

Optimization of the Development and Market Share Growth of Sharia Insurance in the Modern Era

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Abstract

Introduction to The Problem: The Islamic insurance industry in Indonesia has great potential to grow, especially considering the majority of Indonesia's population is Muslim. However, in reality, the market share of Islamic insurance in Indonesia is still lagging behind compared to other financial institutions and when compared to conventional insurance. Based on data as of December 31, 2022, it shows that conventional insurance premiums have a market share of 50.32%, social and compulsory insurance premiums are 45%, while Islamic insurance premiums only reach 4.76%.

Purpose/Objective Study: This study aims to analyze strategies to optimize the development and increase market share of Islamic insurance in the modern era.

Design/Methodology/Approach: This research uses a qualitative method with a descriptive approach to review literature related to marketing strategies, technological innovation, consumer behavior, and regulations in Islamic insurance.

Findings: The research findings show that optimization of development can be achieved through product innovation in accordance with modern market needs, the application of digital technology, and increased Islamic financial literacy. In addition, strong regulatory support from the government, both from DSN-MUI and OJK, is essential in creating a conducive environment for the growth of Islamic insurance. The conclusion of this study states that collaborative strategies between Islamic insurance companies and related industries, as well as the utilization of digital technology, can increase the market share and competitiveness of Islamic insurance in the modern era. This optimization can expand product range and increase consumer confidence, as well as strengthen the position of Islamic insurance in the global financial market.

Paper Type: Research Article

Keywords: Sharia Insurance; Market Share; Optimization

Introduction

The sharia insurance industry in Indonesia has great potential to grow, especially considering the majority of Indonesia's population is Muslim. Given the principles of sharia finance that are in accordance with religious teachings, sharia insurance should be an attractive option for the Indonesian people. However, in reality, the market share of Islamic insurance in Indonesia still lags behind compared to other financial institutions and when compared to conventional insurance.

The scale of the Islamic insurance industry in Indonesia is still relatively small compared to conventional insurance. Based on the data, there are 29 sharia life insurance companies, 25 sharia general insurance companies, and 4 sharia reinsurance companies (including sharia units). Data as of December 31, 2022 shows that conventional insurance premiums have a market share of 50.32%, social and compulsory insurance premiums of 45%, while Islamic insurance premiums only reach 4.76%. In addition, there is no social insurance and compulsory insurance that operates based on sharia principles. Therefore, it is necessary to strengthen the role of Islamic insurance in Indonesia (OJK, 2023).

One of the factors contributing to the slow development of Islamic insurance is the lack of public understanding of Islamic insurance products (Susanto, 2020). Education about the concept of Islamic insurance, such as profit sharing (*mudharabah*) and cooperation (*ta'awun*), is still lacking. In addition, there is a perception that Islamic insurance is not as effective as conventional insurance in providing optimal protection and services. This has resulted in low public trust in Islamic insurance (Lestari, 2020) thus inhibiting its growth.

Apart from public understanding, intense competition with the conventional insurance industry is also a significant challenge for the development of Islamic insurance (Irawati, 2015). Conventional insurance, with its more mature infrastructure and more aggressive marketing strategies, has managed to attract more customers and dominate the market. In this modern era, conventional insurance companies are also faster in utilizing digital technology to improve their services.

Based on previous research by Yovenska L. Man regarding the actualization of Islamic insurance which explains that basically, Islamic and conventional insurance each have advantages and disadvantages. It is important for customers to understand and carefully consider which insurance is most suitable for use. Insurance selection must be tailored to the needs so that the benefits and benefits obtained can be maximized. For Muslims, they should use sharia insurance or gradually switch from conventional insurance (L.Man, 2017).

Asyari Suparmin's research discusses the prospects and challenges of Islamic insurance which explains that among the obstacles that need to be aware of as a challenge is the limited availability of qualified human resources and has the spirit of sharia. The prospect of Islamic insurance in Indonesia will be better if Muslims are able to recognize and take advantage of the opportunities and strengths that exist (Suparmin, 2018).

