INTEGRATION OF SHARIA PRINCIPLES IN THE INSURANCE SECTOR: LEGAL ANALYSIS AND BUSINESS PRACTICES OF ISLAMIC INSURANCE IN INDONESIA

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Abstract - *Insurance plays an important role in modern economies as a risk management mechanism, shifting the financial burden of unexpected events to another party, supporting financial stability, and facilitating investment and economic growth. Islamic insurance, which integrates Islamic economic principles, operates based on the concepts of profit sharing and solidarity, offering ethical and faith-based financial solutions, especially in Indonesia where the growth of the Islamic insurance market reflects the high demand for financial products that are in line with Islamic values. However, there are challenges in integrating Islamic principles into conventional insurance frameworks, requiring a more adaptive and inclusive legislative approach. This study aims to examine the legal analysis and business practices of Islamic insurance in Indonesia from the perspective of Sharia principles in the insurance sector. The research method used in this study is normative juridical with a conceptual approach and legislation. This study found that the Sharia insurance industry in Indonesia has established a solid foundation by adopting Sharia principles and is supported by regulations such as Law No. 24 of 2004 and POJK No. 6/POJK.05/2016. Despite challenges such as lack of understanding and support from the government, the sector has recorded significant growth, driven by demand from the Muslim community for ethical financial services. This conducive legal framework demonstrates Indonesia's commitment to developing an inclusive and sustainable Islamic financial ecosystem, potentially cementing the country's position as a global Islamic economic hub.*
Keywords: *insurance; business; Islam; sharia.*

INTRODUCTION

Insurance is a vital instrument in the modern economy, acting as a risk management mechanism that shifts the financial burden that may arise from unexpected events to another party. In the context of a globalized economy, insurance supports financial stability by providing security for individuals and companies, enabling risky initiatives that might otherwise not be considered. The loss redistribution function through premium collection and claims payment facilitates more efficient resource allocation and encourages investment and economic growth (Rofi'ah, 2013). In 2019, the global insurance sector recorded premiums of USD 6.3 trillion, demonstrating the importance of this sector in the world economy. In Indonesia, the growth of the insurance market continues to show a positive trend with a 10% increase in premiums in 2020, signaling increased trust and need for insurance products (Rahim, 2014). Insurance not only plays a role in managing financial risks but also in promoting responsible public policies, reducing economic uncertainty, and supporting socio-economic sustainability (Rofi'ah, 2013).

Islamic insurance is a manifestation of efforts to integrate Islamic economic principles in the financial services sector, designed to provide a financial safety net while complying with Islamic law (Milhim & Al-Islâmî, 2004). Compared to conventional insurance which is based on risk transfer and the use of interest in its operations, Islamic insurance operates on the basis of profit sharing and solidarity where risks are shared among all policy members through tabarru' (donation) contracts. The financial structure of Islamic insurance rejects the use of riba (interest), gharar (uncertainty), and maysir (speculation), all of which are prohibited in Islamic law. Basically, Islamic insurance adopts the concept of takaful, which literally means 'mutual guarantee', reflecting the cooperative and mutual aid ethos advocated in Islam (Namira Irza Andari, 2020). In Indonesia, the Islamic insurance sector is experiencing rapid growth, indicating a growing demand for financial products that are aligned with religious values. This is reflected in the Financial Services Authority's report showing a 30% annual increase in Islamic insurance industry assets since 2010, providing an alternative for consumers seeking ethical and faith-compliant insurance solutions (Otoritas Jasa Keuangan, 2019).

In understanding the legal context of Islamic insurance in Indonesia, it is important to review the regulatory framework that provides the operational foundation for Islamic insurance and ensure its compliance with sharia principles. Indonesia, as a country with the largest Muslim population in the world, has developed an Islamic economic sector that includes the Islamic insurance industry. This legal framework is embedded in Law No. 40/2014 on Insurance, which includes specific provisions on Islamic insurance, regulating how Islamic insurance should be managed in accordance with sharia principles that prohibit riba (interest), gharar (uncertainty), and maysir (speculation).

