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ISLAMIC INSURANCE IN INDONESIA: OPPORTUNITIES AND CHALLENGES ON DEVELOPING THE INDUSTRY

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ABSTRACT

Islamic insurance is a minor industry compared with other Islamic financial institutions in Indonesia. However, it has enormous potential to grow together with its challenges. This study aims to analyze the opportunities and challenges of the Islamic insurance industry in Indonesia. This research uses a qualitative methodology to describe the nature of reality. The result summarizes that the possibilities are: domino effect from Halal Value Chain and other development of government-owned enterprises; digitalization in Islamic Finance; and potential market of micro takaful. The challenges are needing a set regulatory framework as a catalyst to force supply and demand; market penetration is low, issues of Islamization insurance and the inadequate development of Islamic insurance products, limited retakaful company and qard hassan fund issue in retakaful.

Keywords: challenges, Islamic insurance, sharia insurance, takaful, opportunities

INTRODUCTION

Islamic insurance has developed in Indonesia for more than two decades. The birth of PT Asuransi Takaful Indonesia is the mark of Islamic insurance in Indonesia. PT Asuransi Takaful Keluarga

was established on August 25, 1994 and was inaugurated through the Decree of the Minister of Finance Number Kep-385/KMK.017/1994 (Ajib, 2019). The establishment was in line with the emergence of Islamic finance in the 90s and the successful establishment of the first Islamic bank, Bank Muamalat Indonesia, in 1992. Insurance itself has existed in Indonesia since the colonial period. Islamic insurance, also known as takaful, is insurance with Islamic principles. Islamic insurance is mutual agreement and focuses on the value of solidarity and common benefits among society (Hassan, 2019).

Table 1. The Growth of Islamic Insurance Industries 2015-2021

Description	2015	2016	2017	2018	2019	2020	Oct2021
Full-Fledged							
Life Insurance	5	6	7	7	7	7	7
General Insurance	3	4	5	5	5	5	6
Reinsurance	0	1	1	1	1	1	1
Islamic Window							
Life Insurance	19	21	23	23	23	23	23
General Insurance	24	24	25	24	24	21	20
Reinsurance	3	2	2	2	2	3	3

Source: (Indonesia Financial Services Authority, 2019; Indonesia Financial Services Authority, 2021)

The growth of Islamic Insurance has been significant and relatively stable since its establishment in 1994. It can be seen from the number of Islamic insurance operators, as shown in Table 1. As of October 2020, there are seven full-fledged Islamic life insurance operators and twenty-three Islamic life insurance windows operators. While for Islamic general insurance, there are six full-fledged Islamic Insurance operators and twenty Islamic insurance windows operators. In terms of operational, the Islamic insurance operators are supported by three Islamic reinsurance companies that insist on one full-fledged and two Islamic window reinsurance. The composition of general insurance and life insurance are almost the same. Neither general insurance nor life insurance is dominating.

The global Islamic insurance market is projected to grow at a compounded annual growth rate (CAGR) around 11 percentage during the forecast period of 2021-2026 (IMARC Group, 2021). Meanwhile, in Indonesia, by 2020, the market share of Islamic insurance toward Non-Bank Financial Institution (NBFI) is only 3.5 percentage, whereas NBFI's market share is 4.61 percentage contribute toward national (Indonesia Financial Services Authority, 2021). Islamic insurance does not provide significant growth to the Islamic finance industry even globally. The primary market of the Islamic finance industry is banking, Sukuk, Islamic insurance, and Islamic funds. Among all the markets, banking and Sukuk are the two main markets.

Based on the Indonesia Sharia Financial Development Report 2020 (Indonesia Financial Services Authority, 2021), the total asset of Islamic insurance is 44.44 trillion Rupiah. This number is minor compared with other Islamic finance industries. The total asset of full-fledged Islamic banks is 397.07 trillion Rupiah; the total asset of Islamic window bank is 196.88 trillion Rupiah; the Government Sukuk (Islamic bond) is 971.50 trillion Rupiah, and Islamic mutual fund is 74.37 trillion Rupiah. However, the Islamic insurance industry still has enormous potential for further enhancements. Indonesia has a large population and the largest Muslim population, but assets are still low. On the other hand, several challenges are facing the Islamic insurance industry to grow bigger and compete, both with conventional insurance and other Islamic finance industries.

