

## The Strategy Development Business Insurance Case on Indonesia Insurance Practices

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### Abstract

An Insurance Company may only be owned by an Indonesian citizen and/or an Indonesian legal entity which is directly or indirectly fully owned by an Indonesian citizen or as referred to together with a foreign citizen or a foreign legal entity which must be an Insurance Company that has a similar business. Or a holding company in which one of its subsidiaries is engaged in the same type of Insurance Business. General insurance companies are also in the form of sharia and there are also sharia reinsurance companies that carry out activities in accordance with the principles of Islamic law. Similar to conventional life insurance, the laws governing sharia life insurance activities that run the insurance business are in accordance with the concept of Islamic law. Islamic law today is more about *Mua'mala* than worship. As a result of globalization, the issue of insurance is seen as a problem of *ijtihad*, namely a problem of difference of opinion. Actually insurance has broad and complex benefits, on the other hand it provides mutual benefits between the company and the customer. However, there are many Indonesian people who in fact still do not take advantage of insurance companies as a means of protecting themselves and their families and others from all unexpected things later.

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## INTRODUCTION

In the history of the development of human civilization, a concept similar to the philosophy of insurance has actually started since the heyday of Greece during the reign of Alexander the Great. Furthermore, during the Roman period there were also various associations similar to the concept of insurance such as Collegium Lambaesis and Collegium Tenuiorum. In short, the members provide a number of contributions that are collected and if there is one member who needs it, such as death, and so on, a kind of compensation will be given. As from several books, it is stated that insurance arises simultaneously with the birth of a certain level of social development in accordance with the human need for protection or protection. Or at a certain level of development of economic activity, which already requires a certain level of profit certainty.

According to the language, insurance is coverage (an agreement between two parties, one party pays the dues and the other party is obliged to provide full guarantee to the contributor, if something happens to him or his property). Meanwhile, according to the term, insurance is a guarantee or coverage given by the insurer to the insured for the risk of loss as applied in the policy (letter of agreement) in the event of fire, theft, damage, death or other accident with the insurance paying the premium as determined to the insurer every month. . Insurance and insurance institutions as risk transfer institutions have an important role. The insurance business as one of the non-bank financial institutions has a very important role in the context of economic development because this business can raise funds collected from the public through official acquisitions of the insured. According to the Commercial Code (KUH Dagang) insurance is an agreement where an insurer binds himself to an insured by receiving a premium, to provide compensation to the insured due to a loss, damage or loss of expected profit, which he may suffer due to a unspecified event. Meanwhile, according to the provisions of Article 1 number (1) of Law no. 2 of 1992 concerning Insurance Business, what is meant by insurance or coverage

is an agreement between two or more parties.

In Indonesia according to Law no. 1 of 1992, to provide a payment based on the death or life of an insured person. Meanwhile, Article 246 of the KUHHD states that: Insurance or coverage is an agreement, by which an insurer binds himself to the insured, by receiving a premium, to compensate him for a loss, damage or loss of expected profit, which he may suffer. Due to an unspecified event. As one of the efforts to mitigate risks and at the same time as one of the institutions that collect public funds, The insurance business has a strategic position in the development and economic life of the State in an effort to create general welfare which is the goal of the establishment of the State of Indonesia.<sup>1</sup> As mandated in the preamble of the 1945 Constitution, the fourth paragraph is also the ancestral ideal of the Indonesian nation. Currently the development of insurance shows a significant development. Companies engaged in the insurance service industry offer a variety of insurance products ranging from loss insurance services, life insurance, health insurance, labor insurance and others to insurance that has a savings element such as unit-linked life insurance. Currently the development of insurance shows a significant development. Companies engaged in the insurance service industry offer a variety of insurance products ranging from loss insurance services, life insurance, health insurance, labor insurance and others to insurance that has a savings element such as unit-linked life insurance. Currently the development of insurance shows a significant development. Companies engaged in the insurance service industry offer a variety of insurance products ranging from loss insurance services, life insurance, health insurance, labor insurance and others to insurance that has a savings element such as unit-linked life insurance.

Insurance as a risk transfer point. Under good conditions usually an individual or company should always be private that all possible losses are Triggered by some event. Usually, the type and amount of young loss can be predicted to transfer risk by entering into an

agreement. The policy is proof of the existence of an insurance policy between the parties of the insurance company and the insured person is protected by insurance. Because the police If the letter is worth money, it's just a promise. Especially in the case of a loan of money, it can happen because of legal problems. Done by the insured / insurance guarantee to the insurance company. Agreements can only be made with this insurance policy's commitment to life insurance. Being insured with a life insurance company has the right to borrow a certain amount from the insurance company by political commitment. But not all police officers can be used as collateral to borrow money.

