

Progressiveness of Sharia Insurance as A Component of The Islamic Non-Bank Financial Industry in Indonesia

Sanurdi

Mataram Islamic State University, Mataram, Indonesian
sanurdi@uinmataram.ac.id

¹Rafiqah

Iskandar Muda University, Aceh, Indonesian
rafiqah_ahmad@yahoo.com

Hicham Ait Si Ali

President of Moroccan Center for Islamic Economics (MCIE), Morocco
aitsiali.hicham5@gmail.com

Fakhrurrazi

Langsa State Islamic Institute, Aceh, Indonesian
fakhrurrazi.ma123@gmail.com

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Abstract

The condition of sharia insurance in Indonesia shows limited development; it ranked fourth and only rose one rank from 2019 as the country with the highest number of operators in the world. The market share of sharia insurance, when compared to conventional insurance, reached 6% at the end of 2020. This study aims to analyze the development of sharia insurance in Indonesia through statistical data analysis of sharia insurance financial performance during the 2018–2022 period. This article is classified as literature research with a qualitative approach. The methodology used is a content analysis study. The results found that sharia insurance in Indonesia experienced asset growth of 3.53%, total gross contribution year-on-year of 16.38%, and continued to record investment results in the 2018–2022 range. The growth was dominated by the capital market sector and the banking sector, which experienced an increase.

Keyword: Sharia Insurance, IKNB, Indonesia

¹ Corresponding Author

Abstrak

Kondisi asuransi syariah di Indonesia menunjukkan perkembangan yang terbatas, berada di peringkat keempat, dan hanya naik satu peringkat dari tahun 2019 sebagai negara dengan jumlah operator terbanyak di dunia. Adapun pangsa pasar asuransi syariah jika dibandingkan dengan asuransi konvensional mencapai 6% pada akhir tahun 2020. Penelitian ini bertujuan untuk menganalisis perkembangan asuransi syariah di Indonesia melalui analisis data statistik kinerja keuangan asuransi syariah selama periode 2018-2022. Artikel ini tergolong dalam penelitian pustaka dengan pendekatan kualitatif. Metodologi yang digunakan adalah studi analisis konten. Hasil penelitian menemukan bahwa asuransi syariah di Indonesia mengalami pertumbuhan aset sebesar 3,53%, total kontribusi bruto secara year-on-year sebesar 16,38%, dan terus membukukan hasil investasi pada rentang 2018-2022. Pertumbuhan tersebut didominasi oleh sektor pasar modal dan sektor perbankan yang mengalami peningkatan.

Kata Kunci: Asuransi Syariah, IKNB, Indonesia

Introduction

In 2021, the Islamic Economic Literacy Index in Indonesia surged to 20.01%, marking a notable increase from the 2019 survey results, which recorded a figure of 16.28%. This represents a significant growth of 7% from the previous year. This surge suggests that, out of approximately every 100 Muslims in Indonesia, about 20 individuals possess a solid understanding of Islamic economics. According to data from KNEKS, the literacy index further rose to 23.3% in 2022. This upsurge primarily stems from a deeper comprehension of Islamic economic principles and values. The pace of development within the field of Islamic economics in Indonesia has been rapid since its introduction in 1992 (Bank Indonesia, 2021).

Indonesia's government engagement in Islamic economics commenced with the inception of the Islamic Economic Movement (GRES) in 2013. Subsequently, the establishment of the National Islamic Economic and Finance Committee (KNKS) was formalized via Presidential Decree No. 91 of 2021. This was further augmented by the introduction of the Islamic Economic Master Plan (MEKSI) for the period 2019-2024 (Deloitte, 2019). The core vision outlined in the Islamic Economic Master Plan (MEKSI) for the period 2019-2024 is aimed at achieving an independent, prosperous, and culturally advanced Indonesia, positioning the nation as a prominent global economic hub. A pivotal strategy outlined within MEKSI 2019-2024 involves enhancing the entire value chain of the halal industry within Indonesia. One of the key tactics to realize this vision is to foster the growth of the Islamic financial sector, ultimately paving the way for the establishment of the National Halal Fund. (KNKS, 2019).

The Islamic financial sector in Indonesia demonstrates immense potential, as evidenced by its total managed assets reaching 1,993.41 trillion, according to OJK data from 2021. Notably, the sector experienced a robust annual growth rate of 22.79% (YoY) until 2020, a trend projected to persist until 2023. This industry encompasses various components, including Islamic Banking, Islamic Non-Bank

Financial Institutions (INKB), and the Islamic Capital Market. In 2022, the assets of Islamic INKB reached 146.119 trillion, distributed among 121 Islamic units. These units include 15 Islamic Insurance Units, 9 Islamic Financing Institutions, 4 Pension Funds, 5 Special Islamic Financial Service Institutions, 81 Islamic Microfinance Institutions, and 7 Islamic Fintech Units, collectively contributing to the dynamic landscape of the Islamic financial sector in Indonesia (OJK, 2022).

