Journal of Islamic Business and Economic Review
Volume 4, Issue 1, January 2021
http://journal.stebilampung.ac.id/index.php/jiber

The Impact of Risk Management to Sharia Insurance Business in Indonesia Market

Reza Ronaldo[a], Yulmaulini[b]
Sekolah Tinggi Ekonomi dan Bisnis Islam Lampung [a], Sekolah Tinggi Ekonomi dan Bisnis Islam Lampung [b]

Info Articles

History Article:
Received : 20 October 2020
Accepted : 3 December 2020
Published : 31 January 2021

Keywords : *Risk Management, Sharia Insurance, Business*

Abstract

The purpose of this article is to determine risk management which is more important for an sharia insurance company in Indonesia and how important Risk Management for the insurance industry. Risk Management is very important to all business activities. Implementing Risk Management means the company has analysed the risks and impacts of risks for business continuity in the future as well as how to reach the expected opportunities by taking into account all possible risks that arise and how to anticipate all the possibilities that will occur. By running Risk Management will make it easier for companies to make long-term plans so that the company can run and develop well. In this article also contains why risk management really needs to be implemented and how the process of carrying out good risk management and how to develop risk management is a necessity in insurance organization.

Address Correspondence:
E-mail : rezaronaldo@stebilampung.ac.id

p-ISSN 2623-0410
e-ISSN 2623-0402

INTRODUCTION

The author's background for conducting this research is the bankruptcy of one of the largest Sharia Insurance pioneers in Indonesia founded in 1994, namely PT. Asuransi Takaful Umum which is experiencing financial problems and declared bankrupt in 2017. Although in 2018, PT. Asuransi Takaful Umum has resumed because it was acquired by Kospin Jasa, the largest loan cooperative in Indonesia.

What happened to PT. Asuransi Takaful Umum? why the biggest sharia insurance in Indonesia are bankrupt? Is the management absolutely wrong or do they not do good and right about risk management?

Observations made by the author in a desk survey and ask questions directly to the person at the PT. Asuransi Takaful Umum Indonesia as well as discussions with the leaders at The Indonesian General Insurance Association (AAUI), obtained information that the problems that occur that PT. Asuransi Takaful Umum are they not doing and carrying out risk management principles. Attached are several insurance companies in Indonesia that have gone bankrupt in the last 5-6 years, (Figure 1);

Figure 1. List of Insurance in Indonesia whose business license has been revoked by OJK (Indonesian Authority of Financial Services)

No	Insurance Company	Caused	Years	Remarks
1	PT. Asuransi Takaful Umum	Financial Problems	2017	Was Acquisition by Kospin Jasa
2	PT. Bumi Asih Jaya	Bad Capital Adequacy Ratio	2013	Bankrupt
3	PT. Asuransi Jiwa Nusantara	Non Cooperative Shareholders	2013	Bankrupt
4	PT. Asuransi Jiwa Bakrie	Financial Problems	2016	Bankrupt
5	PT. Asuransi Raya	Financial Problems	2017	Bankrupt

Source : Otoritas Jasa Keuangan (OJK)

Risk Management is fundamental for the insurance industry including in sharia Insurance, from the pricing of individual contracts to the management of insurance and reinsurance companies to the overall regulation of the industry (Kaye, Paul 2005). Placing risk management as an important point in an organization, now is a necessity in the insurance business, no exception to sharia insurance. Using risk management, it means that sharia insurance companies have taken risk measurements and carried out prudent underwriting processes so as to minimize the risks that will occur.

THEORITICAL

What is risk management? Risk Management is a tool or method for measuring risk so that insurance companies can be identified as appropriate solutions to manage the risks inherent in an organization. In insurance companies, including sharia insurance, the risk management process must be carried out and must be managed continuously by a special section within an insurance company.

By doing risk management, an insurance company tries to evaluate, control, identify the risks that may occur. What is the risk if it occurs severity or frequency? whether the risk will be detained alone or will be carried out reinsurance to other insurance companies through the mechanism of transfer of risk. The correct definition of risk is the one that supports risk management in the organisation (Hopkin, Paul 2014).

In accordance with the regulations of the Financial Services Authority (OJK) in Indonesia, there are several major risks that must be managed by insurance companies including sharia insurance, including:

1. Operational Risk, such as not having a backup from a reinsurance company or error analysis from an underwriter that can result in a high impact of losses incurred to the insurance company.
2. Risk of Investment Failure, so the company cannot carry out obligations or compensation to customers.
3. Risk of Marketing Strategies, such as being unable to compete with competitors, failure of product launching, not being able to find customers, and others.
4. Catastrophic risks, namely risks that arise suddenly, due to natural disasters that occur simultaneously in various locations in a country simultaneously so that the impact will cause a very large loss.