The Financial Services Authority (OJK) as a regulatory and supervisory institution for the financial services sector in Indonesia, through its regulations and policies, confirms the procedures and operationalization of sharia insurance, including the application of sharia-compliant contracts and the management of tabarru' funds (donation funds) and investment funds that must comply with sharia principles. This regulation aims to create a conducive business environment for the growth of sharia insurance, guarantee protection for stakeholders, and ensure that insurance business practices are not only in line with positive law, but also with the ethical and moral values outlined by Islamic law (Otoritas Jasa Keuangan, 2023). The preparation of this regulation is also supported by the National Sharia Council - Indonesian Ulema Council (DSN-MUI), which is tasked with providing fatwas and guidelines on sharia compliance in banking and financial aspects, including sharia insurance. As such, these regulations and guidelines collectively create a comprehensive legal framework for Islamic insurance in Indonesia, designed to ensure that Islamic insurance operations and products are in line with Islamic law and meet the needs of Indonesia's diverse communities (MUI & Bank Indonesia, 2006).

In the practice of Islamic insurance, there are various legal issues that are often at the center of academic debate and discussion. Islamic insurance, which operates in accordance with sharia principles, faces the challenge of integrating religious norms with national legal frameworks that are often secular or oriented towards the conventional insurance system (Rofi'ah, 2013). Existing legal frameworks may not always provide sufficient guidance to address the unique aspects of Islamic insurance, such as issues of risk and profit sharing, Shariah-compliant investments, and claims management in certain cases. The alignment between Islamic insurance contracts and the provisions of insurance laws is a frequently discussed topic, particularly with regard to the recognition and treatment of Islamic contracts such as mudharabah and wakalah. Compliance with the principles of no gharar (uncertainty), maysir (speculation), and riba (interest) must be clarified in regulations to ensure the validity and sustainability of Islamic insurance practices. In addition, there are also challenges in law enforcement in the event of a dispute, the resolution of which requires an in-depth understanding of sharia principles and positive law (Zainuddin Ali, 2023).

The development of innovative Islamic insurance products is often constrained by the absence of specific legal guidance, which results in the products being interpreted based on conventional insurance frameworks that may not be fully compatible (Abdul ghofur anshori, 2008). This raises the need for a more adaptive and inclusive legislative approach, which can accommodate the uniqueness of Islamic insurance products and services and ensure consumer protection. The linkages between the regulation of Islamic banking and the Islamic insurance sector also require harmonization to create a cohesive and effective Islamic financial ecosystem (Zainuddin Ali, 2023).

The integration of sharia principles in the insurance sector is a response to financial needs that are aligned with religious beliefs. Shariah principles that prohibit riba (interest), gharar (uncertainty), and maysir (speculation) challenge the insurance industry to adapt its products and operations to meet these requirements (Maksum, 2016). In Indonesia, the Islamic insurance market is experiencing rapid growth, in line with the increasing public awareness of the importance of financial products that comply with Islamic principles. However, there are challenges in integrating sharia principles into the existing insurance framework. These complexities arise from different interpretations of sharia principles, variations in application by financial institutions, and the need to synchronize with international standards (Zalfanur et al., 2023). Recent research shows that consumers in Indonesia are demanding greater transparency and shariah compliance in insurance, which is driving insurance companies to innovate in the development of their products and services. Within this framework, the role of the Sharia Supervisory Board is critical in ensuring product compliance with sharia principles, while regulatory authorities such as the Financial Services Authority (OJK) continue to refine regulations to support the sustainable growth of the Islamic insurance sector.

Given the global and local dynamics, a recent review of cases in Islamic insurance practice can provide valuable insights into how current regulations are applied and which areas require updating or customization to meet the specific needs of Islamic insurance. Therefore, a thorough understanding of these legal challenges is important to ensure that the Islamic insurance sector can thrive on fair and transparent principles, in line with the growth of the broader Islamic economy. So, the big question is how to analyze the law and business practices of Islamic insurance in Indonesia in the perspective of sharia principles in the insurance sector?