Islamic insurance in Indonesia is regulated by Law No. 40 of 2014. The principles of Islamic insurance according to the law are based on mutual assistance and mutual sharing of risks (*ta'awun* and *ta'min*). To ensure compliance with Islamic principles and to avoid usury, uncertainty, and gambling, the implementation of Islamic insurance is regulated by MUI, including through Fatwa No. 21/DSN-MUI/X/2001 concerning General Guidelines for Islamic Insurance (Iska, 2016). The establishment of the first Islamic insurance company in Indonesia in 1994, PT Syarikat Takaful Indonesia (PT SITI), is supervised by OJK, including licensing, governance, ownership changes, mergers, and even dissolution, liquidation, and bankruptcy according to the latest revision of Law No. 40 of 2014 (Nur Kholis, 2021).

According to data released by Reuters IFDI, the Islamic insurance industry constitutes a mere 1% of the total insurance market, indicating its relatively small share (SeidRina & Primurdia, 2022). The development of Islamic insurance in Indonesia appears constrained, with limited progress observed. However, Indonesia has shown improvement in global rankings, climbing to fourth place in the Islamic Finance Development Report 2020, one rank higher than in 2019, boasting the highest number of operators worldwide (Bank Indonesia, 2021). By the end of 2020, the market share of Islamic insurance compared to conventional insurance stood at 6%. Despite the modest share, Islamic insurance demonstrated a year-on-year growth contribution of 3.83% in December 2020. Over the preceding five years, the assets of Islamic insurance experienced substantial growth, rising from IDR 33.24 trillion at the close of 2016 to IDR 44.44 trillion by the conclusion of 2020 (Ardianto, 2021).

Literature Review

The study of the progressivity of sharia insurance is not the latest phenomenon; many researchers have discussed and published it. Mohamad Nur Yasin, in a work entitled *"Progresifitas Formulasi Hukum Ekonomi Syariah Di Indonesia,"* has described very well how the development of economic law is experiencing dynamics in the archipelago (M. Nur, 2014). This paper both discusses the progressivity of economic issues in Indonesia; the difference is that if Muhammad Nur Yasin focuses on the formulation of economic law, the author focuses more on the discourse of sharia insurance.

Miftah Hanny Safira et al., in their publication entitled *"Potensi Perkembangan Asuransi Syariah di Indonesia,"* have discussed very measurably the opportunities and challenges of Islamic insurance in the midst of contestation against conventional insurance. The publication above concludes that the potential for the development of sharia insurance is very large, especially with supporting aspects such as the role of the government in ensuring the legality of the insurance

activity (Safira, 2021). This research has similarities with what the authors studied, especially in the context of sharia insurance in Indonesia. The difference is that if Miftah focuses on the variable 'potential', the author emphasizes the variable 'progressiveness' as its main core.

Afif Effendi, in his article entitled *"Asuransi Syariah Di Indonesia (Studi Tentang Peluang ke Depan Industri Asuransi Syariah)"*, has narrated very poignantly how Sharia Insurance has promising opportunities in the future. The reason is because Indonesia has an extraordinary number of Muslims, plus there is increasing public interest in saving (Effendi, 2016). This article has similarities with the author's study, especially in the dimension of the development of sharia insurance in Indonesia, which shows an increase. The difference is that if Afif Efendi's article describes an increase in the number of Muslim population factors, the author's article focuses more on presenting real figures from the increase in budget flowing into sharia insurance in Indonesia.

Inneke Wahyu Agustin, in a publication entitled *"Perbandingan Pengembangan Asuransi Syariah di Indonesia dan Malaysia (Analisis Aliran Mazhab Sejarah dan Law as a Tool of Social Engineering)"*, has revitalized how important sharia insurance is in two countries where both have similarities and are both dominated by Muslim populations (Agustin, 2020). The above publication has similarities with the author's article, especially in exploring the development of sharia insurance in Indonesia. The difference is that if Inneke conducts comparative studies and school analysis studies, the author focuses more on content studies.

Based on some of the literature review above and after in-depth exploration, as far as the author's analysis goes, no *sattu karrya* has been found that specifically and coherently examines the progressiveness of sharia insurance as the author did. This shows that the author's research contains authentic and original values. As for the novelty, this article aims to provide detailed information through a literature study and data analysis from financial institutions in Indonesia from 2018 to 2022.

Research method

The methodology employed in crafting this article involves library research. It draws upon pertinent literature reviews and analyses, encompassing not only theoretical literature but also incorporating data collection and empirical evidence (Syahza, 2021). The analytical approach utilized is the content analysis method. Data and information analysis adhere to the guidelines outlined by Miles and Huberman, which encompass data reduction through comprehensive summarization, systematic and straightforward data presentation, and the drawing of conclusions or verification (Nurohman, 2022).