The four risks above are fundamental risks that will be faced by insurance companies, including sharia insurance companies, so risk management is absolutely necessary for an insurance company. Risk management then is the activity of identifying

and controlling undesired project outcomes proactively. (Smith, P.G and Merritt, G.M, 2002).
In this paper, risk management is defined as a series of operational activities that maximize the value of the company by carrying out the process of risk identification, risk evaluation, and how to control risk.
The main risk management activities are mapping data from various existing instruments, searching for as much data as needed, then doing the prudent underwriting process, including analysed whether the risk will be retained alone or transferred to reinsurance or spreading risks to others, another insurance company.

Gordon CA. Dickson in The Practise & Principle of Insurance (2002) defined there are 4 (four) main of risks are;

1. Pure risk (if happened can be a loss, if not happen, nothing happened).
2. Market risk (price not competitive, loss from tender, failure from competitors)
3. Operational risk (IT, Human Resource, Underwriters problem)
4. Liquidity risk (failure of investment, bankrupt of Bank etc.)

Based on the Law of the Republic of Indonesia No. 40/2016 regarding Insurance, it is stated that the definition of General Sharia Insurance is an insurance company that transfers some risk to sharia reinsurance companies, sharia business units (UUS), or to general insurance companies, based on Islamic legal principles in insurance according to the fatwa issued by the institution has authority in the determination of fatwas in the field of sharia. Market of insurance industry in Indonesia, it includes over of 100 insurance companies in Indonesia and generates over Rp. 60 billion in annual revenue (AAUI Report, 2016).

Figure 2. Premium Insurance and Economic Growth in Indonesia 2014-2016

Year	Gross Premium (Billion IDR)	Premium Growth (% YoY)	Population (In Million)	GDP (Trillion IDR)	Economic Growth (% YoY)	Insurance Penetration (%)	Insurance Density per Capita per year (IDR)
2014	48.28	20.2	255.00	10,543.00	5.02	0.46%	189,344
2015	51.74	7.2	258.00	11,312.00	4.79	0.46%	200,548
2016	54.38	5.1	261.00	12,406.00	5.04	0.44%	208,343
2017	55.50	2.1	264.00	13,558.00	5.07	0.41%	210,231
2018	61.15	10.2	265.00	14,837.00	5.17	0.41%	230,761

Sumber : SEKI Bank Indonesia, OJK

aaui ASOSIASI ASURANSI UMUM INDONESIA

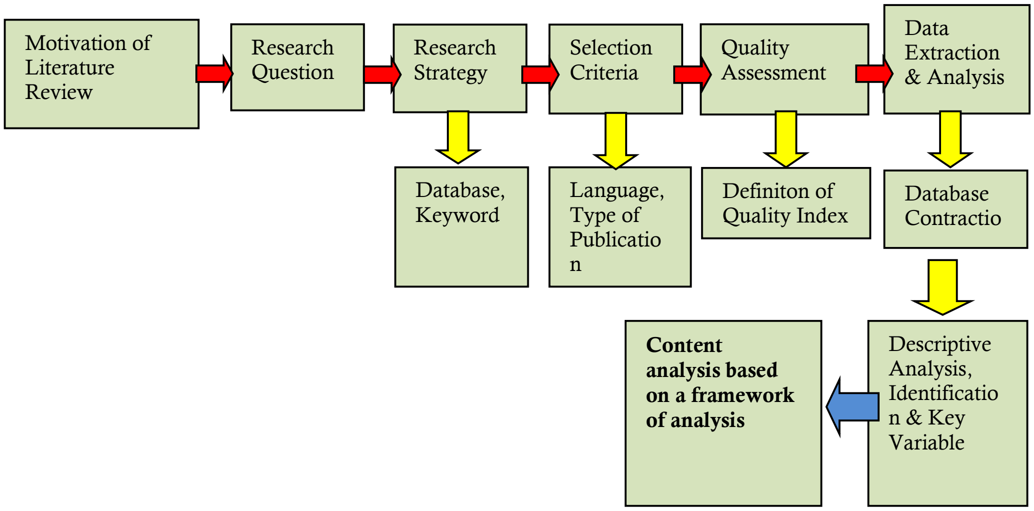
Source; AAUI- Indonesian General Insurance Association.

METHODOLOGY

Based on the description that has been presented above related to this article, the main purpose of this research is to find and answer Research Questions (RQ) as follows:
RQ1. How deep is the impact of RM on the Sharia Insurance Business in Indonesia?
RQ2. How is the development of RM carried out for the Sharia Insurance Business in Indonesia?

