies, demographic and socio-economic factors also influence people's interest in sharia insurance.

Conclusion

The influence of community sharia literacy significantly affects knowledge in sharia insurance products. Sharia literacy includes an understanding of the concept, contract, and sharia insurance products that adhere to Islamic sharia principles. Good sharia literacy allows individuals to more easily recognize and understand the concept of sharia insurance, such as applicable contracts, profit sharing systems, and prohibitions on anti-sharia elements. Several studies have shown that the higher the level of sharia literacy, the higher the interest in using sharia insurance products. This is because sharia literacy can foster positive perceptions and attitudes and increase public trust in sharia financial institutions. However, sharia knowledge is not the only factor that influences interest in sharia insurance. Other factors such as religiosity, perception of benefits, promotion and training of sharia insurance companies, demographic and socio-economic factors also play a role. Therefore, the government, sharia financial institutions, and educational institutions must continue to strive to improve sharia literacy in the community so that the community can better understand the principles of sharia in business and finance. It is hoped that this will increase public interest and participation in the use of sharia insurance products.

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