Maksum (2011) mentioned that the main challenges faced by Islamic insurance in Indonesia are regulations that do not specifically address Islamic insurance activities and lack understanding of the concept of Islamic insurance by regulators, companies, and the Sharia Supervisory Board. This research was conducted before Act number 40 of 2014, so data is no longer updated. Some issues have already been solved by Act number 40 of 2014. Then, this research is extended version by counting Act number 40 of 2014. Dikko (2014) highlights that although there are some questions about shariah compliance in terms of

framework and operation, Islamic insurance is still an alternative for Muslims rather than conventional insurance. However, it did not mention the area of the study—meanwhile, this study focuses on applying for Islamic insurance in Indonesia.

Hassan (2019) also analyzed the Takaful mechanism and development progression of its procedures. It is essential to face challenges in Islamic insurance. Then, Husin (2019) deliberates the challenges of the Islamic insurance business in Malaysia; lacking awareness, low penetration rate, inadequate technology capabilities, and shortage of talent. The area of the research is different—the result of this research is a comparative study between Indonesia and Malaysia. Later, Al Arif & Firmansyah (2021) researched Islamic insurance regarding a relationship between market structure and profitability in the Indonesian Islamic insurance industry. It indicates that the more concentrated the industry, the higher the level of profitability. It means that the industry is not in perfect market competition. The high concentration of the industry shows that the number of operators is lower than the number of buyers. It indicates there is room for opportunities. However, based on Act No.40 of 2014, Article 87, the government encourages the Islamic insurance or reinsurance windows business to spin-off from their parent company. This statement implies that the operators might be a merger or have closed their business. Therefore, the challenge is that Islamic insurance operators will be reduced.

Besides that, there are some researches that analyze the challenges and opportunities in Islamic insurance in Indonesia (Efendi, 2016; Jannah & Nugroho, 2019; Ramadhani, 2015), but the discussion is not well-defined and only enhances the concept of Islamic insurance. The issues of this study are regulatory framework, market penetration, product development, digitalization issues, *retakaful*, micro-*takaful* and impact other Islamic finance instruments toward the Islamic insurance industry. Therefore, this study aims to analyze the opportunities and challenges of the Islamic insurance industry in Indonesia. For the public, this research as insights and literacy of takaful as protection instrument to achieving long-term sustainability financial

protection. Then, this research would help the policymakers to strengthen the regulatory framework for Islamic insurance. It will also help Islamic insurance operators comprehend challenges and improvements to develop strategies to promote Islamic insurance in Indonesia.

LITERATURE REVIEW

Definition of Islamic Insurance

Islamic insurance is also known as takaful. Takaful is generated from the root of the word kafl, that means guarantee or responsibility and technically means cooperative insurance against a well-defined expected loss affecting one's life, property, or other possession of value (Billah, Ghlamallah, & Alexakis, 2019). Takaful is derived from arabic word that means guaranteeing each other, meaning that contract parties are support each other when any of the suffers a loss (Bekkin, 2007). The Takaful insurance focuses on the value of solifromty and common benefits among others (Hassan, 2019).

The takaful model is derived from the concept of *taawun* that means helping each other or mutual assistance; the risk being borne among the participants (Abdullah, 2012). According to the Fatwa of the National Sharia Council (DSN) of the Indonesian Ulema Council (MUI), Islamic insurance comes from the words *ta'min, takaful,* or *tadhamun*, which means an effort to protect and help each other between several parties through investment in the form of assets and or *tabarru'* that provide a pattern of returns to face certain risks through a contract (engagement) that is under sharia compliance. A contract that is used means one that does not contain *gharar* (fraud), *maysir* (gambling), *usury*, *zhulm* (persecution), *risywah* (bribery), *haram* (illicit) goods and immorality.

