



## Application of Sharia Principles in Management Risk on Industry Insurance Sharia

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**Abstract:** *With the existence of sharia banking, banks carry out business in a way that complies with Sharia, known as Sharia principles. It consists of exchanging money in accordance with sharia principles while managing risk ( mudharabah ), managing money ( murabahah ), fairness or abundance ( ijarah ), or lending money from one bank to another ( ijarah wa iqtina ) and so on. In its development, institutions outside the banking structure, such as insurance, also participated. Insurance is a non-bank financial institution that operates in the economy outside the banking sector. It is tasked with supporting economic activities by providing investment and financing access services. The unique thing about sharia insurance is that it carries out procedures for all its activities with principles that are in line with sharia, so in all these cases it is also very important to see, measure, control and monitor risks that arise from operational activities. Therefore, the authors' skepticism regarding their hypothesis is whether or not there is an influence of sharia principles on risk management in sharia insurance. This research uses quantitative methods with descriptive statistical analysis. The impact of applying Islamic principles to risk management in the sharia insurance sector is that the application of Islamic principles to risk management in the insurance sector is very beneficial. However, there are parts that need to be limited and clarified as to what kind of disaster we can help with, of course this requires company regulations and customer agreements to be in good and correct accordance.*

**Keywords:** *Islamic principles, Risk Management, Sharia Insurance.*

### 1. INTRODUCTION

The development of the Islamic financial market in Indonesia is still relatively new, its development over the last few years has been quite slow (Alamsyah, 2010). The increasing number of sharia banks in Indonesia, including sharia mutual funds, sharia banks, and sharia insurance businesses, is the reason for this expansion. One of the most important innovations in the Islamic financial market which has a major influence on the community's economy is the Islamic banking sector. The banking industry in Islam has the potential to have a significant impact on economic transformation that is intuitive, tangential and productive (werdi, 2017). Article 1 Law no. 10 of 1998 concerning Bank Secrecy, which regulates banks operating based on sharia principles, contains special regulations for sharia banks.

The guidelines that banks and other parties adhere to when exchanging money or conducting business in a Shariah-compliant manner are known as Shariah principles. It consists of exchanging money according to the principles of managing risk ( *mudharabah* ), managing money ( *murabahah* ), fairness or abundance ( *ijarah* ), or lending money from one

bank to another ( *ijarah wa iqtina* ) when exchanging money with another party ( fatimah, 2023)

With the existence of sharia banking, its development has also been followed by institutions outside the banking structure, such as insurance. In common parlance, insurance is a non-bank financial institution that operates in the economy outside the banking sector. It is tasked with supporting economic activities by providing investment and financing access services. This aims to help improve community welfare. Insurance itself is a non-bank product that guarantees people's welfare in the circles of health, education and property. The system runs by collecting official funds which are paid regularly over a certain period of time. The implementation is based on an agreement agreed by both parties, the customer and the company, based on the provisions of the insurance policy.

The unique thing about sharia insurance is that it carries out procedures for all its activities with principles that are in line with sharia, so in all these cases it is also very important to see, measure, control and monitor risks that arise from operational activities. So this is the author's interest in conducting research entitled **The Effect of Applying Sharia Principles in Risk Management in the Sharia Insurance Industry**

## 2. THEORETICAL STUDY

### Sharia Principles

Sharia Insurance is a financial protection scheme that complies with Islamic law. The three most important principles of sharia—fairness, sustainability, and impartiality—concern the use of funds and contracts. Gaining a deeper understanding of Takaful insurance plans can help one understand how this system operates and fulfill financial commitments in line with Islamic standards.

In Sharia insurance, individual risks can vary more in Sharia insurance because members share the risk collectively. Islamic insurance emerged as an option for people who wanted to protect themselves from monetary dangers without being forced to follow strict Islamic teachings.

