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Analysis of Insurance Product Integration in Sharia Banking Financing Scheme

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ABSTRACT

The integration of insurance products in the Islamic banking financing scheme is one of the important strategies in improving financing security, risk mitigation, and compliance with sharia principles. This study aims to analyze the form of integration of Islamic insurance products (takaful) in financing distributed by Islamic banks, including contracts, protection mechanisms, benefits for customers, and their contribution to the stability of Islamic financial institutions. The research method used is a descriptive qualitative approach with data collection through literature studies, interviews with Islamic banking and insurance practitioners, and analysis of related policy documents. The results of the study show that the integration of takaful in sharia financing provides significant risk protection through the tabaru' scheme, transparent management of participant funds, and sharia-compliant contracts such as mudharabah, murabahah, and ijarah muntahiyah bittamlik. This integration also strengthens customer confidence, improves smooth payments, and minimizes the potential for problematic financing. However, the challenges faced include low sharia insurance literacy, administrative complexity, and lack of synergy between Islamic banks and takaful companies. This study recommends increasing education, simplifying processes, and strengthening regulations so that the integration of insurance in sharia financing schemes can run more optimally and sustainably.

Keywords: Insurance, Financing Schemes, Sharia Banking

INTRODUCTION

The development of the Islamic finance industry has demonstrated significant dynamics over the past decades, particularly in the effort to introduce financial products and services that not only comply with Sharia principles but also generate optimal benefits for both customers and financial institutions. Islamic finance is grounded in ethical values such as justice, transparency, and the prohibition of riba (interest), gharar (excessive uncertainty), and maysir (gambling). These principles serve as the foundation for the development of Sharia compliant financial products aimed at establishing a fair, stable, and sustainable financial system. Within this ecosystem, two fundamental pillars play a central role, namely Islamic banking and Islamic insurance, commonly referred to as takaful. Islamic banks function as financial intermediaries that channel funds from surplus units to deficit units through Sharia compliant financing contracts, while Islamic insurance provides risk protection mechanisms based on the principles of mutual assistance (ta'awun) and collective responsibility among participants (Dasopang, 2025; Minaryanti et al., 2024; Setiyowati et al., 2025).

In operational practice, financing activities in Islamic banking are exposed to several risks that may influence the financial stability of banking institutions. These risks include default risk, depreciation or damage to collateralized assets, economic fluctuations, and operational uncertainties that may disrupt the financing relationship between banks and customers. To minimize potential losses, banks generally require that financing facilities be supported by risk protection mechanisms through insurance coverage. In conventional banking systems, such protection is provided through cooperation with commercial insurance companies. In contrast, Islamic banking integrates protection mechanisms through Sharia compliant

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insurance or takaful, which operates based on the principles of mutual assistance and shared risk participation through tabarru' funds. This structure indicates that the integration of Islamic insurance represents not merely a substitution for conventional insurance products but rather the practical implementation of Islamic values within financial risk management.

One of the emerging innovations in the Islamic financial industry is the integration of Islamic insurance products within Islamic banking financing schemes (Ghozali et al., 2024; Harrieti et al., 2024; Muhammad & Sudrajad, 2023; Saputra & Fasa, 2024). This integration aims to strengthen risk mitigation mechanisms in financing transactions while simultaneously providing additional value for both customers and financial institutions. Islamic banking financing is exposed to several risks, including default risk, damage to pledged assets, financing priority risks, and operational risks that may threaten the sustainability of financing relationships. Consequently, integrating Islamic insurance products into financing schemes is considered a strategic approach to protecting banks and customers from these risks while maintaining financial stability.

In industry practice, the integration between Islamic banking and Islamic insurance is often implemented through collaborative models known as bancatakaful. This model enables Islamic banks to cooperate with takaful companies in providing protection products linked to banking services. Through this mechanism, customers can obtain financing services along with risk protection within a single integrated financial system. Such an approach improves service efficiency and expands the customer base of both sectors by offering more comprehensive financial solutions. In addition, the application of hybrid Sharia contracts, such as the combination of murābahah and wakālah, provides flexibility in structuring financing products that incorporate risk protection mechanisms while maintaining compliance with Islamic legal principles (Alam et al., 2019; Faizi, 2024; Harrieti et al., 2023).

Beyond its commercial dimension, the integration of Islamic banking and Islamic insurance is also closely related to the development of Islamic social finance. Islamic financial institutions are expected not only to perform commercial financial activities but also to contribute to social welfare through instruments such as zakat, infaq, sadaqah, and waqf. Several studies indicate that integrating waqf concepts into Islamic insurance products can expand the social benefits of financial protection mechanisms. Waqf based insurance models allow a portion of insurance funds to be allocated for social development through productive waqf management, thereby strengthening the contribution of Islamic finance to community welfare (Gherbi, 2020; Güngoren, 2014; Ibrahim et al., 2024).