To answer the RQ1 and RQ2 research questions, researchers conducted a Systematic Literature Review (SLR) based on guidelines proposed by Macpherson and Holt (2007) and Tranfield, Denyer, and Smart (2003), adapted for the production of articles and detailed in the review protocol (Figure 2).

Figure 3. The Systematic Literature Review Protocol



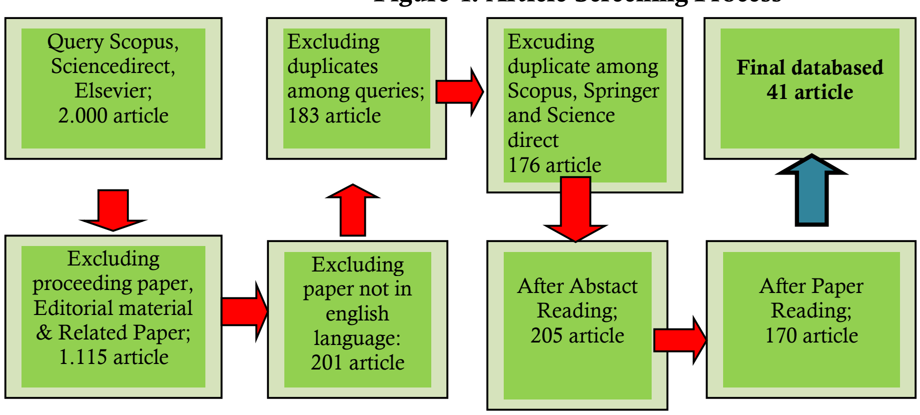
An effort to obtain a database in the form of relevant articles about Risk Management in the Insurance Business, researchers used two databases to search for literature: Scopus, Springer, and Science direct, as an analysis conducted. (Guz & Rushchitsky, 2009).

In Figure 3, the researcher presents the search process and selection process that was carried out in March 2020. First, the researcher made two different sets of keywords, then combined to extract the results from each unfiltered data at a certain time period. To narrow the search results, researchers conducted a selection process using filters:

1) Exclude of risk management papers only, editorial material, and notes.
2) Exclude of articles that do not use English language.
3) Exclude double articles or duplications between the two databases.

The search results found 2,000 articles related to Risk Management and Insurance Business, then researchers obtained 170 articles after excluded; proceeding paper, editorial paper, not English language paper, duplicate paper, paper that is not related to the risk management & Insurance Business. At the end, only 41 papers were found that could be formulated in relation to the RM and Insurance Business from 2011 to February 2020.

Figure 4. Article Screening Process



RESULTS AND DISCUSSION

Based on Systematic Literature Review (SLR), the results are obtained to answer the Research Question (RQ) 1 that out of 2,000 Scopus articles, in the end only 41 articles are inclusively related to 2 (two) key word research: Risk Management and Business Insurance. From the many articles we studied, the results show that Risk Management has a very strong influence on the insurance business. To answer the Research Question (RQ) 2 in the

SLR, there are 170 articles that are sufficient to provide input that the Risk Management and Insurance Business variables are still very likely to continue in next research.

Only 41 articles were found and are strong, to answer research questions in this paper. From the SLR results, it is known that there are still many areas in the risk management and insurance business that have not been discussed or studied in depth by subsequent researchers for further development.

The article found discusses more about enterprise risk management (ERM) and risk management in financial companies or the financial industry (banking). Articles found for general insurance companies are very few, let alone articles that discuss risk management on sharia insurance, not many researchers have done it.

CONCLUSION

The purpose of research related to risk management and insurance business in this paper is that the insurance industry in Indonesia, always carries out risk management, does not happen bankruptcy, does not fail to pay insurance companies to customers, does not fail investment in insurance companies, insurance closure does not happen again by the authorities in Indonesia, which resulted in a bad image of insurance companies in Indonesia.

In this study found only 41 articles that explicitly support the need for risk management in the insurance business. Thus it is still very open the possibility for further research on risk management of the insurance business.

Why is risk management for insurance in Indonesia so important? In addition to maintaining the operational health of insurance companies, Indonesia as a country referred to by the term "ring of Fire" so it is very possible that catastrophic natural disasters occur so that the implementation of risk management for the insurance business, including sharia insurance becomes very important in order to measure any risk. Some traditional risk managements are focused on risks stemming from physical or legal causes such as natural disasters or fires, accidents, marine risk and death. (H. Berg, P. By et al. 2010).

By carrying out risk management, all insurance company risks can be managed properly, in accordance with OJK regulations which require the maintenance of financial health and insurance operations in Indonesia. Lastly, financial risk consists in undertaking opportunistic activities related to future risks that may generate positive or negative results. (Dionne, Georges 2013).