Research by Agung Grafika Surbakti dan Syahriza analyzed the potential and constraints of sharia insurance development at Asuransi Takaful Keluarga Medan Branch. He mentioned that the obstacles faced by PT Asuransi Takaful Umum Medan Branch in terms of weaknesses are the low market share of Islamic insurance in Indonesia and limited quality human resources. Meanwhile, in terms of threats, there is intense competition in the insurance industry, both from Islamic and conventional insurance, as well as a lack of public understanding of Islamic insurance and regulations related to capitalization (Surbakti & Syahriza, 2022).

Research by S. Nurrahimah, et al related to Islamic insurance states that the development of Islamic insurance in Indonesia is significant, characterized by an increasing trend in the number of insurance companies, products, and gross contributions. One of the factors that support the progress of Islamic insurance in Indonesia is the existence of clear regulations from the government (Nurrahimah et al., 2023). Therefore, regulatory support also plays an important role in the development of the Islamic insurance industry.

Based on the various challenges faced by the Islamic insurance industry while the potential or opportunities are quite significant, so this research is important because it can provide recommendations to face these challenges and help develop this industry to compete effectively in the financial market, it is expected to help increase understanding of how Islamic insurance can be optimized to further contribute to economic stability, both at the individual and national levels, by providing protection that is in accordance with the religious values adopted by the majority of the population in Muslim countries. Thus, there is a need for a comprehensive Islamic insurance development optimization strategy. Therefore, this study aims to analyze strategic steps in optimizing the development and increase in the market share of Islamic insurance in the modern era, so that this industry can grow significantly and provide wider benefits to society.

Methodology

This research uses a qualitative approach with a descriptive method. The qualitative approach was chosen to deeply understand the phenomena related to the development and increase of Islamic insurance market share in the modern era. Descriptive research aims to describe in detail and structured regarding development efforts, marketing strategies, and factors that influence the growth of Islamic insurance market share. The data source in this research is

secondary data obtained through literature studies in the form of scientific journal articles, books, research reports, and documents related to Islamic insurance and its development. In addition, secondary data also includes reports from Islamic financial institutions, insurance regulators, and publications related to the development of the Islamic insurance industry. Data analysis is done descriptively by analyzing all data or information that has been collected. After the data is processed, interpretation of the findings is carried out to draw conclusions and provide recommendations on strategies to optimize the development and increase market share of Islamic insurance.

Results and Discussion

Increased Understanding and Literacy of Sharia Insurance

The level of public literacy towards Islamic insurance is still relatively low compared to conventional insurance. Many people do not understand the fundamental differences between sharia and conventional insurance, especially in terms of contracts and risk-sharing mechanisms. Therefore, the socialization of literacy and education about Islamic insurance must be improved, both through digital media and financial education in various circles. As research by Tambunan and Lubis shows that the lack of public understanding of Islamic insurance is one of the main obstacles. So efforts are needed to increase public understanding and literacy about Islamic insurance (Tambunan & Lubis, 2023). The effect of Islamic insurance literacy on public perception in choosing Islamic insurance. From the test results, it is found that the independent variable, namely Islamic insurance literacy related to contracts in Islamic insurance, has a significant influence on public perceptions (Rahmadion et al., 2021).

Based on data that in March 2024, Prudential Syariah participated in a Public Lecture at the University of Indonesia organized by the Faculty of Economics and Business. This lecture aims to increase the literacy and inclusion of Islamic insurance (Detik, 2024). Meanwhile, in June 2024, PT Asuransi Allianz Life Syariah Indonesia (Allianz Syariah) sought to increase public trust in sharia insurance through various literacy activities to overcome the public perception that sharia insurance is only for Muslims. Since its separation from PT Asuransi Allianz Life Indonesia in November 2023, Allianz Syariah has consistently carried out various initiatives to support the improvement of literacy and understanding of sharia insurance in Indonesia. In addition, Allianz Syariah also organizes financial literacy and financial planning education activities for students, housewives, and UMKM to deepen their understanding of

sharia life insurance. The company also socializes the values of universal goodness that are the basic principles of all sharia insurance products through educational articles and social media content (Antaranews, 2024).