Based on Act Number 40 of 2014, defining Islamic Insurance as a collection of agreements consisting of the agreement between the Islamic insurance company and Policyholders and the agreement between the policyholders in managing contributions based on sharia principles to help and protect each other in two ways. First, providing reimbursement of policyholders due to

losses, damages, costs incurred, loss of profits, or legal liability to third parties that participants or policyholders may suffer due to the occurrence of an uncertain event. Second, providing payments based on the participant's death or payments based on the participant's life with benefits whose amount has been determined and or based on the results of fund management.

Validity of Islamic Insurance

The concept of insurance is consist of risk management and protection. Insurance companies provide protection against financial loss caused by defined unexpected event. Therefore, the main activity in insurance is transfer of risk from policyholder to insurance company. However, Kassim (2012) highlights the main differences between conventional insurance and Islamic insurance. First, there is no transfer of risk between policyholders and company. The insurance risk is shared between policyholders. Second, the parties is attach under Islamic contract (akad) such as wakala (agency) or mudharabah (partnership). Third, Shariah Advisory Board must accept the process, including issue a fatwa regarding the operational. Fourth, the business must sharia compliance through annual sharia review or sharia audit.

Fatwa of DSN-MUI Number 21/DSN-MUI/X/2001 remarks about the agreement in Islamic insurance: first, the contract that is bidding policyholders and operator are tijarah and *tabarru'* ; second, what is meant by tijarah contract is mudharabah, and *tabarru'* is hibah (grant). Furthermore, the financial contribution paid by the policyholder will classify into two funds: one is an investment fund according to the principles of mudharabah (profit and loss sharing), while the other is pooled according to the principles of *tabarru'*. The implication of mudharabah is Islamic insurance acts as mudharib (manager) that contributes its work and policyholders acts as shahibul maal (owner of the fund) that contributes its capital (Husin, 2019; Bekkin, 2007). In a mudharabah models of Takaful, amounts paid by the participants and the investment incomes are used to pay the claim, reinsurance cost and other claims-related expenses from the general insurance fund (Puspitasari, 2015). Meanwhile, *tabarru'* is a paid

contribution in favor of helping other participants who suffer loss (Billah, Ghlamallah, & Alexakis, 2019). *Tabarru'* is essential in Islamic insurance because it promotes joint guarantees by supporting other beneficiaries.

Besides that, there are supporting contract that is binding in Islamic insurance. First, wakalah is a management contract where the policyholders give the authority to an operator to manage the fund on their behalf as wakil (agent) (Dikko, 2014; Husin, 2019). In Indonesia, the model reform as wakalah bil ujrah, an agency relationship with providing fee (ujrah) (Puspitasari, 2015). Fatwa on the application wakalah bil ujrah stated in the DSN-MUI fatwa Number 52/DSN-MUI/III/2006. Second, mudharabah musharakah, as mentioned on OJK Regulation Number 69 / POJK.05/2016, is a tijarah contract that authorizes the Islamic insurance operator as mudharib (fund manager) to manage the *Tabarru'* Fund investment and or Investment Fund and combined with the operator's assets, in exchange for profit sharing (ratio) the amount of which is determined in advance.

Overview of Islamic Insurance Industry in Indonesia

The Islamic insurance industry in Indonesia comprises life insurance, general insurance, and reinsurance. As of October 2021, as seen in Table 1, the total number of companies in the Islamic insurance industry is fifty-nine. The number of Islamic life insurance is thirty; Islamic general insurance is twenty-six, and Islamic reinsurance is three. In 2020, Indonesia's Islamic financial assets growing by 22.71 percentage (year-on-year) to 1,801.40 trillion Rupiah from the previous year of 1,468.07 trillion Rupiah (Indonesia Financial Services Authority, 2021). However, in the Islamic insurance industry, total assets decreased by 2.23 percentage (y-o-y) from 45.80 trillion Rupiah to 44.44 trillion Rupiah, as seen in Table 2. Industry's assets influenced by the growth of the company's contribution and investment development. The decline in assets in 2020 was affected by a 6.29 percent decline in investment. Before 2020, the growing number of assets in the Islamic insurance industry increased every year. Similarly, the number of investments steadily increased year by