1. METHOD

The research method used in this research is normative juridical with a conceptual approach and legislation. The data source used in this research is secondary. Data analysis is done descriptively-qualitatively. The specification of this research uses descriptive analytics, which is describing data that aims to obtain a complete picture of certain legal events that occur in society in order to be analyzed based on relevant rules.

RESULTS AND DISCUSSION

Regulatory Framework and Implementation of Sharia Insurance in Indonesia

Shariah insurance has further cemented its position as a popular financial choice among Muslims in Indonesia, providing financial protection options that are aligned with shariah teachings. Shariah insurance is rooted in Islamic principles that include the concept of Takaful, which is the concept of mutual assistance and risk sharing among members; Akad, which confirms a clear and transparent legal agreement between the insurance provider and its customers; Tabarru' Fund, which ensures the management of contribution funds separate from company finances without involving usury; and investment practices that ensure all funds are invested in halal and shariah compliant activities (Fadilah & Makhrus, 2019). Legally, sharia insurance has a strong foothold in Indonesia as it is regulated in various regulations, including Law No. 24/2004 on Sharia Financial Institutions which outlines the operation and supervision of sharia finance, including insurance. A regulation issued by the Financial Services Authority, POJK No. 6/POJK.05/2016, provides a specific operational framework for sharia-based insurance businesses, while the Fatwa of the National Sharia Council - Indonesian Ulema Council No. 21/DSN-MUI/X/2001, offers guidance on sharia-compliant insurance principles and contracts. The National Sharia Council defines sharia insurance, also known as ta'mîn, takâful or tadhâmun, as a collective endeavor for mutual protection and assistance among a group of people.

A comparison between Islamic insurance and conventional insurance reveals fundamental differences in foundation and operations. Islamic insurance operates on the basis of the takaful principle, which emphasizes the concept of mutual aid and mutual assistance, is governed through tabarru' contracts meaning donations or grants, and invests funds in accordance with sharia principles that are halal and free from usury. In contrast, conventional insurance focuses on risk transfer from the insured to the insurer, with premiums and coverage as the core of its operations, and does not limit investments, including those that contain interest. Islamic insurance emphasizes togetherness and compliance with sharia in every aspect, while conventional insurance is oriented towards risk exchange mechanisms based on standard agreements and fund management that does not separate halal and usury investments (Maksum, 2016).

Table 1.1 Comparison of Sharia and Conventional Insurance Laws

Aspects	Sharia Insurance	Conventional Insurance
Principles	Takaful, Akad, Tabarru', Sharia Investment	Risk Transfer, Premi, Coverage
Akad	Tabarru' (grant)	Standard agreement
Fund	Managed separately, usury-free	Managed jointly, contains interest
Investment	Halal and sharia compliant	No restrictions

The fundamental difference between sharia and conventional insurance lies in the aspects of profit, consideration of sharia prohibitions, and supervisory mechanisms. In the context of Islamic insurance, the company acts as a representative or trustee for the customer, making the profits generated a joint property between the company and the customer. In contrast, in the conventional insurance model, all profits belong to the company (Maksum, 2016). Shariah insurance is strictly governed by shariah principles, which prohibit the practice of usury, maysir (gambling), gharar (uncertainty), and jahâlah (obscurity), as well as limiting investments to halal sectors. In Indonesia, compliance with sharia is guaranteed through supervision by a sharia supervisory board that ensures all insurance company operations are in accordance with sharia (Milhim & Al-Islâmî, 2004).