Product Development and Innovation

Islamic insurance companies need to develop innovative products that suit the needs of modern consumers, such as Islamic insurance products that are more flexible and personalized, such as microinsurance products or sharia-based health insurance which are in great demand by consumers. Different communities need takaful products that are tailored to their financial capabilities. This product innovation is part of the market development process and a factor in maintaining competitive advantage (Nazla et al., 2024). Product diversification that is more flexible and suits the needs of modern consumers is one of the key factors in attracting more participants (Adinugraha & Sartika, 2020).

In the 2018-2022 period, the contribution of Islamic life insurance grew by 15.92%, from Rp.12.66 trillion in 2018 to Rp.22.85 trillion in 2022. Sharia general insurance and reinsurance also recorded an increase of 14.03%, from Rp.4.62 trillion in 2018 to Rp.7.81 trillion in 2022. Based on data on sharia life insurance contribution income in 2022, investments are dominated by endowment products and/or their combinations and sharia life insurance investment products. Contribution income from Islamic insurance investment products decreased by 20.6%, from 57.1% in 2018 to 36.5% in 2022. Meanwhile, other sharia life insurance products, especially sharia endowment products, increased by 20%, from 24.1% in 2018 to 44.1% in 2022 (OJK, 2023).

Digital Marketing Optimization

In the digital era, people are required to be wise in utilizing the convenience and effectiveness in interacting with each other. Various digital innovations in various fields show that society plays a role in the progress of an increasingly modern era (Apriliana et al., 2019). From a business perspective, digitalization is an important factor in strengthening customer relationships, improving business process efficiency, and creating and adapting new business models (Hidayati et al., 2023).

The use of digital technology has now become a necessity for services in the financial and insurance sectors to be faster, easier, and more affordable in the future. Insurance

customers, both individuals and businesses, will increasingly want more personalized services that can be tailored to their needs (Setneg, 2022).

The importance of digital technology and social media as tools to expand coverage and increase consumer engagement in Islamic insurance products (Hassan & Aliyu, 2018). The use of InsurTech or insurance technology is considered to accelerate the claim process, increase transparency, and facilitate public access to Islamic insurance products (Susmita & Aslami, 2021). As research Anggraini and Sudharyati states that PT Prudential Syariah Jambi Branch has implemented and utilized technology and social media to support the company's development in increasing the latest innovations that can be easily accessed by customers (Anggraini & Sudharyati, 2023).

The role of information technology is very important for the insurance industry, especially in supporting operations to serve the public as service users. The development of information technology in this industry moves dynamically, adjusting to changes in the business environment and customer needs for technology-based insurance products and services. Optimal utilization of information technology can be an opportunity to encourage the efficiency and effectiveness of business processes, while increasing the competitiveness of the insurance industry (OJK, 2023).

Islamic financial institutions must develop information technology, as well as increase promotion and socialization to all levels of society. For example, by using advertising as a promotional tool to attract and influence existing and potential customers. The objectives of using advertisements include informing about everything related to the products and services owned; to remind consumers of the existence or superiority of the Islamic insurance products and services offered; to build the company's image in the long term; and to attract the attention and interest of potential consumers and consumers from competing companies (Al Arif, 2015).

Collaboration and Synergy with Other Industries

Collaboration between Islamic insurance companies and other industries, such as the Islamic banking sector, fintech, and educational institutions, is very important to increase market share. This synergy can create more integrated and comprehensive products. Strong collaboration and continuous innovation are supporting factors for continuous growth in the

Islamic financial industry, such as partnerships between Islamic financial institutions and other related parties (Kurnia et al., 2023).

The development of the insurance industry can take place more quickly and thoroughly with effective synergy, collaboration and coordination between the government, authorities, industry and other relevant stakeholders. By forming a business network through collaboration and synergy, it will gain many business partners and also relationships about business, especially insurance. Synergies in the insurance industry ecosystem can be realized in several ways, including: synergies with other financial services industries, synergies between financial institutions, synergies with social institutions, synergies with ministries or institutions, synergies with associations, and synergies with other insurance industries (OJK, 2023).