year since 2015. But, the investment number dropped in 2020 because of the COVID-19 pandemic. It, directly and indirectly, contributed to financial industry performance in general. In the Islamic insurance cases, The Islamic insurance investment portfolio is dominated by investment in the capital market. Therefore, a decline in the performance of the capital market affected the performance of Islamic insurance investment. On the other hand, the total gross contribution increased by 3.84 percentage in 2020. The total gross contribution is expanding every year from 2015 until 2020.

Table 2. Assest, Investments, and Gross Contribution of Islamic Insurance in Indonesia 2015-2020 in Trillion Rupiah

Description	2015	2016	2017	2018	2019	2020
Assets	26.69	33.12	40.53	41.60	45.80	44.44
Investment	23.11	28.55	35.44	36.97	39.89	37.39
Gross contribution	10.23	12.31	13.74	15.41	16.75	17.35

Souce: (Indonesia Financial Services Authority, 2019; Indonesia Financial Services Authority, 2021)

METHODS

This research uses a qualitative methodology. A qualitative methodology describes phenomena and objects in the narrative (Anggito & Setiawan, 2018). The qualitative methodology is not experimental research and emphasizes the nature of reality together with its situational obstruction (Denzin & Lincoln, 2011). Because of that, it is suitable for this research. This research is an exploratory study to identify challenges and opportunities in Islamic insurance through a regulatory framework, market penetration, product development, digitalization issues, retakaful, micro-takaful, and impact other Islamic finance instruments toward the Islamic insurance industry. The data was collected from Financial Service Authority (OJK), the Indonesian Ulema Council (MUI) guideline, and related theme scientific journal publications. Then the data were analyzed using a narrative technique. The narrative approach helps to present all the data into a complete story. A narrative analysis focuses on how an idea

or story is transmitted to all relevant sections (Ramdhan, 2021).

RESULTS AND DISCUSSION

Opportunities in Islamic Insurance Industry

Based on the Financial Highlights Sharia Insurance November 2021 states that the asset increases (year on year) 1.32 percent, gross contribution increases (year on year) 38.47 percent, penetration slightly increases (year on year) by 0.031 percent, and density increases (year on year) 37.14 percentage (Financial Services Authority, 2021). Regarding similar data, the number of penetration as November 2021 is 0,14 percent, and the population is 274 million. It meant that the number of penetration compared with the population of Indonesia is only 383,500. Analyzing those data, the number of penetration is low. However, it indicates the potential to grow. There are several reasons why sharia insurance can be more developed in Indonesia, as outlined below.

Domino Effect from Halal Value Chain and other State-Owned Enterprise

Islamic insurance can carry the momentum of developing the halal value chain. Halal Value Chain (HVC) applies the halal concept in the integrated industry, starting from input, production, distribution, marketing, and consumption (Antonio, Rusydiana, Laila, Hidayat, & and Marlina, 2020). The scope of halal product development includes food and beverage products, tourism, fashion, cosmetics and pharmaceuticals, recreational media, new and renewable energy. Through HCV, the government wants to build an ecosystem that supports the development of Islamic finance through the collaboration of financial and non-financial industries. Islamic insurance taking roles through halal products or Islamic financial instruments.

First, the Islamic insurance scheme supports the export and import of halal food, halal fashion, and halal pharmacy and cosmetics. Second, developing and implementing a Islamic insurance scheme for commercial travel. Third, Islamic insurance can be a distribution channel and commercialization of the Islamic Capital Market Value Chain. Fourth, coming from Sukuk

and the government project that uses Islamic finance instruments. The collateral for underlying assets in the issuance of Sukuk or infrastructure projects can use Islamic insurance. Lastly, Islamic insurance as distribution channel and commercialization from a new Islamic government-owned bank. On February 1st, 2021 government legitimated a three-way merger of the Islamic subsidiaries of state-owned banks called Bank Syariah Indonesia (BSI). BSI is the merger between BNI Syariah, BRI Syariah, and Bank Syariah Mandiri (BSM), based on the OJK permit Number: SR-3/PB.1/2021. The positive effect of this merger can increase Islamic financial literacy. BSI is supported by significant capital and resources. BSI also strengthens Islamic finance position and market share.