Sharia Insurance and Types of Insurance Contracts

In Islamic literature, the specific concept of insurance, as commonly understood, is not explicitly found. In the Arabic language, insurance is referred to as *"at-ta'min,"* the insurer is called *"mu'ammin,"* and the insured is referred to as

"*mu'amman lahu*" or "*musta'min*." "*At-ta'min*" linguistically means the tranquility of the soul and the absence of fear. It signifies that individuals who participate in insurance activities will have peace of mind and no fear or worries in their lives because there is someone providing guarantees or coverage (Ali, 2011). As a reference for understanding Islamic insurance, the National Islamic Board of the Indonesian Ulama Council (DSN-MUI) issued Fatwa No. 21/DSN-MUI/X/2001, which provides general guidelines for Islamic insurance.

Islamic insurance (*ta'min*, *takaful*, *tadhamun*) is defined as mutual protection and cooperation among a group of individuals/parties through investments in assets and/or *tabarru'* (donations) that provide returns to address specific risks through contracts (*akad*) compliant with Islamic principles. Islamic insurance adheres to principles such as *ta'awun 'ala al-birr wa al-taqwa* (mutual cooperation in goodness and piety) and *al-ta'min* (security) (Tila et al., 2019). The concept of Islamic insurance within Islam has its roots in Arab culture prior to the era of Prophet Muhammad (peace be upon him), referred to as "*Aqilah*," signifying mutual support or familial responsibility. *Aqilah* was observed in situations involving the wrongful killing of a family member, where the victim's heirs would be compensated with *diyat* (compensation) from the closest relatives of the perpetrator. This tradition of *aqilah* garnered acceptance within the Islamic community and eventually became incorporated into Islamic jurisprudence (Puspitasari, 2011).

A contract, or *Aqd*, represents a mutual agreement between two parties, considered valid if it meets the fundamental elements of *al-Qaida*, *mahallul akad* (the subject matter of the contract), and *sighat akad* (the wording of the contract). The validity or invalidity of a contract in Islam holds significant implications concerning ownership rights over an object and the validity of actions associated with that object (Afdawaiza, 2008). Among the contracts utilized in Islamic insurance are *tabarru'*, *Mudharabah*, and *wakalah* contracts.

First, tabarru' Contract. *Tabarru'* constitutes a contract rooted in giving and assisting from one party to another. It forms a part of *tabaddul al-haq* (transfer of rights). Fundamentally, the *tabarru'* contract operates in a unidirectional manner without entailing any compensation, yet it embodies the core principle of mutual aid, with the insurance company serving as a fund manager. This contract is not exclusively geared towards commercial objectives (Makhrus, 2017). *Second, Tijarah Contract.* The *Tijarah* contract encompasses various forms of agreements conducted for commercial purposes. In the *Tijarah* (*Mudharabah*) contract, the insurance company assumes the role of the *mudarib* (fund manager), while the participant serves as the *shahibul mal* (policyholder). Premiums obtained from this contract can be invested, with the resulting profits shared among the participants (Sarina & Primurdia, 2022).

Third, wakalah bi Ujrah Contract. Etymologically, *wakalah*, deriving from the Arabic terms for protection, guardianship, assurance, delegation, and substitution, refers to a *Tijarah* contract authorizing an Islamic insurance company, Islamic Reinsurance company, or Islamic unit to act as a representative of the participants in managing the *Tabarru' Fund* and/or Participants' Investment Funds based on the delegated authority or power. This arrangement involves compensation in the form of a fee known as *ujrah*, in line with the authority

granted by all participants to the company. In exchange for their services, the insurance company receives a fee or *ujrah* (Jaih Mubarak, et, al., 2018). *Fourth, mudharabah Contract.* *Mudharabah* represents a *Tijarah* contract that empowers the Islamic insurance company, Islamic Reinsurance company, or Islamic unit as the *mudharib* (fund manager) to oversee the investment of the *Tabarru'* Fund and/or Participants' Investment Funds based on the granted authority or power. In exchange, a profit-sharing ratio (*nisbah*) is predetermined in advance (Jaih Mubarak, et, al., 2018).

Fifth, mudharabah musytarakah Contract. *Mudharabah musytarakah*, according to Fatwa No. 50/DSN-MUI/III/2006 by DSN-MUI regarding *mudharabah musytarakah*, is a *Mudharabah* contract where the capital provider participates in the investment collaboration. Thus, it can be seen as a development of the *Mudharabah* contract. The provisions are almost the same as the *Mudharabah* contract, with the difference lying in the participation of the *mudharib's* capital in the project, the *mudharib's* role as the *shahibul mal*, and the *mudharib* acting as both the first and second *shahibul mal*. This contract is also defined as a *tijarah* contract that authorizes the company as the *mudharib* to manage the investment of the *tabarru'* Fund and/or Participants' Investment Funds, combined with the company's wealth, according to the granted authority or power, in return for a profit-sharing ratio (*nisbah*) determined based on the composition of the combined wealth and agreed upon in advance Audit Board (BPK, 2010).

