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Characteristics of unit link-based sharia life insurance in the insurance law

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Abstract
This research discusses unit-linked sharia-based life insurance agreements in Indonesia, in accordance with sharia principles and Law No. 40/2014 on Insurance. This product combines insurance protection with investment, following the DSN-MUI fatwa that prohibits elements of usury, gharar, and maisir. Premiums paid by the insured are invested in halal instruments such as Islamic stocks and sukuk, with profit sharing based on Wakalah and Mudarabah contracts. The study highlights the legal relationship between the insurance company, the insured, and the beneficiaries, as well as the role of the Financial Services Authority (OJK) in supervision. The analysis shows that compliance with sharia principles improves investment performance and customer confidence. In addition, government regulations, such as tax incentives and premium subsidies, encourage product innovation and competitiveness in the market. With stricter and more structured regulations, it is expected that the Islamic insurance industry will experience stable and sustainable growth.

Keywords: Sharia life insurance, unit link-based, characteristics of sharia life insurance

Introduction

In accordance with Law Number 40 of 2014 concerning Insurance, an agreement in insurance is a binding legal agreement between the insurance company and the insured party [1]. This agreement sets out the rights and obligations of both parties [2].

A unit-linked Islamic life insurance, this agreement is strictly regulated in accordance with sharia principles. These principles prohibit the elements of riba (interest), gharar (uncertainty), and maisir (gambling), thus ensuring that all transactions and fund management are conducted in a halal manner. Fatwas of the National Sharia Council-Majelis Ulama Indonesia (DSN-MUI) provide guidance and provisions regarding Islamic insurance products, including unit-linked. Some of the relevant fatwas in this regard include Fatwa DSN-MUI No. 21/DSN-MUI/X/2001 which regulates the general guidelines of sharia insurance, providing the basics of sharia principles that must be followed in the implementation of insurance. In addition, Fatwa DSN-MUI No. 53/DSN-MUI/III/2006 regulates the tabarru' contract in Islamic insurance, which is the principle of risk sharing among insurance participants. Another fatwa, DSN-MUI Fatwa No. 52/DSN-MUI/III/2006, regulates the wakalah bil ujrah contract in Islamic insurance, which stipulates that the insurance company acts as a representative (agent) who manages participants' funds in exchange for ujrah (fee). These three fatwas together provide a clear sharia foundation for the implementation of unit-linked Islamic life insurance products in Indonesia.

The agreement in unit-linked Islamic life insurance must fulfill all sharia provisions, meaning that the premium paid by the insured must be managed and invested in halal instruments. These investments are made with care to avoid sectors that are prohibited by sharia, such as gambling, alcohol, and usury. This requirement is in line with the principles of fairness and transparency advocated in shariah, thus requiring careful investment management to maintain compliance. In addition, the legal responsibility of Islamic banks to implement Good Corporate Governance (GCG) principles in the Islamic banking business emphasizes the importance of ethical and transparent practices in financial transactions [3].

The premium paid by the insured in unit-linked Islamic life insurance is divided into two main parts. The first part is used for insurance protection, which provides insurance benefits to the insured or their heirs in the event of a claim, such as death or permanent disability. The second part of the premium is allocated for investment. These investment funds are managed in a unit-linked portfolio consisting of various sharia assets, such as sharia stocks, sukuk (sharia bonds), and sharia mutual funds. This structure allows the insured to get double benefits, namely insurance protection as well as potential investment value growth.

Unit-linked sharia life insurance agreements must clearly detail the benefits that will be received by the insured or heirs. These benefits can be in the form of a sum assured that is paid if the insured dies, as well as investment returns that develop from the funds that have been invested. The agreement should also cover the claim mechanism, including the required documentation and claim procedures to ensure that the process is smooth and transparent.

Insurance companies have an obligation to provide transparent information regarding the management of investment funds, including providing periodic reports to the insured on investment performance, fund allocation, and risks associated with the investment. This transparency is important to ensure that insureds understand how their funds are managed and the mechanism by which investment performance affects the value of their policy. In addition, insurance companies must ensure that all investment transactions are conducted prudently and in accordance with sharia principles, and are subject to supervision and regulation by the authorized financial authorities.

Legal Relationship in Unit Link-Based Sharia Life Insurance

The legal relationship in unit-linked Islamic life insurance involves complex interactions between the insurance company, the insured, and the beneficiary or beneficiaries. This relationship is governed by relevant insurance laws, regulations, and sharia fatwas to ensure that all insurance transactions and operations are in accordance with sharia principles. In accordance with POJK No. 69/POJK.05/2016 concerning Sharia Insurance Companies and Sharia Reinsurance Companies which regulates the technical provisions of the implementation of sharia insurance, including the rights and obligations of insurance companies, insured, and beneficiaries.