In context of Insurance business, especially Sharia Insurance in Indonesia, fact data from defined as follow:

1. Sharia Insurance in Indonesia is still weak, only 12.1% of Indonesia's population buys insurance products and Market Share about Rp. 2 Bilion in 2019 (source: OJK Survey 2018).
2. However, the Sharia Insurance industry in Indonesia which began in 1994, has developed well. Indonesia already has more than 15 Sharia Insurance Company and 34 Sharia Business Units (Not Spin off).
3. Indonesia is still needed literacy of Sharia Insurance continuously.
4. Back up from Reinsurance Sharia still weak because Indonesia has just 1(one) Reinsurance Sharia.
5. Regarding regulation from Fatwa Dewan Syariah Nasional (DSN) No. 9/2004 that Sharia Insurance in Indonesia must Reinsured to the Sharia Reinsurance Company.
6. Indonesia has not specific Law in Sharia Insurance.
7. Insurance Sharia in Indonesia still comes out from Red Zone (sharia business only)
8. Still needed resource from market sharia world wide.

The issue that is developing in Indonesia today, related to risk management of the sharia insurance business in Indonesia is how to maximize the potential of 270 million Muslim populations spread throughout Indonesia. How to make sharia insurance companies can increase the prosperity of Muslims in Indonesia through Tabbaru funds as an embodiment of the Ta'awun and Takaful philosophies.

References

Advanced Procurement for Universities, Berg, H., By, P., Damodaran, A., Dorfman, M. S., Cather, D. a., … Wang, J. (2010). Introduction To Risk Management And Insurance. *Red Outdoor Programs & Education*. https://doi.org/10.2469/cp.v1999.n3.2

Banks, E. (2004). *Alternative risk transfer: integrated risk management through insurance, reinsurance, and the capital markets*. Retrieved from https://www.google.com/books?hl=en&lr=&id=KDGqH1vEDPgC&oi=fnd&pg=PR5&dq=risk+management+in+insurance&ots=CnnohMyHph&sig=g_c0YKeckOMxeKHliP1zg39hq2Y

Baranoff, E., & Baranoff, E. (2004). *Risk management and insurance*. Retrieved from http://www.academia.edu/download/38630189/preface.pdf

Dionne, G. (2013). Risk management: History, definition, and critique. *Risk Management and Insurance Review*. https://doi.org/10.1111/rmir.12016

Eastman, A. D., Head, G. L., & Horn, S. (2006). Essentials of Risk Management. *The Journal of Risk and Insurance*. https://doi.org/10.2307/253669

Embrechts, P., Resnick, S. I., & Samorodnitsky, G. (1999). Extreme value theory as a risk management tool. *North American Actuarial Journal*. https://doi.org/10.1080/10920277.1999.10595797

Gloster, J. E., Wherry, R. H., & Newman, M. (2006). Insurance and Risk. *The Journal of Finance*. https://doi.org/10.2307/2977145

Gordon, L., Loeb, M., ACM, T. S.-C. of the, & 2003, undefined. (n.d.). A framework for using insurance for cyber-risk management. *Ns2.Dpix.Pestiest.Hu*. Retrieved from http://ns2.dpix.pestiest.hu/~mfelegyhazi/courses/EconSec/readings/09_Gordon2003FrameworkUsingCyberInsurance.pdf

Informed Management Knowledge by Means of Systematic Review. British Journal Management. 2003.

Wardle, D. J. (2017). Risk management and insurance. In *Project Management: A Reference*

Gordon CA. Dickson in The Principle & Practice of Insurance (2002).

Guz & Rushchitsky, 2009. Scopus: A system for the evaluation of scientific journals. Springer Link 2009.

Henebry, K. L., & Rejda, G. E. (2006). Principles of Risk Management and Insurance. *The Journal of Risk and Insurance*. https://doi.org/10.2307/253600

Kaye, Paul 2005). Risk Management in Insurance, A Guide To Risk Measurement, Capital. M. location And Related Decision Support Issues.

Kunreuther, H. (1996). Mitigating disaster losses through insurance. *Journal of Risk and Uncertainty*. https://doi.org/10.1007/BF00055792

Macpherson and Holt (2007). Knowledge, learning and small firm growth: A systematic review of the evidence. Elsevier (2007).

Mahdy, S. S. (2012). Risk management in Islamic banking. *Quality - Access to Success*.

Sinha, T., & Dionne, G. (2006). Handbook of Insurance. *The Journal of Risk and Insurance*. https://doi.org/10.2307/2691545

Skipper, H. (2008). *Risk management and insurance: perspectives in a global economy*.

Tranfield, Denyer, and Smart (2003), Towards a Methodology for Developing Evidence-
for Professionals. https://doi.org/10.1201/9780203741771