## **THEORETICAL FRAMEWORK**

### **Definition of Insurance**

The definition of insurance according to Law No. 2 of 1992 concerning the insurance business is an agreement between two or more parties, by which the insurer binds himself to the insured, by receiving insurance premiums, to provide compensation to the insured due to loss, damage or loss of expected profits. Or third party legal liability that the insured may suffer, arising from an uncertain event, or providing a payment based on the death or life of the insured person.

According to the Law of the Republic of Indonesia Number 40 of 2014 concerning Insurance, Insurance is divided into two (2) namely Sharia Insurance and Conventional Insurance:

#### 1. Sharia Insurance

Sharia insurance is a system in which participants share the risk (sharing of risk) by donating part or all of the contribution through tabarru funds which will be used to pay claims, or in the event of a disaster experienced by some participants. The role of the company here is as a trustee in managing and investing funds from participant contributions. The company acts as an operational manager only, not as an insurer as in conventional insurance.

#### 2. Conventional Insurance

Conventional insurance is insurance based on a sale and purchase agreement, or this insurance is insurance based on free investment of funds using certain principles. This insurance carries out a mission from the company, namely in the economic and social fields.

In this case, Sharia and Conventional Insurance have the following differences:

##### 1. Sharia Insurance

- a. Using an operational system based on Islamic law. All forms of financial management and operations are based on Islamic law. Sharia insurance also pays attention to financial management based on haram and halal.
- b. Help systems. The point here is that one customer helps another customer by using the deposited insurance funds. In sharia insurance there is no system to benefit one party, especially benefiting the insurance company.
- c. A supervisory board exists. The Sharia Supervisory Board (DPS) oversees Sharia insurance to ensure that there is no investment misappropriation or management system administration that is not compliant with Islamic law.
- d. The obligation to pay zakat. Sharia insurance requires customers to pay zakat from the investment profits.
- e. No forfeited funds. Islamic insurance does not use a forfeited fund system. Customers who are unable to continue paying premiums or resign can still take funds that have previously been entered into insurance savings.
- f. The financial bookkeeping system is open. Sharia insurance has open financial books because it is based on Islamic law. All parties, especially insurance customers can know all the bookkeeping of their funds, so that all finances are transparent.

## 2. Conventional Insurance

- a. Use applicable law. Conventional insurance has a business concept based on the applicable legal provisions that have been set.
- b. Have all of your books closed. The bookkeeping system in traditional insurance is closed. Customers do not need to know that the corporation handles all of the bookkeeping.
- c. Supervisory board based on law. Conventional insurance does not have a special supervisory board. The supervisory board for conventional insurance is based on the laws in force in the country.
- d. There is a forfeited fund system. If the customer cannot pay the premium funds or resign from the insurance company, the funds that have been entered will be forfeited and the customer will not get a refund at all.
- e. Using the principle of transfer of risk. This principle is the transfer of risk from the insurance customer to the insurance company. Management of this risk is one thing that is borne by only one party.
- f. Customers do not have to pay zakat. In conventional insurance, customers are not required to pay zakat from the sum insured that has been obtained.

### Types of insurance products

Law of the Republic of Indonesia Number 40 of 2014 concerning Insurance

#### 1. life insurance

Life Insurance can only run a Life Insurance Business including annuity business line, health insurance business line, and personal accident insurance business line. Life insurance is divided into 4 types of insurance, namely:

- a. Life insurance for life. In whole life insurance, the insured pays premiums for his entire life without receiving direct benefits or compensation. Insurance benefits are paid to the

“beneficiary or beneficiary” or a designated person if the insured dies.

- b. Annuity Life Insurance. This life insurance policy is purchased on an annual basis and can be extended as needed. The benefited will receive compensation if the insured dies during the premium payment period. This life insurance is usually used in conjunction with bank credit.
- c. Term Insurance. In this term life insurance, the sum insured will only be paid if the insured dies during the coverage period (contract). But if the insured lives 10 until the end of the insurance period, there is not a single payment from the insurer.
- d. Dwiguna Life Insurance. This type of insurance provides a double guarantee in the form of paying compensation in the amount of the insured value if he is still alive until the end of his insurance contract period, but if the insured dies before the end of the contract period, compensation will be paid to the designated beneficiary at the insured value.