The insurance company acts as a fund manager and life protection provider, responsible for managing the premiums paid by the insured. These funds are invested in halal instruments such as Islamic stocks, sukuk, and Islamic mutual funds, and provide life protection in accordance with the terms of the policy.

The insurance company acts as a fund manager and life protection provider, responsible for managing the premiums paid by the insured. These funds are invested in halal instruments such as Islamic stocks, sukuk, and Islamic mutual funds, and provide life protection in accordance with the provisions in the policy [4].

The claim process must be carried out efficiently and in accordance with the policy provisions [5]. Heirs or beneficiaries are entitled to receive insurance benefits, either in the form of sum insured or investment returns, in accordance with the provisions in the policy [6]. Heirs must also follow the claim procedures set by the insurance company.

This legal relationship is overseen by regulatory authorities such as the Financial Services Authority (OJK) which is responsible for ensuring that insurance companies comply with all insurance regulations and sharia principles. OJK also plays a role in protecting the rights of the insured by ensuring that insurance companies provide transparent information and fair services. In addition, unit-linked sharia life insurance must adhere to the principle of tabarru', where a portion of the premium paid is used as a donation fund to help other participants who experience a disaster. This principle reflects the values of solidarity and togetherness in Islam, ensuring that the tabarru' fund is used to pay claims from other participants in need. Thus, the legal relationship in unit-linked Islamic life insurance is built on the basis of fairness, transparency, and mutual responsibility to ensure that all parties involved benefit fairly and in accordance with the applicable provisions.

Types of Unit Link-Based Sharia Life Insurance

Insurance can be categorized into several types based on protection needs and objectives. In the context of unit-linked sharia life insurance, customers have a choice of various products that suit their needs and financial goals. Each type of insurance product is designed to provide different benefits, both in terms of protection and investment.

Pure Sharia Life Insurance

Sharia pure life insurance offers life protection without an investment component. This product provides insurance benefits that are paid to the beneficiaries if the insured dies during the coverage period. This benefit is usually in the form of sum assured, the amount of which has been stipulated in the policy. Sharia pure life insurance focuses on providing financial protection for the family of the insured, so that they can face difficult times without a heavy financial burden. As it does not have an investment component, the premium paid is usually lower compared to unit-linked insurance.

Sharia Unit Link-Based Life Insurance

This product combines life protection with investment. A portion of the premium paid by the insured is allocated to a sharia-managed investment unit. This investment can be in the form of sharia stocks, sukuk, or other financial instruments that meet sharia principles. The value of this investment can increase or decrease according to the performance of the investment instrument chosen. This product provides customers with the flexibility to choose the type of investment that suits their risk profile, as well as the potential to earn investment returns in addition to life protection benefits. Thus, sharia unit-linked life insurance not only provides financial protection but also the opportunity to increase the value of the customer's investment.

Sharia Education Insurance

Sharia education insurance is specifically designed to prepare children's education funds. This product provides dual benefits in the form of life protection and investment. The premiums paid by customers are invested in sharia instruments, and the investment proceeds are used to finance children's future education. If the insured dies before the education fund is reached, the insurance company will continue to provide education funds in accordance with the provisions in the policy. This product helps parents ensure that their child's education is guaranteed despite unexpected events. Sharia education insurance also provides peace of mind for parents, knowing that their children's educational future is protected.

Sharia Health Insurance

Sharia health insurance provides health protection in accordance with sharia principles. This product is designed to cover the cost of medical treatment if the insured is sick or has an accident. The premiums paid by the customer are used to pay for hospital expenses, doctor consultations, surgeries, and other treatments. Additionally, sharia health insurance often includes additional benefits such as hospitalization, outpatient care, and dental care. Sharia principles ensure that all claims and payments are made without an element of riba and with fairness. Sharia health insurance helps customers manage their health risks, providing access to quality medical care without burdening personal finances.

Sharia insurance and conventional insurance differ in fundamental aspect [7]. Sharia insurance, also known as Islamic insurance, follows Islamic principles, including risk sharing and avoiding interest (riba) [8]. In contrast, conventional insurance operates on the basis of interest and does not involve Islamic principles in its transactions [9]. In addition, the Islamic insurance management system involves agreements (contracts) in every transaction and sharia councils, while conventional insurance does not have such requirements [10].