Non-Bank Islamic Financial Industry

The Islamic-based financial sector in Indonesia is bifurcated into two main sectors: the Islamic Banking Industry and the Non-Bank Islamic Financial Industry (IKNB). The Non-Bank Islamic Financial Industry (IKNB) comprises various institutions engaged in providing financial services but lacks full banking licenses, thereby precluding customer deposit withdrawals. While the IKNB sector faces competition, it also supplements the banking industry by offering alternative financial services required by the community, such as pension funds, insurance, venture capital, and others, all grounded in Islamic principles (Makhrus, 2017). According to the Financial Services Authority (OJK, 2022), IKNB Syariah encompasses activities related to the Islamic insurance industry, pension funds, Islamic financing institutions, specialized Islamic financial institutions, microfinance institutions, and Islamic Fintech.

The Non-Bank Islamic Financial Industry (IKNB) functions according to Islamic principles and avoids at least three elements: interest (*riba*), uncertainty (*gharar*), and gambling (*maysir*), which are deemed to contribute to instability and economic crises globally. Additionally, IKNB adopts the risk-sharing paradigm, which promotes prudence in the allocation of financing or investment activities. (Faza & Wibowo, 2019). The future prospects of the IKNB Islamic industry present significant opportunities within both the national and global Islamic financial sectors. While globally, the Islamic financial industry remains largely dominated by capital market products, particularly sukuk, Islamic banking products hold sway in Indonesia (Makhrus, 2017).

According to the Indonesian Islamic Financial Development Report 2021, the total Islamic financial assets in Indonesia reached IDR 2,050.44 trillion in 2021, with IKNB Islamic assets accounting for 5.90% of the total assets. In the same year, the total IKNB Islamic assets amounted to IDR 120.883 billion, experiencing a year-on-year growth rate of 3.90% (Faizah, 2022). In terms of market share, the contribution of IKNB Islamic to the national financial sector was 4.25%, smaller compared to Islamic banking, which reached 6.74%, and the Islamic capital market at 17.37%. The market share attributed to IKNB Islamic is derived from 59 Islamic insurance companies, 33 Islamic financing companies, 6 venture capital firms, 10 Islamic pension funds, and 105 other Islamic IKNB entities (Faizah, 2022).

The high growth of both conventional and Islamic-based IKNB is expected to contribute significantly to Indonesia's economic growth. Various studies on the role of IKNB include research by Faza & Wibowo (2019), which examines the contribution of the Conventional Non-Bank Financial Industry (IKNB) and the Islamic Non-Bank Financial Industry (IKNB) to Indonesia's economic growth and finds a causal relationship between the two sectors. They also found that IKNB Islamic is more resilient to economic growth shocks compared to conventional IKNB. Research by Trimulato (2022) titled *"Development of the Non-Bank Financial Industry and Service Excellence Innovation during the Covid-19 Pandemic"* demonstrates the positive performance of IKNB through the increase in assets of several Islamic IKNB institutions. Another research by Trimulato & Mustamin (2022) titled *"The Role of the Non-Bank Financial Industry in Supporting SMEs"* found that IKNB plays a positive role in supporting the halal industry, providing protection, working capital, and Islamic collateral financing.

Islamic Insurance Progression within Indonesia's INKB: 2018-2022

The Islamic Non-Bank Financial Industry (INKB Syariah) operates in accordance with Islamic principles, abstaining from involvement in gharar, riba, and maysir. It encompasses the insurance sector, pension funds, financing institutions, and other financial entities (Faza & Wibowo, 2019). According to statistical data from the OJK, as of December 2022, the total assets of INKB Syariah amounted to 146.119 trillion, marking a 10.81% year-on-year (yoy) growth. This figure represents only approximately 4.5% of the total assets within the INKB, which stood at 3,081.30 trillion (OJK, 2022).

The market share of INKB Syariah decreased from 4.19% to 3.99% in 2021 compared to the total assets of INKB in the previous year. This decline was attributed to the slower growth of INKB Syariah assets, influenced by the Covid-19 pandemic. Despite the decrease in market share, INKB Syariah continued to experience growth. Over the past 5 years, the average growth rate of INKB Syariah assets has been recorded at 5.02% per year. This growth is influenced, among other factors, by the addition of new entities in the INKB Syariah industry. The composition of INKB Syariah assets is dominated by the assets of Special Islamic Financial Institutions, totaling IDR 44,174.80 billion (36.63%), followed by Islamic insurance assets amounting to IDR 43,143.88 billion (35.77%), and Islamic Financing Institutions assets of IDR 23,526.93 billion (14.09%) (OJK, 2022).