### General Insurance (loss)

The following are some basic types of loss insurance products:

#### 1. Credit Insurance:

Credit insurance is a coverage carried out for creditor losses where the debtor is unable to pay his obligations to the creditor. If later the debtor really does not pay off his obligations to the creditor, the insurance will cover the losses suffered by the creditor alone.

#### 2. Fire Insurance:

Fire insurance is coverage that guarantees loss or damage to property (fixed and movable property) due to fire, whether it is caused by the Negligence of oneself or another person.

#### 3. Motor Vehicle Insurance:

Motor vehicle insurance will guarantee in the event of an accident or loss of a vehicle that has been borne by the insurance

- company.
4. **Cargo Insurance by Sea:**  
This insurance will cover in case of loss of charcoal transported using sea transportation, land transportation, or river or deep water transportation.
  5. **Hull Insurance:**  
This insurance will be in the event of a loss due to an accident on the ship that has been insured.
  6. **Construction Insurance :**  
This insurance will cover loss of physical damage to civil engineering work projects (development of buildings, roads, bridges, etc.) caused by accidents that occur during the implementation of the work (construction).
  7. **Travel Insurance :**  
This insurance will cover losses due to accidents experienced by the insured during the trip (starting from the date of leaving his residence stated on the participant card until the end of the participant card).
  8. **Family Insurance:**  
This insurance will cover the financial losses suffered by the insured and/or the insured's husband/wife and children, caused by an accident, including the provision of scholarships for the insured children.

### **Insurance Benefits**

Insurance has many benefits, including the following:

1. **Insurance protects investment risk**  
With the existence of insurance for a company to gain business profits, the presence of risk and uncertainty cannot be avoided. So that insurance will eliminate or reduce these risks, so entrepreneurs are enabled and encouraged to concentrate energy and capital in creative endeavors.
2. **Insurance as a source of investment funds**  
The economic development of a country certainly requires an adequate amount of investment. Therefore, it is necessary to exert great effort to mobilize public funds through banks and non-bank financial institutions. Manners insurance as a non-bank financial institution that collects public funds, plays an important role as a source of capital for investment in various fields.
3. **Insurance to complete credit requirements**  
In channeling funds, creditors usually have more confidence in companies whose business activities are insured. Creditors not only look at the condition of the company and its existing assets, but also the extent to which the company has protected itself from unexpected events in the future, one of which is by using insurance products.
4. **Insurance can reduce worries**  
The primary function of insurance is to reduce anxiety due to uncertainty. Insurance companies have no power to prevent the occurrence of unexpected losses. So, insurance companies do not reduce the uncertainty of the occurrence of unexpected deviations. For example, an insurance company will not be able to prevent a hurricane, car accident, death, or illness. However, insurance companies can reduce the uncertainty of the economic burden of uncertain losses.
5. **Insurance guarantees company stability**  
Today's companies realize the importance of insurance, one of the factors that creates goodwill (good service) between a group of leaders and employees. These companies have provided group policies for certain employees by means of which the company pays all or part of a predetermined premium. The policy is written in such a way as to emphasize the value of employees who have served for a long time in the company.
6. **Insurance can provide professional services**  
The services of experts who have worked in insurance companies will be enjoyed by the insured without any additional fees other than the premium they have to pay. Unlike other professional fields, such as lawyers, doctors, consultants, and other experts who must be paid for the services they provide.
7. **Insurance can encourage loss prevention efforts**

For example, insurance companies usually advise how to install water on large buildings under construction, suggest construction of safer buildings, and provide loans for building repairs at reasonable interest rates. These incentives, which are basically to save on insurance premiums, are an incentive to achieve protection against losses.

#### 8. Insurance helps maintain health

Another effort that is closely related to the causes made to avoid or minimize the causes of losses is the campaign carried out by life insurance to policyholders in particular and the wider community in general.

### **Insurance Policy**

Definition of the policy According to Martono K, & Tjahjono Eka Budi (2011) Based on Article 19 paragraph (1) of Government Regulation Number 73 of 1992:

That the policy or form of insurance agreement under any name, along with the attachments which are an integral part of it, may not contain words or sentences that contain different interpretations of risk whose insurance is closed, the obligations of the insurer and the obligations of the insured, or make it difficult for the insured to manage his rights. Besides that, the policy too contains an agreement on special terms and special promises which is the basis for the fulfillment of rights and obligations to achieve goals insurance.