Similarly, there is potential for Islamic insurance from developing other state-owned enterprises. The government's Islamic Economic Masterplan 2019-2024 (Ministry of National Development Planning, 2018) also mentions that one of the firm plans to boost the demand for Islamic insurance is offering state-owned enterprises' employees to use Islamic insurance options for their insurance cover. Islamic insurance can also collaborate with the People's Housing Savings (Tapera), Pension Fund. and Social Health Insurance Administration Body (BPJS). Tapera is a government program to help Indonesians own or buy houses at affordable prices. Meanwhile, BPJS and Pension Fund is currently not supported by Islamic contracts. Lastly, Islamic insurance can support Hajj Fund Management Agency (BPKH) as a distribution channel and protection.

Digitalization in Islamic Insurance

Digitalization in Islamic insurance can support efficiency within the company. Some of the digitalization applications are digitalization in distribution channels, digital payments, digital marketplaces, and other digital initiatives. Adapting financial technology makes insurance operational costs will be more efficient. Currently, insurance marketing in four ways, based on the OJK circular letter Number 19/SEOJK.05/2020, states that: direct marketing; insurance agent; bancassurance; and business

entities other than banks. Digitalization makes it more leisurely for customers to access products without coming directly to insurance offices, agents, banks, or other financial institutions. Customer easily opening a Islamic insurance polis through application, or doing consultation through tele-consultation Operators can collaborate with electronic wallet companies and commerce service companies for payment distribution and product offering. Another marketing digitalization is implementing big data as a customer search technique. Operators use big data to reach more consumers. Using big data, an operator can reach new potential customers according to a specific area, needs, segmentation, and target market.

Increasing digitalization in Islamic finance can be the momentum of the Islamic insurance industry to sell more efficient and effective products to the market. The pandemic has also been a positive side to boosting financial technology (fintech). It helps speed up the Islamic Financial Institution (IFI) to develop its products via digital platforms. Digital-based financial institutions have become much more popular during the pandemic. By implementing digitalization, Islamic insurance can target the young generations. As Husin (2019) mentioned, investing in adequate technology can reach more types of customers. The implementation of digitalization in Islamic insurance has been practiced in Program Kitabisa Saling Jaga Sesama through crowdfunding management by the Kitabisa application (Aisy, 2021).

Optimalization of Islamic Micro Insurance

Creating the Islamic micro insurance that aligns with the spirit of Islamic finance that supports all the communities. For consumers who have small incomes or live in small cities and rural areas, insurers can offer Islamic microinsurance (micro takaful) products with small contributions. Microtakaful can offer fisherman, plantation, agriculture, or particular unit link insurance for low-income communities. Some microinsurance products have been developed, such as Insurance for Fisherman, Rice Farm Insurance (AUTP-Ausransi Usaha Tani Padi), Beef Cattle

Insurance (AUTS-Ausransi Usaha Ternak Sapi), and some pilot projects were established with World Bank, OJK, and Indonesia Insurance Association. Microtakaful has also been offered in the form of life insurance and general insurance. Some of its products include Personal Accident Insurance and inpatient insurance. The concept of brotherhood will attract the people outside the urban area who mostly have high solidarity. Notably, the concept of micro takaful designs to help the poor to hedge the risk from unexpected economic suffering such as failure in harvesting, ill-health, death, or other unexpected events.

Then, the micro takaful contributes to reducing poverty, hedging the risk, and improving the health status of the poor. The Islamic insurance company needs to commit and contribute actively to develop the microinsurance market. Islamic insurance can cooperate with micro-financial institutions such as Baitul maal wa Tamil (BMT), cooperative, Islamic rural bank (BPRS-Bank Perkreditan Rakyat Syariah), or small media enterprises. a simple and cheap concept is a concept that must be emphasized in micro-takaful. Searching how other country.