One of the sectors within INKB Syariah that has performed remarkably well is the Islamic insurance industry. Referring to data from the Association of Islamic Insurance in Indonesia in 2022, the Islamic insurance industry has achieved a gross contribution of 27.57 trillion, marking a 16.38% year-on-year growth compared to the fourth quarter of December 2021. In terms of assets, Islamic insurance has recorded an increase of 3.53% compared to the same period in the fourth quarter (Q4) of 2021. The total assets held by Islamic Insurance until December 2022 amounted to 45.025 trillion. This value is derived from Islamic life insurance of 34.891 trillion, equivalent to 77.49%; Islamic general insurance of 7.728 trillion, equivalent to 17.16%; and Islamic reinsurance of 2.406 trillion, equivalent to 5.34% (AASI, 2022). In detail, here is the growth of Islamic insurance assets over the past 5 years.

Industry Type	2018	2019	2020	2021	2022	Growth 2018- 2022
	(Billion IDR)	(Billion IDR)	(Billion IDR)	(Billion IDR)	Billion IDR	(Billion IDR)
Islamic Life Insurance Company	34.276	37.487	36.317	34.970	34.891	1,79%
Islamic General Insurance Company	5.459	5.903	6.014	6.616	7.728	41,56%
Islamic Insurance Company	1.864	2.063	2.109	1.964	2.406	29,08%
Total Assets	41.599	45.453	44.440	43.550	45.025	8,24%

Table 1: Development of Islamic Insurance Assets 2018-2021

Source: IKNB Statistics 2021 and AASI Quarter 4/2022

Industry Type	2018-2019	2019-2020	2020-2021	2021-2022	5 the Year 2018- 2022
Islamic Life Insurance Company	10,535%	-4,542%	-4,294%	0,803%	1,794%
Islamic General Insurance Company	6,558%	3,473%	8,988%	17,805%	41,564%
Islamic Re-insurance Company	12,178%	0,335%	-6,053%	22,070%	29,077%
Percentage of assets	10,087%	-3,302%	-2,572%	4,360%	8,236%

Table 2: Year-on-Year Percentage Sharia Insurance Assets 2018-2021

Source: IKNB Statistics 2021 and AASI Quarter 4/2022

The growth of Islamic insurance assets from 2019 to 2021 experienced a decline, followed by Islamic reinsurance, which also saw a decrease in asset growth during the same period but showed an increase in 2022. In 2021, the total assets of Islamic insurance decreased by 2.572%. This is indicated by the decline in assets in each sub-sector, with a decrease of 4.294% in Islamic life insurance and 6.053% in Islamic reinsurance. Based on the above data, although the gross asset growth of Islamic insurance claimed to have increased over the past 5 years, when observed year by year, Islamic insurance did not experience significant asset growth, and it can even be said to have experienced stagnation. According to (SeidRina, 2023), the slowdown in Islamic insurance growth can be attributed to several factors, including the limited types of Islamic insurance products leading to a decrease in premiums, business cycle conditions resulting in decreased purchasing power, and the performance of investment assets and Islamic investment instruments in Indonesia that are not competitive enough.

The government is actively promoting the growth of insurance companies by enforcing regulations stipulating that Islamic units with assets surpassing 50% of the parent company's assets must undergo spin-off. As per Law No. 40 of 2014 concerning insurance, these regulations dictate that parent companies housing Islamic Units (UUS) and Islamic reinsurance with assets reaching 50% must initiate a spin-off within a decade of the enactment of the regulation in 2014. The objective behind this spin-off is to strengthen assets, enabling the institution or UUS to make a more substantial contribution to the financial industry and the national economy (OJK, 2016).

According to research conducted by (Yustiani et al., 2022) on spin-off criteria evaluation, it has been projected that by 2024, none of the 44 Islamic business units sampled will meet the requirement of reaching 50% of the parent company's assets. This discrepancy is attributed to the disparity in scale between the contributions of UUS funds and those of the parent company. This finding corresponds with the conclusions drawn from the study conducted by (Arianty & Ghoni, 2023) titled; *"Selection of Implementation Model for Spin-off of Islamic Insurance Business Units in Indonesia using the AHP model,"* which suggests that UUS currently lack the capacity for spin-off, despite the regulation stipulating its implementation by 2024. Given this scenario, it is anticipated that the government will conduct an evaluation of the regulation to further bolster the development of Islamic insurance in the future.