Insurance, whether sharia or conventional, aims to mitigate the various risks faced by customers, including the risk of death or accident, by providing the benefits of security, financial protection, access to healthcare, and assurance for the future. Insurance provides peace of mind and helps maintain the long-term well-being of the customer (Indah & Galuh, 2017). In Indonesia, provisions regarding life insurance are regulated in Articles 302 and 303 of the Code of Commerce (KUHD), which allow individuals to insure a life for the benefit of a particular person, either during life or for a specified period, and

allow interested parties to enter into insurance without having to obtain the consent of the insured person.
In analyzing the regulatory framework of Islamic insurance in Indonesia, Law No. 40/2014 on Insurance plays an important role. This law provides a legal foundation that regulates the operations of insurance companies, including Islamic insurance. One of the uniqueness in sharia insurance is the principle of separation of funds between participants and operators, which must be in accordance with sharia principles. This law also regulates risk management that must follow sharia principles, ensuring that sharia insurance operations not only follow national legal provisions but are also consistent with Islamic economic principles.
The formulation of articles in the Insurance Law recognizes and specifically regulates Islamic insurance contracts, which include tabarru' (donation) contracts and tijarah (commercial) contracts. This provides legal certainty for Islamic insurance industry players to develop products in accordance with market needs. With this regulation, Islamic insurance in Indonesia is expected to develop with the principles of transparency, fairness, and mutual protection, which are core values in Islamic economics. The law also regulates the establishment of a sharia supervisory board, which is tasked with ensuring that all sharia insurance operations run in accordance with Islamic law. This board has the authority to conduct examinations and provide advice related to the products and services offered by Islamic insurance companies. The existence of this sharia supervisory board is an element that distinguishes between sharia insurance and conventional insurance and guarantees stakeholders that the insurance products taken are not contrary to sharia principles.
The Insurance Law supports the creation of a conducive environment for the growth of the Islamic economy by allowing the investment of Islamic insurance funds in Islamic financial instruments. This includes the application of the mudarabah concept, where the insurance company and the insured share the profits and risks of the investment. This regulation reflects Indonesia's commitment to developing a strong Islamic financial sector, in line with the market potential and needs of its Muslim-majority society (Otoritas Jasa Keuangan, 2023). The overall regulatory framework of sharia insurance is designed to ensure that insurance practices not only meet existing legal standards but also fulfill the expectations of Muslims for financial products that are in line with their religious teachings. Thus, the Insurance Law is the cornerstone in ensuring the sustainability and growth of the Islamic insurance industry in Indonesia (Maksum, 2016).
Furthermore, regulations issued by the Financial Services Authority (OJK) play an important role in shaping and regulating Islamic insurance practices. As an independent institution responsible for supervising and regulating the financial services sector, OJK has a mandate to ensure that sharia insurance practices are in line with sharia principles as well as operational standards applicable in the financial sector. OJK regulations related to sharia insurance establish various principles and guidelines that must be followed by sharia insurance institutions, including provisions regarding the establishment and management of insurance products, risk management principles, and transparency in operations (Otoritas Jasa Keuangan, 2019). These guidelines include specific requirements related to the contracts used in Islamic insurance transactions, including takaful contracts based on the principles of mutual assistance and protection among participants (Namira Irza Andari, 2020).
OJK also stipulates provisions related to the management of tabarru' funds, which are voluntary contributions from sharia insurance participants to protect and help each other. This includes investment policies for tabarru' funds that must comply with sharia principles, i.e. it is not allowed to invest in instruments that contain elements of usury, gharar (uncertainty), or maysir (speculation). OJK regulations also emphasize the importance of the existence of a Sharia Supervisory Board (DPS) in every Islamic insurance institution. The DPS is tasked with overseeing all operational activities and products offered by insurance institutions to ensure compliance with sharia principles. The existence of this DPS is one of the distinguishing characteristics of sharia insurance from conventional insurance, providing additional assurance to customers that the products and services they use are in accordance with sharia law Through these regulations, OJK seeks to create an Islamic insurance business environment that is not only competitive and innovative, but also trustworthy and transparent, supporting the inclusive and sustainable growth of the Islamic economy in Indonesia. The applicable regulations are continuously updated to adjust to market dynamics and product innovations, ensuring that the Islamic insurance industry in Indonesia remains resilient and responsive to the needs of the community as well as changes in the global economy (Otoritas Jasa Keuangan, 2023).
In the context of the Islamic Insurance Regulatory Framework in Indonesia, an important aspect that stands out is the Islamic Financial Accounting Standard. The development of these standards is tailored