Competitive Advantage of Islamic Insurance

Islamic insurance has a competitive advantage over conventional insurance, especially in terms of compliance with sharia principles, such as risk sharing and the absence of usury. These advantages can attract a larger Muslim market segment, especially in Muslim-majority countries such as Indonesia and Malaysia. The advantages of Islamic insurance can also be seen in terms of the benefits provided to the community in developing businesses and improving their standard of living (Solehudin, 2019).

However, the main challenge remains consumer education and how to effectively convey these Shariah values to the wider community. Islamic insurance regulations in Indonesia and Malaysia were formed based on the spirit of nationality influenced by historical school of thought. Despite having the same basis, Indonesia is slower in responding to the law as a community need. As a result, the development of the Islamic insurance industry in Indonesia is far behind Malaysia. This is due to the less responsive role of the law in Indonesia, as the law functions more as a means of social control than as a driver of change so that Islamic insurance can develop more rapidly (Agustin, 2020).

Increasing the Quality and Quantity of Human Resources

The service quality improvement program is carried out through the development of competent human resources and the provision of information technology that can meet customer needs and satisfaction. In addition, this program also aims to convey the products and

services of Islamic financial institutions to customers precisely and clearly, while still complying with sharia principles (Hidayatullah & Hidayati, 2022).

Human resource development in insurance companies has a number of key focuses that suit the needs of the industry. Some important aspects of human resource development in insurance companies include: training on insurance products and knowledge, improving sales and marketing skills, risk management and underwriting, and developing leadership and managerial skills (OJK, 2023). In addition, to overcome the shortage of professional human resources, it can be done by encouraging the improvement of the quality and quantity of Islamic insurance human resources through several certification programs (Hasan, 2014). These human resources who are experts in the field of Islamic economics and finance will encourage the progress of the industry, among others by creating innovative products and expanding new market shares.

Effect of Government Policy and Regulation

The Indonesian government actively provides support and regulations that support the growth of the Islamic insurance industry. In Indonesia, support from the Financial Services Authority (OJK) and regulations from the *Dewan Syariah Nasional-Majelis Ulama Indonesia* (DSN-MUI) that regulate the implementation of sharia principles in the financial sector allow the Islamic insurance industry to flourish.

DSN-MUI has issued fatwas related to insurance in line with sharia principles, which serve as guidelines for insurance institutions in implementing insurance systems in accordance with Islamic teachings. The guidelines are regulated in DSN Fatwa No. 21/DSN-MUI/X/2001 concerning General Guidelines for Sharia Insurance (Pertiwi & Abidah, 2021).

Conclusion

This research can be concluded that the Islamic insurance industry has great potential to grow, especially in a country with the largest Muslim population such as Indonesia. Increasing the market share of Islamic insurance can be achieved through several strategies, including strengthening public literacy about Islamic insurance products, product innovation that suits customer needs, and increasing the use of information technology for operational efficiency. In addition, good collaboration between the government, industry, and other stakeholders is also an important factor in driving the growth of this industry. The implementation of these strategies

is expected that the Islamic insurance industry can compete better with conventional insurance, as well as with other financial institutions and meet the needs of the community for protection based on sharia principles. Thus, optimizing the development and increasing the market share of Islamic insurance will not only provide benefits for the industry itself, but also for the national economy and the welfare of the community as a whole.

The implications of this research are expected to provide practical guidance to optimize marketing strategies, product innovation, and the use of digital technology. This research also has implications for increasing access and awareness of Islamic insurance products, with improved financial literacy, Muslim consumers can understand the benefits of Islamic insurance in accordance with sharia principles, so that more people are financially protected. As for the implications for policymakers, this research provides informational insights in encouraging appropriate policies in order to create an enabling environment for growth, improve consumer protection, and expand the market share of Islamic insurance at the national and global levels.

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