Risk management, in that Islamic insurance avoids speculation and unethical investments, whereas conventional insurance may not have similar restrictions.

Shariah compliance, that all operations and products must comply with Islamic law, whereas conventional insurance is not bound by religious principles.

Financial structure, in conventional insurance, the insurance company takes the risk completely and profits from the difference between premiums paid and approved claims. On the other hand, in Islamic insurance, risks and profits are shared with policyholders.

Strict regulations oriented towards sharia compliance have encouraged innovation in the development of Islamic insurance products. Insurance companies are driven to create products that not only comply with sharia but also fulfill the needs and expectations of policyholders, providing an ethical and transparent alternative to conventional insurance products.

Analysis of Islamic Insurance Products Case Studies in Indonesia

An analysis of unit-linked Islamic life insurance products in Indonesia has led to the emergence of several important characteristics that define and differentiate these products in the insurance market. In general, these sharia insurance products offer a combination of life protection and investment following sharia principles. Product descriptions generally include information on the insurance coverage offered, which often includes life, health, and sometimes education or pension protection, depending on the policy. The premium options offered are quite varied, giving policyholders the flexibility to choose according to their financial capabilities and protection needs.

Policy terms also vary, with some policies offering fixed terms while others provide options for renewal or term adjustment. Insurance benefits usually include compensation for various risks covered under the policy, such as death, critical illness, or accident, and sometimes a bonus or share of investment gains. In terms of contracts, these products adopt a Mudarabah or Wakalah structure, where the insurance provider and the policyholder share the risks and profits of the invested funds according to agreed terms. This structure supports transparency and fairness, which are highly valued in Islamic financial practices.

Shariah compliance is essential, where products must ensure that all investments and operational practices are in line with Islamic law. This includes avoiding investments in businesses involved in prohibited activities such as alcohol, gambling, and riba (interest). The investment performance of these products is usually reported to give an idea of the effectiveness of the fund management, with some products showing better results than others, depending on their investment strategy and compliance.

The results of the identification of Islamic insurance product profiles show that, the distribution of contract types in Islamic insurance products, which include Mudarabah, Wakalah, and a combination of Wakalah and Mudarabah.

Wakalah contract is the most widely used with a total of 10 products, then, Mudarabah contract is used in 8 products, while the combination of Wakalah and Mudarabah is only used in 2 products.

The distribution of contract types shows that people who use Islamic insurance products with Mudarabah contracts generally have a good understanding of the concept of profit sharing and prefer products that offer profits based on investment performance. Customers tend to have a high level of religiosity and choose contracts that are in accordance with sharia principles that prioritize profit sharing. In addition, Mudarabah contract users may be more open to investment risk in the hope of getting greater profit potential. Meanwhile, users of Islamic insurance products with Wakalah contracts prefer transparency and certainty of fees (ujrah) provided by insurance companies. Customers still have a high awareness of sharia principles, but prefer contracts with a clear and fixed fee structure. Wakalah contract users tend to have more confidence in the ability and expertise of agents or representatives in managing insurance. Users of Islamic insurance products with mixed contracts, which combine Wakalah and Mudarabah, generally seek a balance between the cost certainty of the Wakalah contract and the potential investment returns of the Mudarabah contract. Customers are more flexible and adaptive to insurance products that offer a combination of benefits from both contracts. Users of mixed contracts have a good understanding of finance and still pay attention to sharia principles in choosing insurance products.

Products with strict Shariah compliance have higher numbers and also show better investment performance.

These identification results suggest that stricter compliance with Shariah principles may contribute to more stable or better investment performance in exploring the effectiveness and sustainability of Islamic insurance products.

The relationship between the level of Shariah compliance and the investment performance of Islamic insurance products shows significant variation among the three compliance categories. In the Strict Compliance category, there are 12 products (Appendix 1) that offer an average investment performance of 7% per year. These products include Allianz iB Health Link, which is a health insurance with a fully sharia investment focus; PRULink Syariah from Prudential Indonesia, which offers life insurance with investment benefits that strictly follow sharia principles; and Takaful Link Dana Harapan from Asuransi Takaful Keluarga, which combines protection and fund growth based on takaful principles.