Developing operational fundamentals in accordance with Islamic law requires careful consideration of Sharia insurance concepts. These are the most important concepts in the context of financial protection in terms of contracts, fund management, and the ultimate goal of the Sharia insurance system. You must know the following important sharia insurance principles.

a. Contract Principles

One of the basic principles in sharia insurance is validity. Sharia insurance must be based on a transparent agreement between the parties involved. In sharia insurance, the contract refers to cooperation between the insurance company and the policyholder, where the policyholder pays a contribution (*ujrah*) to obtain protection against certain risks.

b. Profit Sharing Principle (*Tabarru'*)

The idea that insurance companies should strategically withhold a portion of their contributors' contributions to maximize collective savings is known as the “ *hashash or tabarru* ” principle. When an employee faces a risk or needs to follow pre-established rules, this data is used to support them. This idea highlights unity and mutual respect for each other.

c. Risk Pooling Principles

The principle of risk pooling, also known as *ta'awun*, emphasizes the importance of sharing risks within a sharia-secured community. In this system, each group member bears greater risks. If someone experiences a risk or disaster, they can use the invested funds to help improve their financial condition.

d. Principle of No Gharar (Uncertainty) and Maisir (Gambling)

The restrictions and injustices seen in sharia insurance are overcome by the principles of non-gharar and non-mousir. Sharia insurance must consider flexible policies without discriminatory aspects. This is to ensure that fair guidelines and expectations for all parties involved form the basis of the insurance plan (Frudental syariah.co.id).

### 3. RISK MANAGEMENT

According to Ferry N. Indroes, risk management is defined as a risk management technique described as a logical and systematic approach to identification, quantification, determination of physics, problem solving, and continuous monitoring and assessment of risks associated with each activity or process (Ferry, 2019).

The following stages are usually used in the risk management process to detect potential risks that may originate from various aspects:

1. Risk identification and mapping

This procedure defines the first steps and proceeds to the categories of identifiable and non-detectable risks, establishing a work plan to implement a complete risk strategy.

This idea explains that risks are recognized as soon as possible, regardless of how small they may seem at first, and that risk management still requires anticipation of danger.

2. Perform risk ranking

The methods to be described require the use of externally provided models and resources to minimize risks and requirements. This means that risk can be increased in various ways to ensure that there is a manageable amount of risk. As a result, risks can be identified as early as possible in the insurance company to identify the best course of action for business operations.

3. Confirm the risk profile and risk management plan

One very important category in risk management is confirming the risk profile to identify the company's risk appetite and strategic vision. This provides an understanding of the risk conflicts that will arise. For example, in Islamic banking, there are risks from liquidity risk, reputation risk, market risk, financial risk, and so on. In sharia insurance, there will also be unclear risks.

4. Risk solutions or implementation of actions against risks

One important thing to consider is risk mitigation strategies. After understanding the potential risks, they must develop strategies to mitigate those risks. How big the risks that arise need to be avoided and mitigated.

5. Monitoring and updating or repayment of control fund risks

In order to evaluate and analyze evaluation findings related to the implementation of risk management plans that are integrated into overall risk, this project will be used to monitor risks from all related points of view as well as identify various risks carried out by all related business and government entities. Thus, risk management strategies will be implemented, evaluated and carried out carefully. As a result, the business has implemented a risk management system successfully. In order to manage potential dangers that may occur from individuals, groups, or companies, overall risk management aims to minimize risks and achieve the goal of implementing effective corporate governance, or a solid corporate governance framework. Therefore, identification, analysis, correction and mitigation are the results of risk management. As a result, sharia insurance companies identify dangers as soon as they arise (Iin, 2011).

## **4. RESEARCH METHODS**

### **Research Types and Designs**

This research uses a quantitative method because the aim of this research is to test a theory, present facts, and determine the relationship between variables to build a concept, so a quantitative method is used. Descriptive statistical analysis is used to analyze data by describing or providing an overview of research objects using sample data or population statistics as appropriate, without carrying out analyzes that apply to the general public or making conclusions that apply to the general public. This research consists of two independent variables, namely the influence of sharia principles (X1) and risk management (X2).

### **Population and sample**

Fadli Agus Triansyah, et al., (2023:68) "Population" refers to a large category or grouping of all entities-people, objects, or components-that have certain characteristics or traits that are relevant to research.