Financial Performance of Islamic Insurance in Indonesia: 2018-2022

Based on data from the Financial Services Authority (OJK, 2022) as of December 31, 2021, the count of Islamic insurance and reinsurance firms totaled 58 companies. This comprised 13 pure Islamic insurance firms, 1 pure Islamic reinsurance firm, 42 insurance firms with Islamic units, and 3 reinsurance firms with Islamic units. A company's financial well-being is often gauged by the growth in its assets, both year-on-year and over a defined period.

The growth of assets within Islamic insurance firms is driven by both premium income and investment returns. Premium income originates from *tabarru'* payments made by each participant of Islamic insurance to the company,

as stipulated in the contractual agreement. These *tabarru'* funds received are then invested in adherence to Islamic principles. The fluctuating trend in asset growth over the past five years, as depicted in Table 1 above, is evident across the three components of Islamic insurance in Indonesia: Islamic life insurance, Islamic general insurance, and Islamic reinsurance. Such fluctuations are influenced by a myriad of factors, encompassing both macroeconomic and microeconomic considerations.

According to OJK data (2022), Islamic insurance assets in 2021 saw a decrease of 2.57% compared to the previous year, declining from IDR44.44 trillion to IDR43.55 trillion. This decline in the industry's assets is primarily attributed to reduced investments and investment returns of the companies. As per Mayasari (2021), the Indonesian Islamic Insurance Association (AASI) reported a 12.08% year-on-year decrease in the gross contribution income of the Islamic general insurance industry throughout 2020, amounting to IDR182 billion compared to the previous year's IDR207 billion. This decline in contribution income can be attributed to the global COVID-19 pandemic. For a comprehensive assessment of the overall financial performance of Islamic insurance, the Islamic insurance performance table below serves as a reference.

Information	2018	2019	2020	2021	2022
Gross contribution	15369	16704	17345	23691	27571
Gross Claims	7583	10605	12921	20091	20043
Investment	36969	39846	37338	35603	36489
Return on investment	666	2193	656	574	1195
Assets	41915	45453	44440	43550	45025

Table 3: Financial Performance of Islamic Insurance for the 2018-2022. Period (Billion IDR)
Source: IKNB Sharia Statistics 2019-2022

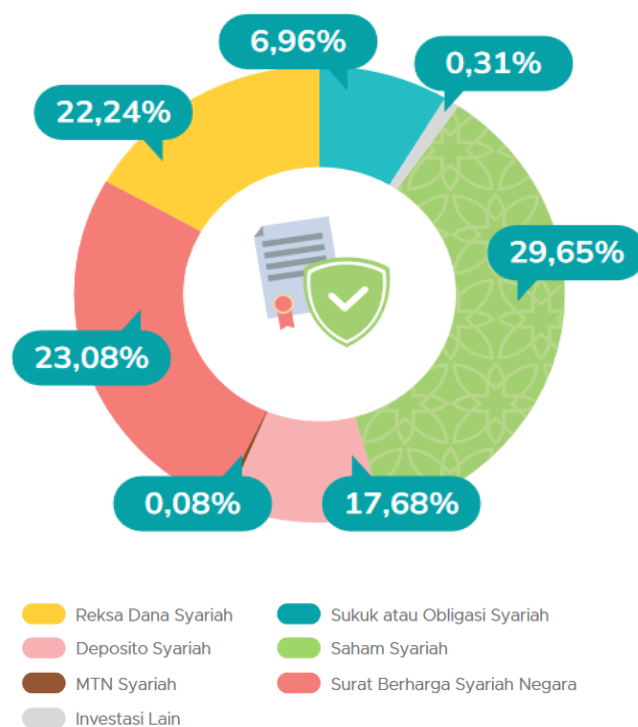
In 2020, the gross contribution of the insurance industry amounted to IDR17.35 trillion, marking a 3.84% increase from the gross contribution of IDR16.7 trillion in 2019. This contribution represented 5.9% of the total gross contribution of insurance and reinsurance companies. The gross contribution of the Islamic insurance industry has demonstrated consistent growth year by year, evidenced by a substantial increase of 36.58% in 2021 and 16.38% in 2022. Conversely, the gross claims of the insurance industry surged by over 50% in 2021, specifically by 55.49% compared to 2020, rising from IDR12.921 trillion to IDR20.091 trillion. This accounted for 5.9% of the total gross claims of insurance and reinsurance companies in 2020. In 2022, with the economy in recovery mode, the gross claims have stabilized, bolstered by positive growth in gross contributions.

In 2021, the predominant portion of assets in Islamic Life Insurance originated from participants' investment funds, whereas in Islamic General Insurance, the primary assets were sourced from the company's funds. Conversely,

in Islamic Reinsurance, the largest assets were derived from tabarru' funds. The investment of Islamic Insurance and Reinsurance companies saw a decline of 4.65% compared to the previous year, decreasing from IDR37.245 trillion to IDR35.511 trillion. This decrease in investment value can be attributed to a 6.62% decline in the investment value of Islamic Life Insurance companies, while the investment value of Islamic General Insurance and Reinsurance witnessed a 6.25% increase (AASI, 2022).