Challenges in Islamic Insurance Industry

Despite all of the opportunities mention above about how Islamic insurance growing bigger, there are the challenges that faces Indonesia Islamic insurance industry as outlined below.

Issues in Regulatory Framework

The regulatory framework is essential both for insurance companies and the policyholder. The primary objective of the regulation is the safety and soundness of insurance companies and policyholders. From the government's perspective, the regulation's function is a government control instrument. The lack of government regulation raises the problem. As happened in Bangladesh, there are numerous operational problems in Islamic life insurance because of a lack of government rule (Khan, Rahman, Yusoff, & Noordin, 2018).

Regulations that specifically regulate insurance businesses with sharia principles were only enacted 16 years later through

Regulation of the Minister of Finance (PMK) Number 18/ PMK.010/2010 concerning the Implementation of Basic Principles for an Insurance Business and Reinsurance Business with Sharia Principles. The objective of this PMK is to fulfill Islamic principles and legal certainty in implementing insurance and reinsurance businesses with sharia principles. In form of institutional framework, before early 2013, the insurance sector was regulated by BAPEPAM-LK (Badan Pengawas Pasar Modal dan Lembaga Keuangan – Capital Market and Financial Institutions Supervisory Agency). The new authority, Indonesia Financial Services Authority (OJK), took over the responsibilities of financial institutions. Since then, OJK and the Ministry of Finance have been more proactive and producing a more significant number of guidelines and policies. The legal aspect and infrastructure on insurance has been regulated after Act Number 40 of 2014 and followed by Government Regulation, OJK Regulation, Ministry of Finance Regulation, and OJK Circular Letters. All the regulations encounter company framework, corporate governance, financial soundness, operational and administrative issues. This Act introduced some significant changes to the industry and regulations of Islamic insurance. Before that, there was no particular act for Islamic insurance under Act Number 2 of 1992. Besides that, there are guidelines from Fatwa of the National Sharia Board of Indonesia Ulama Council (DSN-MUI). However, the fatwa of DSN-MUI does not have legal force because it is not part of the Indonesia Law Framework

However, Indonesia still needs a specific Act to regulate Islamic Insurance. Act Number 40 of 2014 is the act that covers both conventional and Islamic insurance. Indonesia does not have enacted specific laws governing the Islamic insurance industry. The specific law need to focus on solvency, solvability, and cash flow. Muneeza & Hassan (2014) mentioned that there is a need to establish a specific Islamic corporate governance code for Islamic financial institution. Regulatory framework is proven as one of the keys behind the positive growth of Islamic insurance in Malaysia under Takaful Operational Framework, Risk-based

Capital for Takaful (RBCT), and Islamic Financial Service Act (IFSA) 2013 (Husin, 2019). IFSA 2013 is a comprehensive Islamic finance regulatory framework that covers six sectors of the industry: accounting, Islamic banking, sharia governance, takaful, sukuk, and Islamic funds. In Indonesia, there is no solely Act about Islamic insurance. Some of the existing policies should be upgraded into the Act, such as issues about qardh funds on OJK Regulation Number 72 of 2016. Act Number 40 of 2014 did not provide the requirement of qardh funds, whereas the qardh fund is an essential element of Islamic insurance. The rules regarding qardh have just been mentioned in the Minister of Finance Regulation (PMK) Number 18/PMK.010/2010. In addition, Act Number 40 of 2014 did not clearly state the separation of takaful fund and shareholder fund or investment fund and *tabarru'* fund. Although it stated that the funds are different funds and different uses.