All objects or elements that have characteristics or features identified by researchers who are motivated to study them are called a population. The intended audience for a particular study is determined by the anticipated results. The main focus of this research is the Indonesian sharia insurance market.

Meanwhile, according to Fadli Agus Triansyah, et al., (2023:69) A sample is known as a part taken from a larger population to be studied, measured or observed. The sample of this research, namely the insurance sector, utilizes risk management.

### **Data collection techniques**

In this research, the data collection techniques used include

a. Observation

The observation method is a method of collecting data that requires moving from one location to another to see things related to the process of obtaining data, which includes carefully studying the samples to be analyzed, observing different interactions, and thoroughly analyzing the results of the work subject (in moleong, 2006)

b. Documentation

One way to collect data secretly from subjects that are relevant to research is through documentation. This is done to understand the highlighted content and collect some first data about how researchers relate to respondent data (Anggy, 2021)

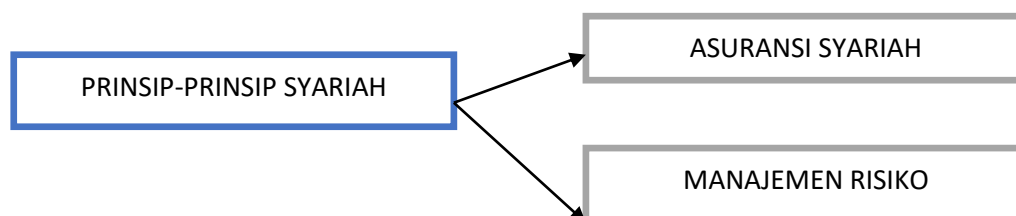
## Research Data Analysis

According to Hasan (2006: 24), data processing is the practice of using certain methods or a set of formulas to analyze summary data or summary figures. By changing less accurate survey data into more accurate data, data elaboration seeks to provide direction for more in-depth research (Sudjana, 2001: 128).

The following are the steps used in data processing:

- a. **Data Editing:** This is necessary to complete the questionnaire field data. The editing procedure aims to: (1) Show the completeness of the questionnaire. (2) More emphasis on reason than feelings. (3) Check the coherence of questions with each other.
- b. **Data Coding:** When processing data, the following two steps are very important: (1) Entering information or obtaining information for tabulation procedures. (2) Re-modify the tabulated data to find data entry errors, including problems with table rows or columns.
- c. **Data Processing :** There are two most important things that must be done when processing data: (1) Entering data, or collecting data for the tabulation process. (2) Re-edit the tabulated data to detect data entry errors, or data entry errors in table columns or rows. (Nugraha, 2005).

## 5. RESEARCH FRAMEWORK



## 6. RESULTS AND DISCUSSION

The main principles of Islam—namely that everyone is equal—are unambiguous, easy to understand, and uncomplicated, with the exception of matters that are specifically and narrowly defined in the Qur'an or that are inconsistent with the teachings of the Prophet (such as maisir, gharar, and riba, riswah or sua, eniuan, monooli, etc.), or which are not in accordance with Islamic law (Abbas, 2023).

The impact of applying Islamic principles on risk management in the sharia insurance sector was also a topic of discussion. According to the researcher's analysis, it can be seen theoretically that in sharia principles the conclusion is that when one of the customers is hit

by a disaster, other customers are obliged to help that customer with the funds they have. In the sense of the principle of working hand in hand, in this case it falls into the category of risk management, where the solution when there is a problem is the solution offered. However, this can be seen again from the aspect of what happened to this customer. So the sharia industry needs to first determine the limitations that customers need to know. This is in line with risk management regarding uncertainty. So it must be determined with certainty and also with the agreement of all the people involved.

## **7. CONCLUSION**

The main aim of the Islamic principles presented is to reduce the problems that exist in Islamic business, the application of Islamic principles in risk management in the insurance sector is very useful. However, there are parts that need to be limited and clarified as to what kind of disaster we can help with, of course this requires company regulations and customer agreements to be in good and correct accordance.

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