The success of integrating Islamic insurance products within Islamic banking financing schemes also depends heavily on strong Sharia governance frameworks. Effective governance ensures that financial products and operational mechanisms remain consistent with Islamic legal principles. In this regard, the Sharia Supervisory Board plays a vital role in overseeing compliance with Sharia requirements and ensuring transparency and accountability within Islamic financial institutions (Jan & Ismail, 2023). Furthermore, supportive regulatory frameworks that harmonize Islamic financial institutional regulations with national policies are essential for strengthening product integration and expanding public access to Sharia compliant financial services (Aspiranti et al., 2023; Nandiroh, 2023; Triasari & de Zwart, 2021).

Despite its considerable potential, the implementation of Islamic insurance integration within Islamic banking still faces several challenges. One major challenge is the relatively low level of public literacy regarding Islamic banking and Islamic insurance concepts. Many individuals remain more familiar with conventional financial products, which have long dominated national financial systems. As a result, some customers fail to fully understand the fundamental differences between conventional and Islamic financial systems, including the prohibition of riba, gharar, and maysir, as well as the contractual mechanisms used in Islamic financing and insurance.

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In addition, cooperation between Islamic banks and takaful companies requires clear legal frameworks established through formal agreements such as Memorandums of Understanding and cooperation agreements. These agreements regulate the rights and obligations of each party, including premium management, claim responsibilities, and dispute resolution mechanisms. From a legal perspective, these agreements must comply with civil law provisions, financial regulatory frameworks, and fatwas issued by the National Sharia Council to ensure full compliance with Islamic principles

Although numerous studies have examined Islamic banking and Islamic insurance independently, research specifically addressing the integration of insurance products within Islamic banking financing schemes remains relatively limited. In particular, empirical analysis concerning integration models, Sharia compliance mechanisms, and their effectiveness in managing financing risks has not been widely explored. Therefore, this study aims to analyze the integration of Islamic insurance products within Islamic banking financing schemes by examining aspects of Sharia compliance, the effectiveness of risk protection mechanisms, and their implications for the sustainability of Islamic banking business models.

METHODS

This study employs a juridical–empirical research method with a qualitative descriptive approach to examine the integration of sharia insurance in the financing practices of Bank Mega Syariah. The qualitative descriptive approach is used to understand and explain legal and institutional phenomena in their real context by focusing on the interpretation of meanings, processes, and interactions that occur in practice. This approach allows the researcher to explore how legal norms are implemented in the operational activities of Islamic financial institutions and how these norms shape decision making in financing activities. Through qualitative description, the study aims to present a systematic explanation of the mechanisms and considerations involved in the application of prudential principles and the role of sharia insurance in mitigating financing risks.

The juridical component of this research focuses on analyzing the legal framework that governs Islamic banking and sharia insurance practices. This includes the examination of relevant regulations, statutory provisions, and legal principles related to prudential banking, risk management, and Islamic financial contracts. The juridical analysis is intended to identify the normative foundations that guide the integration of sharia insurance within the financing scheme of Bank Mega Syariah. By reviewing these legal instruments and regulatory provisions, the study seeks to understand how the principle of prudence is legally structured and how Islamic banking institutions interpret and implement these provisions in their operational policies.

The empirical component complements the juridical analysis by examining how the legal framework is applied in practice within the operational activities of Bank Mega Syariah. This approach focuses on observing and describing the actual processes, procedures, and mechanisms involved in the financing approval system, particularly those related to risk mitigation through sharia insurance. The empirical analysis aims to reveal how financing proposals are assessed, how risks are evaluated, and how cooperation between Islamic banks and sharia insurance companies is carried out in order to ensure financial protection and compliance with Islamic financial principles.

Through the combination of juridical and empirical approaches, this study provides a comprehensive understanding of both the normative and practical dimensions of sharia insurance integration in Islamic banking financing. The juridical analysis explains the legal justification and regulatory framework, while the empirical analysis illustrates how these legal norms operate in real institutional practices. This integrated methodological approach

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enables the research to capture the relationship between legal provisions and operational implementation, thereby offering a deeper explanation of how prudential principles and risk protection mechanisms function within the financing system of Bank Mega Syariah.

RESULT AND DISCUSSION

Integration of insurance in the banking system is one of the risk management efforts to protect banks from potential financial losses due to undesirable events, such as customer death, fire, or damage to collateralized assets. Every financing or credit facility issued by a bank must basically have insurance protection so that the value of the collateral or guarantee is maintained.