Another significant highlight about Islamic insurance from the Act No.40 of 2014 is Article 87. The government encourages the Islamic insurance or reinsurance windows business to spin-off from their parent company. In January 2020, the government issued Government Regulation Number 3 of 2020, amending Government Regulation Number 14 of 2020 on the foreign shareholding rule to allow spin-off takaful windows exemption from the statutory 80% foreign ownership limit. It is a relaxation regulation to help Islamic window insurance spin-off from their parent's company to comply with Act Number 40 of 2014. However, the spin-off process requires a lot of capital support, human resources, infrastructure, tax, and increased minimum capital requirement. On the other hand, managing Islamic insurance windows is challenging. There are many challenges faced by Islamic insurance windows, namely misperceptions in sharia compliance; limited investment activities; the possibility of the company making investments that contain maysir, gharar, usury, haram; confusion in implementing branding and marketing; lack of staff understanding of Islamic finance principles; reinsurance activities are carried out at conventional reinsurance companies (Alshammari, Altarturi, & Alokla, 2021).

Market Penetration is Low

The biggest challenge on Islamic insurance is low market penetration. As seen in Table 3, the average penetration number is only 0.103 percent. The number of populations, especially the Muslim population, is significant; however, the penetration number never reaches even 0.5 percent. The lack of public awareness is one of the most critical challenges which makes low penetration rate. Even though the industry has provided various products and support from the government, the public does not fully understand the concepts and practices of Islamic insurance. In 2019, the literacy rate of the sharia insurance industry was 3.99 percent, much lower than the conventional insurance industry literacy rate of 18.64 (Financial Services Authority, 2019). While, the Islamic financial literacy index is 8.93 percent. A clear understanding of sharia compliance in Islamic insurance products as the product literacy will enrich the customer awareness as an essential marketing strategy (Khan, Rashid, Yaqub, & Abbas, 2020).

Table 3. GDP, Popultion, and Penetration Islamic Insurance Industry in October 2020-October 2021

	GDP	Population (in million)	Penetration
October 2020	12,783	271	0.107%
November 2020	14,062	271	0.109%
December 2020	15,434	271	0.112%
January 2021	1,286	274	0.145%
February 2021	2,572	274	0.138%
March 2021	3,859	274	0.151%
April 2021	5,145	274	0.150%
May 2021	6,617	274	0.145%
June 2021	8,146	274	0.142%
July 2021	9,504	274	0.141%
August 2021	10,862	274	0.139%
September 2021	12,472	274	0.135%
October 2021	13,858	274	0,137%

Source: Financial Services Authority (2021)

Generally, the demand for Islamic finance needs to escalate. Improving public literacy is the key. Activities to increase financial literacy can be through education, socialization, and promotion. The next step in increasing the demand for Islamic insurance by increasing the capacity of insurance companies. Several strategies can be implemented are efficiency through service digitization, product differentiation to reach diverse customer segments, providing excellent service, capital strengthening, and emphasizing the values of the sharia proposition as a selling point.

Issues in Islamic Insurance Product

The basis of the agreement of Islamic insurance product is the unique value proposition and making Islamic insurance different from the conventional. The basis of agreement in Islamic insurance is to guarantee each other against loss, mutual help, and brotherhood. The implication from this concept can be seen from *tabarru'* fund and surplus sharing among the policyholders. *Tabarru'* fund is a collection of funds derived from the contribution of policyholders, which are used to cover policyholders' claims. *Tabarru'* fund is showing mutual help as encouraged in Islam. Different from conventional insurance, Islamic insurance operators can not withdraw these funds. In Indonesia, *tabarru'* funds are invested like an investment fund, and the profit will be distributed to the policyholders.

Secondly, the investment does not invest in the transaction or instrument related to riba, maysir, gharar, and other haram things. The surplus from the investment will be distributed based on a specific contract among the policyholders and operator as the fund manager is also alongside with spirit of mutual help. The insurance company does not own any policyholder's funds, and the insurance company will act as the fund manager, including the contribution fund. Therefore, the contribution fund (premium) is not imposed with any tax and is not included as taxable goods. The tax will be imposed on dividends on investment funds as stipulated in the Act of Income Tax Number 36 of 2008. The amount depends on the subject of the policyholder, whether personal or institution.