to Islamic economic principles and practices, ensuring that all financial and accounting transactions in the Islamic insurance industry not only comply with national regulations but are also consistent with Sharia law (Abdul ghofur anshori, 2008). The Indonesian Financial Accounting Standards Board (DSAK) has established Islamic financial accounting standards designed to reflect transparency and fairness in the financial statements of Islamic entities. These standards cover the recognition of assets, liabilities, income, and expenses that reflect the essence of sharia transactions such as profit sharing, no usury, and avoidance of gharar. Islamic insurance companies are required to present financial statements that separate tabarru' funds (donation funds used to pay claims of fellow members) and investment funds, providing a clear picture of the company's financial position (Namira Irza Andari, 2020).

The implementation of these accounting standards requires close supervision from the Financial Services Authority (OJK) to ensure industry compliance with sharia principles. In addition, the Indonesian Institute of Accountants (IAI) actively seeks updates and adjustments to these standards to synchronize with the latest developments in global Islamic business and economic practices. International best practices and standards such as those issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) are often referenced to enrich Indonesia's Islamic financial accounting standards framework (Azifah & Fitroh, 2022). In practice, the adoption of Islamic financial accounting standards has supported transparency and accountability in Indonesia's Islamic insurance industry, attracting trust not only from consumers but also from investors and other stakeholders (Hasan, 2016). This success reflects Indonesia's commitment to developing a robust Islamic finance industry and positioning the country as a global Islamic economic hub (Maksum, 2016).

In the context of the implementation of Islamic insurance in Indonesia, effective supervisory and governance structures are critical components. The Financial Services Authority (OJK), as the primary regulator, enforces the principles of good corporate governance specific to Islamic financial institutions. This includes adherence to sharia principles determined by the Sharia Supervisory Board, which determines the sustainability of business practices in accordance with Islamic law. Islamic insurance products in the Indonesian market offer a wide array of services designed to meet the specific needs of the Muslim community, in line with sharia values (Azifah & Fitroh, 2022). These products include not only life and health insurance, but also property and vehicle insurance, adopting concepts such as mudharabah, wakalah, and tabarru'.

Analysis of the performance data of the Islamic insurance industry shows consistent growth, with the total assets of the Islamic insurance industry in Indonesia continuing to increase year after year. The Indonesian Insurance Statistics Report highlights the increasing gross premium growth and penetration of Islamic insurance, indicating growing public awareness and trust in this insurance model. This performance reflects the huge potential of sharia insurance in Indonesia and is a testament to the harmony between financial needs and religious beliefs.

Operational Dynamics and Sharia Compliance in Sharia Insurance Business Practices

In the international arena, discussions on Islamic insurance often highlight aspects such as the legal and operational status of Takaful. Takaful is recognized as a form of insurance that is fully compliant with Islamic law, based on the spirit of mutual help and risk sharing in accordance with the values of justice, togetherness, and openness. It is not just a conditional donation but an insurance mechanism truly rooted in sharia law, where participants are collectively responsible for mitigating the risks faced by each member. In Indonesia, Takaful or Sharia Insurance is defined in the Insurance Law as a system that operates on sharia principles, where policyholders provide mutual protection and assistance through the investment of deposited contributions.

Although Indonesia is seen as having a huge market potential with the largest Muslim population in the world. In fact, Indonesia's market share is 5.54% (2022), which is low compared to other countries such as Malaysia (20%), Bahrain (17%), and Sudan (14%). Some other countries that have developed Islamic insurance include Luxemburg, Bahamas, and Bahrain. The history of Islamic insurance also records the establishment of Islamic insurance companies in various countries, such as Sudan, Malaysia, and Indonesia. With the confidence of Muslims in the world and the benefits obtained through the concept of Islamic insurance, various Islamic insurance companies were born in various countries (Agustin, 2020). The first insurance to be established was takâful insurance in Sudan in 1979, managed by the Dâr al-Mâl al-Islâmî Group. Dâr al-Mâl expanded its business to other European and Asian countries. There were at least four takâful and re-takâful insurers in 1983, based in Geneva, the Bahamas, Luxembourg, and the United Kingdom (Salahuddin Ahmed, 2006). Islamic insurance in Indonesia and Malaysia developed based on the needs of the Muslim community. In Indonesia, Islamic insurance has developed positively because the majority of the population is Muslim. Islamic insurance in Indonesia is divided into two products, namely Islamic life insurance and Islamic general insurance. However, in Indonesia there are two forms of companies, Parent Company and Business Unit.