In the Moderate Compliance category, there are 6 products with an average investment performance of 5% per year. Examples from this category include CIGNA Syariah Link, which offers life and health insurance with mostly sharia-compliant investments; AXA MaestroLink Syariah, which provides flexibility in investment choices with mostly sharia-compliant portfolios; and Manulife Syariah Link Dana Istiqomah, which focuses on sharia investments but with some leeway in investment choices. In the Low Compliance category, there are only 2 products, MNC Life OptimaLink Syariah and Commonwealth Life Investra Link Syariah, which show an average investment performance of 3% per annum. These two products, although labeled as sharia, may have some investment elements that are less stringent in sharia compliance.

The level of sharia compliance directly affects the investment performance of sharia insurance products. Products with strict compliance tend to offer higher investment performance, which suggests that adhering to sharia principles can go hand in hand with favorable investment results. On the other hand, products with lower compliance show lower investment performance, which may reflect additional risks or a lack of discipline in complying with sharia principles. This understanding is important for consumers in choosing an Islamic insurance product that suits their needs and values.

Analysis of the Impact of Government Regulations on Unit Link-Based Sharia Insurance Products

Shariah compliance is not only important from an ethical and religious standpoint, but it can also have a direct impact on the financial performance of Islamic insurance products.

Products with stricter compliance tend to perform better, signaling that sharia integrity and compliance may also align with better risk management and financial sustainability.

The impact of government regulations on Islamic insurance products, especially unit-linked ones, is crucial for the development and sustainability of the industry [11]. Government support, such as incentivizing and easing regulations, plays a significant role in boosting the Islamic insurance sector [12]. These incentives can be in the form of tax deductions, premium subsidies, or technical assistance for Islamic insurance companies [13]. With these incentives, Islamic insurance companies can offer more competitive and attractive products to the public, thereby increasing market penetration.

In addition, the regulatory framework affects the performance and effectiveness of Islamic insurance companies, as evidenced by the superior performance of Islamic-based insurance in various aspects compared to conventional insurance [14]. Clear and firm regulations can provide the necessary guidance for companies in their daily operations, ensuring that they operate with transparency and accountability. This is evident from the superior performance of Shariah-based insurance in various aspects compared to conventional insurance, such as risk management, customer confidence, and financial stability.

More specifically, legal regulations are essential for the empowerment and establishment of Islamic financial institutions, including Islamic insurance, leading to progress, synchronization, and public trust in the industry [15]. Overall, government regulations shape the landscape of Islamic insurance products, affecting growth, performance, and acceptance in the market.

Based on the documents of Law No. 40/2014 on Insurance, I will analyze the impact of this latest regulation on several important aspects of the Islamic insurance industry

Product Innovation

The new regulation allows insurance companies to be more flexible in developing new products that meet the needs of the community (Article 5). The expansion of the scope of business allows Islamic insurance companies to add benefits that are based on the results of fund management. Thus, this regulation supports product innovation by allowing companies to offer more diverse benefits and adjust to market dynamics.

Pricing and Market Competitiveness

The law requires every marketed product to meet standards of business conduct that include transparency of premiums and contributions, claims handling, and product distribution (Article 26). Stricter regulations on information disclosure and consumer protection affect the way companies set their prices, which can improve competitiveness in the market by encouraging fairer and more transparent practices.

Compliance

New regulations increase compliance demands, especially in the application of risk management and separation of wealth and liabilities to protect policyholders' rights (Article 21). Islamic insurance companies must be more careful in managing funds according to sharia principles, which may ultimately affect consumer confidence and compliance with sharia standards.

Long-term Implications (Trend Prediction)

With the demand for stricter and more structured regulation, it is expected that there will be an increase in consumer confidence in the Islamic insurance industry. Regulations that support innovation and compliance could drive further growth of the sector. The predicted trend is an increase in more diversified Islamic insurance products with better risk management, driving steady and sustainable growth in the Islamic insurance industry in Indonesia. The regulation as a Whole aims to strengthen the legal framework supporting insurance operations in Indonesia, by enhancing protection for policyholders and tightening compliance with higher operational standards, particularly in the sharia context.

Conclusion

The legal relationship in unit-linked sharia-based life insurance covers the interaction between the insurance company, the insured, and the beneficiaries, is governed by sharia laws, regulations, and fatwas, and is supervised by the Financial Services Authority (OJK). These insurance products offer a combination of life protection and investment according to sharia principles with various options such as pure life insurance, unit link, education, and health. Contract structures such as Mudarabah and Wakalah are used to manage risks and returns. Compliance with sharia principles is proven to improve investment performance. Government regulations play an important role in supporting innovation and compliance, driving stable and sustainable growth in the Islamic insurance industry in Indonesia.

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