### **METHODS**

Formal insurance for the majority of Indonesian people, who in fact are Muslims, is an act that is contrary to Islamic customary law whose laws are still confusing in the eyes of the scholars. However, this is contrary to non-formal insurance, for example when a relative or neighbor dies, in Indonesia it is common practice to carry out insurance with patience and sincerity in the form of mourning or donations for people who have died.

On the other hand, insurance is a symbiotic mutualism that is able to control a

person's psychology in a good direction. This is very useful, especially among employees who can calm down without having to think about the costs if something is not desired, this is certainly very beneficial for them. Insurance can also be used as a tool to minimize the occurrence of risks or things that are not desirable. Given the geographical location of Indonesia which has many mountains and active volcanoes which at any time can landslides and erupts. Insurance will play an important role in the event of a natural disaster because it can ease the burden on disaster victims.

### **DISCUSSION**

The existence of a sense of help is the main factor in the birth of sharia insurance as an alternative to conventional insurance. Islam presents the practice of sharia insurance that is humanist and in accordance with Islamic laws. The opportunity to attract share in Indonesia is very large, because it is a middle ground for the pros and cons that exist in society regarding conventional insurance. Some people forbid insurance because of obscurity, gambling, and interest. While on the other hand, there are also those who think that insurance is a mandatory thing to be followed in order to prevent all risks that we do not know about. But now with the presence of sharia insurance, this paradigm can be handled.

Although there are still people who think that sharia insurance is good, the hope is that as time goes on, sharia insurance institutions will grow. The sharia insurance industry is currently growing rapidly compared to the conventional insurance industry, with an average growth of 40%, which has proven to be resistant to the monetary crisis.

In addition, there are several factors that hinder the sharia insurance industry in Indonesia, including;

1. Culture Indonesian society with a complex and heterogeneous society. For example, Javanese culture tends to be more accepting of all kinds of problems and disasters, so they think that insuring a life or house is an act that violates the behavior of their

ancestors and is contrary to their culture. then the solution step that can be overcome is to change Indonesian society from ancient and traditional mindsets to modern and rational mindsets, both through formal and non-formal education. Such as counseling, socialization or the government and insurance institutions go directly to the community.

2. Understanding of religion in society; For example, Islam is still not detailed and pieces of the law that regulates insurance. Indonesian people's opinion is still embedded that insurance is haram and absolute for him. there are still a lot of people who don't know much about sharia insurance. So the solution step that can be overcome is how to change the haram dogma about insurance in today's society
3. The limited human resources who are smart and understand sharia insurance, both related to the operations of insurance companies and understanding of the sharia legal basis for sharia insurance products.

## CONCLUSION

The existence of financial and banking institutions that apply sharia principles, including sharia insurance, is a good development of Islamic legal thought in the economic field. Islamic law applied by sharia insurance institutions is a modification of the Fiqh rules inherited by scholars. With the presence of sharia insurance institutions, they can become carriers of Islamic law reform in Indonesia, especially in the economic field.

The sharia insurance business in Indonesia is considered very promising and will continue to grow. With a majority Muslim population, it attracts domestic and foreign entrepreneurs to establish a sharia insurance industry in Indonesia. It can be seen from 2013 with a total of 54 sharia insurance industries, consisting of 5 sharia insurance companies and 49 sharia insurance business units. Until 2018 it has grown to a total of 62 sharia insurance industries, consisting of 13 sharia insurance companies including 1 sharia reinsurance and 49 sharia

insurance business units including 2 sharia reinsurance. The Indonesian government continues to urge the sharia insurance industry to immediately spin off business units until the deadline is 2024 at the latest.

As a society that is constantly undergoing social change, laws are needed to keep abreast of these developments. The rules of sharia insurance law are very important in the development of sharia insurance, the law will always come from the people who experience social change so that the rule of law exists and is formed. This legal form is implemented and applied to make more advanced changes to society. So that the role of the government as a regulator and the community as the executor of the regulation as well as the community as a shaper by conveying aspirations to the government. So that sharia insurance law as a tool of social control is defined not as a political interest and leaves the character of society in its formation. In fact, the role of the community as a strong character makes it an element for the formation of the aspired law and as a social change in society so that it is more advanced and developed. In addition, the insurance institution must continuously improve the quality of its performance seriously and concretely. The government acts fairly as an arbiter between the insurance industry and customers as consumers. And government policies must be able to accommodate both. The government acts fairly as an arbiter between the insurance industry and customers as consumers. And government policies must be able to accommodate both. The government acts fairly as an arbiter between the insurance industry and customers as consumers. And government policies must be able to accommodate both.

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