Indonesian people tend to have objective thinking, so the sharia label has been ignored.The financial industry is regulated by law as a guideline for conducting business.The law is formed has a background based on where the style of law grows in a society (Agustin, 2020). In addition, there are differences in the regulation of Islamic insurance in Indonesia and Malaysia. The development of the Islamic insurance industry in Indonesia is also somewhat behind compared to Malaysia, which can affect dispute resolution in the legal realm. As well as problems in the Islamic insurance business courts in Indonesia, including disputes between Islamic and conventional insurance, as well as the lack of legal responsiveness and political will of the government.

The development of the Islamic insurance industry in both countries is compared, and although the difference is that Malaysia is one step ahead in implementing policies in the regulatory space, the consistency of its development seems to be getting stronger with the existence of various new policies to further improve the quality of the Islamic insurance industry. Sharia Insurance in Malaysia and Indonesia has similarities and differences in its development. Malaysia is superior in market penetration and the Islamic Insurance ecosystem, but Indonesia has great potential to grow. With government support, education and innovation, the development of Islamic Insurance products in Indonesia can grow rapidly and provide benefits to the community.

Islamic insurance has started to develop in Europe, including Germany, Spain and France. These countries are starting to open up the Islamic insurance market to meet the needs of the Muslim community in their countries. Germany already has 22 Islamic banking institutions, and Spain has Islamic banking institutions since 2015 (Lisa & Sholeha, 2018). This development shows that Islamic insurance is starting to receive greater attention in Europe, which previously focused more on conventional insurance. The development of Islamic insurance in Europe is mainly due to the needs of the growing Muslim community and consumers who better understand the concept of Islamic insurance (Zalfanur et al., 2023).

Islamic insurance companies available in Europe include fully operational Islamic insurance companies and conventional insurance companies that open Islamic branches. Some of the Islamic insurance companies in Europe include: 1) Syariat Takaful which was established in Malaysia in 1983 and has branches in Europe; 2) Takaful Family Insurance, Takaful General Insurance, and Mubarakah Insurance which are Islamic insurance companies that also operate in Indonesia; and 3) Conventional insurance companies that open sharia branches such as MAA, Great Eastern, Tripakarta, Beringin Life, Bumi Putra, Dharmala, and Jasindo.

The growth of Islamic insurance in the UK started from the late 1970s to early 1980s, which was earlier than some Muslim countries. According to the Islamic Finance Information Services (IFIS) report by 2022, the contribution of Islamic insurance in the UK will reach £1.4 billion, up from £1.1 billion in 2020 (*Islamic Finance Council UK*, 2021). The increasing interest in Islamic insurance in the United Kingdom (UK) is driven by several factors The Muslim population in the UK is growing rapidly, reaching around 3.5 million by 2023. This creates a higher demand for Shariah-compliant financial products and services to protect themselves and their families from unexpected financial risks.

Islamic insurance offers an ethical and transparent alternative for Muslims, where they do not have to worry about being involved in the practice of riba (interest taking) which is prohibited in Islam and more and more insurance companies are offering Islamic insurance products specifically designed to meet the needs and preferences of Muslims in the UK. Muslim media and influencers play an important role in raising awareness and education about Sharia insurance to the Muslim community in the UK where Sharia insurance is easily accessible such as online, insurance agents, and Sharia banks. As a result, the number of insurance companies offering Sharia products in the UK increased from 5 companies in 2012 to 15 companies in 2020 (*Salaam Gateway*, 2021).