In the conventional banking system, this cooperation is carried out with general insurance companies based on commercial principles. The customer pays the premium, and in the event of a loss, the insurance company will provide a claim based on the sum insured. Meanwhile, in Islamic banking, integration is carried out through sharia insurance (takaful) which uses the principles of ta'awun (help-help) and takaful (mutual support). The funds raised are not managed with a mere profit orientation, but with a tabarru' (grant) system where participants bear each other's risks together. This emphasizes that the integration of sharia insurance is not just a substitution of conventional products, but the implementation of sharia values in financial risk management.

The bank functions as an intermediary institution (liaison institution) that distributes funds from parties who have excess funds (depositors) to parties who need financing (debtors). In the process, banks face various risks, especially credit risks. To minimize losses that may arise, banks require that every financing be accompanied by an insurance policy. Thus, in the event of a disaster to the collateral object or the death of the debtor, credit payments can be repaid by the insurance company.

This is where there is a strong integration between the banking sector and the insurance sector, where the two institutions complement each other in maintaining the stability of the national financial system. This integration is also part of the application of prudential banking principles as regulated in the Financial Services Authority (OJK) regulations.

Determining the value of the assets to be insured is an important stage in the integration process. The bank uses internal appraisers for assets with a nominal value of less than Rp. 250,000,000 (based on the bank's internal policy, the valuation is sufficient to be carried out internally due to low risk and high external appraisal costs). As for medium to large value assets (above Rp. 250,000,000 - Rp. 1,000,000,000 and above), the assessment is carried out by the Public Valuation Service Office (KJPP) in accordance with POJK No. 35/POJK.03/2018, banks are required to use independent assessments to ensure objectivity and avoid conflicts of interest. This valuation must be objective and in accordance with the standards of the appraiser profession so that the value of the insured reflects the actual condition of the collateralized asset. In addition, asset valuation is also the basis for determining the amount of insurance premiums that must be paid. In the context of banking law, accuracy in this process has direct implications for the validity of the insurance agreement and the bank's liability in the event of a claim dispute.

The low level of public literacy towards the concept of banking and sharia insurance. Most people are still more familiar and used to using conventional bank products that have developed and dominated the national financial system. This causes the public's perception of Islamic banks to be limited, even often considered the same as conventional banks that are only labeled "sharia". As a result, many customers do not understand the difference in fundamental principles, such as:

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1. the prohibition of riba (interest) which is replaced by a profit-sharing system or fixed margin,
2. prohibition of gharar (uncertainty) and maysir (speculation) elements, and
3. contract mechanisms used in sharia financing and insurance.
4. Transactional to forbidden places (Magrib) for example to gambling places.

This lack of education also has an impact on the lack of understanding of sharia insurance products (takaful). Many customers still consider that all forms of insurance contain elements of usury, even though in sharia insurance, the principles used are help (ta'awun) and bear each other's risks (takaful). This condition causes difficulties for Islamic banks in integrating insurance into their financing products because some customers refuse or do not understand the benefits.

In addition, the dominance of conventional banks in the national financial system has also slowed down the process of people's adaptation to the Islamic financial system. Conventional products are more widely known, their digital promotions and services are more aggressive, while Islamic products are still limited to certain segments and are often considered more complicated in procedures and terminology. Then, there are challenges in ensuring that every insurance product used is truly in accordance with sharia principles. This requires the active role of the Sharia Supervisory Board (DPS) which is in charge of supervising and issuing fatwas on product suitability.

Cooperation between banks and insurance companies is outlined in the Memorandum of Understanding (MOU) and Cooperation Agreements (PKS). These two documents regulate the rights and obligations of each party, including the amount of premiums, fund management, responsibility for claims, and dispute resolution procedures. From the legal aspect, the MOU and PKS must comply with the provisions of the Civil Code regarding the legal terms of the agreement, as well as comply with OJK regulations and, for Islamic banks, the fatwa provisions of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). Thus, the MOU and PKS are not only administrative, but also become a binding legal basis in banking and insurance cooperation relations.

Before a financing is approved, a legal review is carried out to ensure the validity of all documents, including the identity of the debtor, the legal status of the asset, and the completeness of the collateral. In addition, the bank applies the 5Cs (Character, Capacity, Capital, Collateral, and Condition) analysis to assess creditworthiness. Of the five elements, character is the main indicator that shows the good faith and reputation of the prospective debtor.

The bank is also obliged to ensure that all financing legal documents are juridically valid and can be executed in the event of default. This is in line with the principle of prudential banking which requires caution in every distribution of public funds.

From an institutional perspective, banks operate as intermediary institutions that channel funds from surplus units, namely depositors, to deficit units that require financing. During this intermediation process, banks face various forms of risk, particularly credit risk associated with the possibility that borrowers may fail to fulfill their repayment obligations. To minimize potential losses arising from such risks, banks typically require that every financing facility be accompanied by an insurance policy. As a result, when adverse events occur, such as the death of the borrower or damage to the pledged asset, the insurance company may provide compensation based on the policy terms, ensuring that financing obligations can still be settled.