In 2021, the bulk of Islamic Insurance investments was allocated to Islamic Stocks, totaling IDR10.530 trillion, followed by Islamic Government Securities (SBSN) with IDR8.194 trillion. Additionally, considerable investments were made in placement in Islamic Mutual Funds amounting to IDR7.896 trillion, Islamic Deposits totaling IDR6.276 trillion, and Islamic Sukuk or Bonds with IDR2.473 trillion. Furthermore, other investments amounted to IDR109.94 billion, while investments in Islamic Medium-Term Notes (MTN) stood at IDR29.91 billion (OJK, 2022a).

Image: Islamic Insurance Investment Distribution



Source: IKNB Syariah Statistics 2019-2022

In 2021, the investment income of Islamic Insurance witnessed a decrease compared to the previous year, declining from IDR733.45 billion to IDR581.71 billion. This decrease in investment income was primarily driven by Islamic General Insurance and Reinsurance, which experienced a decrease of IDR93.18 billion. Additionally, the investment yield of Islamic Insurance decreased from 1.90% to 1.60%. This trend was largely influenced by deteriorating economic conditions due to the impact of the Covid-19 pandemic (OJK, 2022). Furthermore, a

study conducted by Al-Sakinah (2022) titled; *"Development of Islamic Insurance in Indonesia during the Covid-19 Pandemic"* concluded that Islamic insurance faced obstacles such as declining assets and an increase in gross contributions. According to the Financial Services Authority (OJK) report (2021), payments of claims and benefits in Islamic insurance surged by 54.96% compared to the previous year, rising from IDR13.084 trillion to IDR20.275 trillion. Meanwhile, the gross contribution of Islamic insurance increased by 36.23% from IDR17.518 trillion to IDR23.865 trillion.

These findings align with the conclusions drawn from a study conducted by Warto and Khumaini (2022) titled; *"Analysis of Investment Results of Islamic Life Funds in Indonesia for the Period 2014-2021,"* which indicated that the total investment value during that period amounted to only IDR2.485 trillion or 1%. The study recommended that Islamic Life Insurance explore alternative financing sectors beyond the capital market. As indicated in the AASI Quarterly Report IV of December 2022, the proportion of Islamic investments until Q4 2022 was 79.47% in the capital market, 20.20% in the banking sector, and 0.33% in other sectors. According to research conducted by Z. Nasution (2019), higher investment returns attained by companies can serve as a positive indicator for future performance.

Hence, the optimal strategy involves diversifying investments among Islamic insurance companies. Rahman's study (2023) suggested that increasing Islamic insurance assets through maximizing asset diversification remains achievable with government support. The government can enhance the optimization of Islamic insurance by integrating it as an underlying asset for Islamic Government Securities (SBSN) projects aimed at financing various sectors such as infrastructure, transportation, health, education, and project risk protection. Additionally, the government is urged to create opportunities for Islamic insurance to expand its surety bond line, encompassing bid guarantees, advance payment guarantees, maintenance guarantees, and bank guarantees for kafalah (project) guarantees.

According to data from the Financial Services Authority (OJK) referenced from the AASI publication (2022), the largest portion of Islamic insurance investments is allocated to Islamic stocks, totaling IDR10.618 trillion, followed by Islamic Government Securities (SBSN) with IDR8.961 trillion, deposits with IDR7.166 trillion, Islamic mutual funds with IDR6.883 trillion, sukuk with IDR3.211 trillion, and other investment instruments with IDR125 billion. Analyzing the month-to-month (MoM) growth data for September-October 2022, the investment income of Islamic insurance exhibited a growth of 15.44%, with three instances of decline occurring in May, June, and August 2022. The peak investment data was recorded in 2019, amounting to IDR39.268 trillion, but experienced a significant decline in 2020 by 11.44% or IDR34.774 trillion due to the impact of the COVID-19 pandemic.

Emergence and Growth Trends of Islamic Insurance in Indonesia: Post-Pandemic Economic Resilience and Future Prospects

Islamic insurance in Indonesia thrives on the vast potential of its Muslim populace, constituting 85% of the total population, approximately 235 million individuals. The robust growth of Islamic insurance in the country stems from the

enthusiastic response of the predominantly Muslim population towards this financial avenue. Following the COVID-19 pandemic, Islamic insurance assets saw a notable growth in October 2022, rising by 9.68% compared to October 2021. Islamic insurance assets amounted to IDR 43.593 billion in October 2021, which surged to IDR 45.189 billion in October 2022, reflecting the economic recovery post-pandemic. The growth was predominantly driven by Islamic Life Insurance, witnessing a significant increase of 78% or IDR 35.358 billion. Additionally, Islamic General Insurance experienced a 17% increase amounting to IDR 7.527 billion, while Islamic Reinsurance saw a 5% increase or IDR 2.304 billion.