Islamic Insurance in Saudi Arabia started in the 1980s with the establishment of the first Takaful insurance company. In 2006, the Saudi Financial Services Authority (SAMA) issued specific regulations for Islamic Insurance. Since then, Islamic Insurance in Saudi Arabia has experienced rapid growth. There are several Islamic insurance companies that have developed in Saudi Arabia, including the Islamic Arab Insurance Company (al-Baraka Group) (1980), Islamic Corporation for the Insurance, Investment and Export Credit (1995), Islamic Insurance Company Ltd, Islamic Insurance and Reinsurance Company (1985), and so on. By the end of 2014, total fee income was estimated at $100 billion, exceeding the total fee income of the Gulf countries. However, there is no information detailing which Islamic insurance companies are available in Europe (Lisa & Sholeha, 2018).

The development of Islamic insurance in Saudi Arabia has been quite progressive, with total contribution receipts estimated to reach US$100 billion by the end of 2014, exceeding the total contribution receipts of other Gulf countries. Other Arab countries also experiencing progressive Islamic insurance development include Qatar, Kuwait and Bahrain. Saudi Arabia first established International Takaful Insurance in 1989, and some of the Islamic insurance companies that developed in the country include Islamic Arab Insurance Company (al-Baraka Group) (1980), Islamic Corporation for the Insurance, Investment and Export Credit (1995), Islamic Insurance Company Ltd, Islamic Insurance and Reinsurance Company (1985), and so on (Milhim & Al-Islâmî, 2004). Thus, Saudi Arabia has a significant role in the growth of Islamic insurance in the region. The contribution of Islamic Insurance to total insurance premiums in Saudi Arabia reached 19.5% in 2022. The total premium of Islamic Insurance in Saudi Arabia reached 37.5 billion Saudi Riyals in 2022. Islamic life insurance is the largest contributor with a market share of 63%.

In his book Islamic Finance: Law, Economics, and Policy, El-Gamal states that there are several criticisms in the international debate on Islamic insurance. One criticism that often arises is that Islamic insurance is considered a more expensive product compared to conventional insurance and the lack of international standards in the regulation of Islamic insurance, causing differences in the practice of Islamic insurance in various countries (Islahi, 2008). Islamic insurance has the potential to be a suitable alternative for people who have faith in sharia principles, especially in Muslim countries.

El-Gamal argues that most Islamic finance today is trapped in rent-seeking legal arbitrage. That is, financial actors only focus on replicating the formal form of conventional financial products into Islamic structures without paying attention to the economic and ethical substance in them. It is important to develop financial instruments that suit the needs of the real economy and encourage productive investment in various sectors that benefit society (Islahi, 2008). Mahmoud A. El-Gamal, mentioned that the international debate on Islamic insurance, such as takaful and tabaru funds, has often been criticized for the way in which it is implemented, which uses pre-modern traditional contracts to try to replace the function of conventional contemporary contracts (Islahi, 2008).

Takaful represents a legally permissible form of insurance within the framework of Islamic Sharia principles, characterized by its mutual assistance and risk-sharing concept, grounded in fairness, solidarity, and transparency. Within Takaful, participants collectively bear each other's risks, and the benefits received are part of the profit from the participants' fund. Hence, Takaful is not considered a conditional gift but rather a form of insurance that aligns with Islamic Sharia principles. According to insurance law, the definition of Takaful or Islamic Insurance encompasses a set of agreements, consisting of the agreement between the Sharia insurance company and the policyholder, and the agreements among participants, for the purpose of managing contributions based on Sharia principles to support and protect each other by: a) providing compensation to participants or policyholders for losses, damages, costs incurred, loss of profit, or legal liabilities to third parties that may be suffered due to unforeseen events; or b) making payments based on the death of a participant or payments based on the survival of a participant with benefits predetermined and/or based on the management outcomes of the funds.