Previous studies have identified several innovative models for integrating Islamic insurance within Islamic banking systems. One emerging approach involves the development of waqf based insurance products that incorporate Islamic philanthropic principles into risk protection mechanisms. Under this model, a portion of the funds collected through insurance

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schemes is allocated for social development through waqf institutions, thereby extending the benefits of insurance beyond financial protection to broader social welfare objectives (Ibrahim et al., 2024). This innovation illustrates that the integration of Islamic insurance may function not only as a risk mitigation instrument but also as a mechanism that strengthens the social dimension of the Islamic financial system.

Research has also highlighted the importance of integrating risk mitigation mechanisms within Islamic banking operations to ensure financing stability. Empirical findings indicate that risk protection strategies, including the application of Sharia compliant insurance mechanisms, contribute to improved management of credit risks arising from investment financing activities (Shiyyab & Morshed, 2024). These findings suggest that the effectiveness of Islamic insurance integration depends significantly on customers' awareness of the distinctive characteristics of Islamic banking and their understanding of the importance of risk protection in financial transactions.

Sharia governance also plays a critical role in ensuring that the integration of Islamic insurance within Islamic banking remains consistent with Sharia principles. A strong governance framework is required to ensure that financial products and services fully comply with Islamic legal requirements. In this regard, the Sharia Supervisory Board plays a strategic role in overseeing compliance with Sharia principles, particularly in relation to transparency, disclosure, and the consistent implementation of Islamic legal standards within financial institutions (Jan & Ismail, 2023). The presence of a robust governance framework strengthens the legitimacy of Islamic financial institutions and enhances public confidence in Sharia compliant financial products.

Technological development within the financial sector has further supported the integration of Islamic insurance within banking systems. Integrated information systems allow Sharia principles to be embedded within operational processes more effectively. These systems facilitate the translation and dissemination of Sharia guidelines throughout financial institutions while also improving organizational efficiency and transparency (Ayedh et al., 2019). Consequently, strengthening technological infrastructure and enhancing human resource capacity through continuous training have become essential components in sustaining the integration of Islamic financial products.

From the customer perspective, compliance with Sharia principles has also been shown to significantly influence customer satisfaction in Islamic banking services. Studies indicate that service quality supported by strong Sharia compliance plays a vital role in building customer trust and loyalty toward Islamic financial institutions (Ahmed et al., 2022). This suggests that integrating Islamic insurance within Islamic banking financing schemes serves not only as a risk protection mechanism but also as part of a broader strategy to enhance service quality and customer satisfaction.

In terms of regulatory frameworks, the development of Sharia compliant protection mechanisms also includes the establishment of Islamic deposit insurance schemes based on takaful principles. Such schemes emphasize fund segregation and collective contribution mechanisms to ensure that depositor protection remains consistent with Islamic legal provisions (Fendi, 2020). Consequently, the integration between Islamic banking and Islamic insurance strengthens not only financing risk management but also the overall stability of the Islamic financial system.

Despite these developments, the implementation of Islamic insurance integration within Islamic banking continues to face several challenges. One of the most prominent challenges relates to the relatively low level of public literacy regarding Islamic banking and Islamic insurance concepts. Many members of the public remain more familiar with conventional banking products that have long dominated national financial systems. As a result, customers often fail to fully understand the fundamental differences between conventional and Islamic

financial systems, including the prohibition of riba, gharar, and maysir, as well as the contractual mechanisms used in Islamic financing and insurance.

Furthermore, cooperation between Islamic banks and Islamic insurance companies requires clear legal frameworks established through formal agreements such as Memorandums of Understanding (MoU) and cooperation agreements. These agreements define the rights and obligations of each party, including premium management, claim responsibilities, and dispute resolution mechanisms. From a legal perspective, these agreements must comply with civil law provisions, regulatory requirements issued by financial authorities, and the fatwas issued by the National Sharia Council to ensure that the cooperation remains consistent with Sharia principles.

CONCLUSION

This research shows that the integration of sharia insurance products in sharia banking financing plays an important role as a risk mitigation mechanism for banks and customers. Through the sharia bancassurance scheme, banks not only function as financial intermediaries, but also as parties that maintain financing stability by providing protection against various risks such as default, customer death, and damage to collateral assets. The implementation of this integration is carried out according to sharia principles, namely ta'awun (help) and takaful (mutual support), which distinguish it from the conventional insurance model. Sharia insurance is not oriented to profit alone, but to the value of solidarity and blessings in risk management.

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