Another issue regarding the product development is that many people criticize Islamic insurance products resembling and Islamization conventional insurance (Dikko,2014; Efendi, 2016). The idea may be the same, but the concepts and practices are primarily different. Islamic insurance provides the insurance regarding the Islamic laws. They provide suitable needs to the Muslim and non-muslim consumers at once. Therefore, product innovation is important to appeal the community to buy Islamic insurance product; then it will expand the Islamic insurance market (Nugraheni & Muhammad, 2020). Islamic insurance operators need to develop a suitable product for various types of customers. Development of product is based on observing consumer and the market analysis. In addition, the sharia values proposition must emerge in all operational and non-operational aspects of the Islamic insurance company. Islamic insurance needs to give excellent services, competitive prices and benefits, and other features to compete with conventional insurance. Efendi (2016) also highlights that the strategies for product development understand the type of consumer, rationalist neither idealist nor emotionalist, observe the existing market pattern, and provide service excellence. The Islamic values is important, but understanding the needs of consumer and finding a suitable product is the fundamental function of financial institution.

Issues in Retakaful

Act Number 14 of 2020 define Islamic reinsurance business as a management business risks based on Islamic Principles on risks that faced by Islamic insurance companies, companies sharia guarantee, or sharia reinsurance company. The core activities of Islamic reinsurance or *retakaful* have the same basic concept as Islamic insurance, namely carrying the concept of risk-sharing instead of risk transferring. *Retakaful* is a development of the Islamic insurance industry, which has the same goals as sharia insurance, where one party acts as the insurer that may befall the insured (insured/policyholder). The insurer in the context of Islamic reinsurance is a *retakaful* company, while the insured is an Islamic insurance company. The benefits from *retakaful* are

risk spreading, capacity boosting, income smoothing, financial stability, protection against catastrophic losses, underwriting assistance, stabilization of insurance portfolio, and to protect its margin of solvency and allowing for better underwriting flexibility and capacity (Ahmad, Mahbob, & Ayub, 2016; Hasan, 2011). In Indonesia, the number of *retakaful* company is limited. It is because the industry is still insignificant. There is only one full-fledged *retakaful* company called PT Reasuransi Syariah Indonesia and three *retakaful* windows, namely PT Reasuransi Internasional Indonesia, PT Reasuransi Nasional Indonesia, and PT Maskapai Reasuransi Indonesia Tbk. The *retakaful* windows have the risk of mixing investment with their parent company. Therefore, the role of the underlying contract (akad) is essential. Besides that, there are other issues in *retakaful*, as Yusuf (2011) mentioned: provision and ownership of qard hasan fund, the distribution of underwriting surplus, enterprise risk management (ERM) guidelines for a different type of underlying contract. Hasan (2011) clarifies that the qard hassan can own either participants or *retakaful* company. If the qard hasan contract is concluded from the day the fund is created, then it belongs to participant and any return is accounted for *retakaful* fund. If the fund creates in the name of Islamic insurance company and no qard hasan contract has been concluded yet, and only a promise will be given in case of deficit, then the qard hasan fund will be used to rectify in common *retakaful* fund to protect its solvency. The owner of this fund is *retakaful* company.

CONCLUSION

The Islamic insurance industry is minor compared with Islamic banking. However, it has enormous potential for enhancements. Developing Islamic insurance requires commitments and supports from all stakeholders, such as the government, insurance industry, supporting industry, and public. Three opportunities advantage the Islamic insurance industry: domino effect from Halal Value Chain and other development of government-owned enterprises; digitalization in Islamic Finance; and potential market of micro takaful. On the other hand, several

challenges are needed to tackle. First, the issues in the regulatory framework. Islamic insurance needs a comprehensive regulatory framework, including regulations and guidelines as the catalyst to force supply and demand within the industry. Second, market penetration is low. Third, the issue of Islamization of conventional insurance products and the low development of Islamic insurance products. The sharia values are essential, but understanding the needs of the consumer and finding a suitable product is the fundamental function of a financial institution. Fourth, limited numbers of full-fledged retakul dan issues on qardh hasan fund. Developing Islamic insurance requires commitments and supports from all stakeholders, such as the government, insurance industry, financial industry, non-financial industry, and public, practiononer.

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