Fund Return, the return of funds to participants in Sharia insurance occurs through the management mechanism of Tabarru' funds. Tabarru' fund is a pool of contributions from insurance participants to mutually support each other in bearing risks. In the event of a claim, the Tabarru' fund is utilized to settle the claim. If there are no claims, a portion of the Tabarru' fund may be returned to participants as part of the mutual assistance principle (Fadilah & Makhrus, 2019). This return mechanism of Tabarru' funds is a distinctive feature of Sharia insurance, different from conventional insurance which does not provide fund returns to participants. Therefore, this mechanism reflects the principles of justice and mutual assistance in Sharia insurance. Debates arise regarding the management of these funds, where the Tabarru' fund should be collected in a separate Tabarru' account from other fund accounts, and be accessible to anyone experiencing misfortune (Namira Irza Andari, 2020). Debates arise regarding the management of these funds, where the Tabarru' fund should be collected in a separate Tabarru' account from other fund accounts, and be accessible to anyone experiencing misfortune.

A distinctive feature of Sharia insurance is the mechanism of fund return through the management of tabarru' funds, which are funds set aside from participant contributions for the purpose of mutual aid in addressing risk. If a claim is made, these funds are used to fulfill the claim. Uniquely, if no claims are submitted, a portion of the tabarru' funds can be returned to the participants, reinforcing the principle of mutual assistance that is a pillar of Sharia insurance. Unlike conventional insurance, which usually does not return premiums, this fund return mechanism demonstrates the commitment of Sharia insurance to fairness and solidarity among its members.

In connection with this, to verify the operational compliance of a Sharia insurance company with Sharia principles, a series of structured evaluative steps are necessary as follows: *First*, evaluation of the organizational structure and management of the company. This includes the necessity for a Sharia insurance company to have an organizational structure that not only meets certain criteria but is also managed by individuals with expertise in Sharia. *Second*, review of the insurance contract and its agreements. The contract in Sharia insurance must follow Sharia principles, including the tabarru' agreement which is a form of donation intended for welfare and mutual aid, not for commercial profit (Namira Irza Andari, 2020). *Third*, examination of the tabarru' fund management system, where companies are required to implement a fund management system that is not only transparent and honest but also in alignment with Sharia principles (Agustin, 2020).

Fourth, evaluation of the risk management system. Sharia insurance companies are expected to have an effective risk management system, which complies with Sharia principles in risk management. *Fifth*, review of the internal control system. This system must comply with international standards, such as ISO 31000:2018, and must also be consistent with Sharia principles in risk control. *Sixth*, examination of supervision by regulatory bodies and financial institutions. This includes compliance with requirements and regulations issued by government bodies and financial institutions, such as Bank Indonesia, the Financial Services Authority (OJK), and the Indonesian National Sharia Board (DSN-MUI).

Seventh, review of supervision by international bodies, which includes compliance with requirements and regulations from international bodies such as the Financial Action Task Force (FATF) and the International Islamic Financial Market (IIFM). *Eighth*, evaluation of supervision by international accreditation bodies, where companies must meet criteria and regulations from bodies such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). *Ninth*, examination of supervision by local accreditation bodies, including compliance with standards and regulations from bodies such as the National Accreditation Agency (BAN-PT) and the National Accreditation Agency for Banking and Insurance (LAPAN) (Lisa & Sholeha, 2018).

CONCLUSION

The Islamic insurance industry in Indonesia has built a strong foundation thanks to the implementation of Sharia principles such as Takaful, Akad, Dana Tabarru', and Sharia investments, supported by strong regulations such as Law Number 24 of 2004, POJK Number 6/POJK.05/2016, and DSN-MUI fatwas. Despite challenges such as a lack of understanding and government support, Islamic insurance has shown significant growth in Indonesia, driven by the Muslim community's need for ethical financial transactions that comply with Islamic principles. With a supportive legal framework, the industry not only adheres to the Sharia prohibitions against riba (usury), gharar (uncertainty), and maysir (gambling), but also excels in governance and transparency. This demonstrates Indonesia's commitment to developing an inclusive and sustainable Islamic financial sector, which is expected to not only meet the financial needs of the Muslim community but also strengthen Indonesia's position as a global Islamic economic hub.

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