

Update on Indonesia's Islamic insurance industry



INDONESIA

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Based on the latest available data from Indonesia's Financial Services Authority (OJK), the Shariah insurance industry constitutes the largest industry among Shariah non-bank financial institutions (NBFIs). As of July 2016, there are 10 fully-fledged Shariah insurance companies and 46 Shariah units of conventional insurance companies with total assets amounting to IDR31.76 trillion (US\$2.41 billion).

Other Shariah NBFIs classified by the OJK are Shariah finance companies, Shariah venture capital companies, Shariah financing guarantee companies, Shariah pawn shop companies, Shariah export financing companies and Shariah microfinance companies. In terms of the number and size, the Shariah insurance industry is followed closely by the Shariah financing industry which has three and 37 fully-fledged and Shariah units respectively with total assets amounting to IDR30.09 trillion (US\$2.29 billion).

Although the absolute values of the Islamic insurance industry are still relatively small compared to its conventional counterpart, the market share of the industry has increased steadily over the last five years. The market share of Islamic life insurance reached 6.44% by July 2016, more than double compared with its market share in 2011 (see Table 1). In fact, the market share of the Shariah life insurance industry exceeded the Shariah banking industry which was still hovering at around 5%. Despite its slower growth, Shariah general insurance and re-



insurance also expanded its market share between 2011 and July 2016.

In its efforts to support the growth of Shariah NBFIs in the country including primarily Islamic insurance, the OJK issued its NBFi Roadmap 2015-19 in November 2015. In this roadmap, the OJK laid out the strategic issues facing Shariah NBFIs and the vision, mission and development strategies for them.

For the Shariah insurance industry, the development strategies are:

- (i) to strengthen the institutions' capitalization, operational activity and business capacity; with an action plan to support the re-insurance business capacity; and develop policies to encourage spin-offs
- (ii) to push for the implementation of

good corporate governance, and

- (iii) to develop gradual risk-based supervision; and (iv) to develop a reporting and monitoring system that will support the application of an early warning system.

Taking into consideration the steady broadening of the market share of the Islamic insurance industry in the last five years, it is expected that those strategies and action plans could contribute in accelerating the growth of the industry. Nevertheless, the roadmap can only add value if it can be executed well and effectively.⁽²⁾

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Table 1: Market share of the Indonesian Islamic insurance industry

	Assets (IDR trillion)					
	2011	2012	2013	2014	2015	July 2016
All life insurance	228.8	270.29	293.74	341.2	351.29	402.7
Conventional life insurance	221.53	260.27	280.94	323.15	329.68	376.77
Islamic life insurance	7.27	10.02	12.8	18.05	21.61	25.93
% Islamic life insurance	3.18%	3.71%	4.36%	5.29%	6.15%	6.44%
All general insurance and re-insurance	57.88	76.65	107.44	121.99	137.46	144.18
Conventional general insurance and re-insurance	55.95	73.43	103.6	117.68	132.56	138.35
Islamic general insurance and re-insurance	1.93	3.22	3.84	4.31	4.9	5.83
% Islamic general insurance and re-insurance	3.33%	4.2%	3.57%	3.53%	3.56%	4.04%

Source: Indonesia's Financial Services Authority (OJK)