Over the past five years, from 2018 to December 2022, the total gross contribution of Islamic life insurance companies has surged by 79.39%. Furthermore, on a year-on-year basis, Islamic insurance demonstrated a remarkable gross contribution growth of 16.37% in 2022 compared to the corresponding quarter of the previous year. Despite this, in 2022, Islamic insurance reported a gross claim of IDR 20.043 trillion, which remained nearly unchanged or slightly lower than the previous year's figure of IDR 20.043 trillion in 2021. This underscores the substantial potential for further development in Islamic insurance, particularly in asset expansion. The resilience of Islamic insurance as a protective institution rooted in Islamic principles was tested during the challenging period of the COVID-19 pandemic in 2020-2021. Despite facing difficulties during this time, with recorded assets of IDR 44.44 trillion in 2020 and IDR 43.550 trillion in 2021, Islamic insurance swiftly rebounded in 2022, registering a 3.39% year-on-year growth. This resilience validates Islamic insurance as a financially stable institution capable of allocating funds and mitigating shocks to safeguard both the real sector and the financial system.

Between 2020 and 2021, Islamic insurance encountered significant challenges. According to IKNB Islamic statistics, despite achieving consecutive gross contributions of IDR 17.34 trillion in 2020 and IDR 23.691 trillion in 2021, Islamic insurance also faced escalating gross claims. In 2020, gross claims amounted to IDR 12.921 trillion, marking a notable 21.84% increase, while 2021 witnessed the highest surge in gross claims, reaching IDR 20.091 trillion, a substantial 55.49% rise compared to the previous year. Nonetheless, Islamic insurance demonstrated resilience amid the global economic recovery post-pandemic. Notably, in 2022, there was a notable 16.38% increase in gross contributions, with gross claims remaining almost unchanged from the previous year at IDR 20.043 trillion.

This trend underscores the growing awareness among post-pandemic Indonesian society of Islamic-based protection services. The uptick in assets and gross contributions reflects the increasing acceptance of Islamic-based products among the predominantly Muslim population in Indonesia. This reaffirms the strength of the Islamic insurance system in efficiently allocating funds and managing risks. These principles align with Islamic insurance's core tenets of *ta'awun 'ala al-birr wa al-taqwa* (mutual cooperation in goodness and piety) and *al-ta'min* (security). Through mutual cooperation, individuals and parties invest in assets and/or *tabarru'* (donation), ensuring a return pattern to address specific risks through contracts compliant with Islamic principles such as *tijarah* (trade) and *tabarru'*. In this capacity, Islamic insurance institutions serve as

intermediaries, overseeing and safeguarding the management of *tabarru'* financial resources.

The key indicators of Islamic insurance development in Indonesia, gauged through company financial data, include the size of investment funds and recorded investment returns. Over the past five years, spanning from 2018 to 2022, Islamic insurance has consistently delivered positive investment returns, even amidst the COVID-19 period when asset numbers dwindled while gross claims surged. In 2022, Islamic insurance reported an investment return of IDR 1,195 billion, marking a notable 108.19% increase compared to 2021. The total investment funds of Islamic insurance in 2022 reached IDR 36.489 trillion, reflecting a 2.49% increase compared to the previous year's figure of IDR 35.603 trillion. According to data from AASI (2022), this growth composition was predominantly driven by the capital market sector, witnessing an impressive 80% increase equating to IDR 29.191 billion. Additionally, the banking sector saw a 19% increase or IDR 6.933 billion, while other investment instruments experienced a marginal 1% growth, amounting to IDR 365 billion. These trends underscore the effectiveness of mechanisms for management, fund allocation, and risk management within Islamic insurance, facilitating the comprehensive growth of the sector.

Conclusion

The growth of Islamic insurance in Indonesia has demonstrated a relatively strong and consistent trajectory. This assertion finds support in the Q4 asset development data, which reveals a notable 3.53% year-on-year increase in Islamic insurance assets, coupled with a substantial total growth in gross contributions amounting to 16.38%. Over the past five years, data from IKNB Islamic indicates that Islamic insurance has consistently delivered positive investment returns, even amidst the challenges posed by the COVID-19 pandemic. In 2022, Islamic insurance reported an impressive investment return of IDR 1.195 billion, marking a remarkable 108.19% increase compared to 2021. Additionally, the investment funds of Islamic insurance surged to IDR 36.489 trillion in 2022, reflecting a solid 2.49% increase compared to the previous year's figure of IDR 35.603 trillion. Notably, the growth was primarily driven by the capital market sector, which experienced a significant 80% increase, amounting to IDR 29.191 billion.

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