THE PRESENCE OF LIFE INSURANCE IN SHARIA BANKING FINANCIAL
(Between *Risk Mitigation & Economic Justice)*

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ABSTRAK

Keberadaan pembiayaan pada perbankan Syariah terdapat beberapa risiko pembiyaan salah satunya ialah gagal bayar dari nasabah akibat musibah meninggal dunia. Menghadapi risiko tersebut perbankan sudah barang tentu memiliki *risk management* (manajemen risiko) agar hal tersebut dapat terkendali yang kedepannya tidak membuat perbankan Syariah mengalami kerugian. Dalam penulisan artikel ini menggunakan pendekatan kualitatif deskriptif dengan studi pustaka, dengan tujuan menggambarkan keberadaan asuransi jiwa pada pembiayaan, mitigasi risiko dan manfaat didalamnya. Langkah strategis memitigasi risiko yang digunakan perbankan ialah memberikan cover asuransi jiwa pembiayaan sebagai proteksi terhadap pembiayaan dalam menghadapi musibah tersebut, yang mana keberadaan asuransi tersebut sebagai alat untuk menanggung kewajiban pembiayaan nasabah dan sebagai tindakan agar tidak membebani ahli waris lainnya, jika dicermati dengan sekasama ada dua subtansi agar kedua belah pihak (bank dan nasabah) merasa terproteksi, hal tersebut sejatinya selaras dengan prinsip ekonomi berkeadilan *(economic justice)*

Kata kunci *:* (asuransi jiwa pembiayaan, mitigasi risiko, ekonomi berkeadilan)

ABSTRACT

The presence of financing in Islamic banking creates a number of financial hazards, one of which being the customer's failure to pay owing to a death accident. Banks have previously created risk management to deal with these threats. As a result, the risk can be managed and will not have an impact on future Islamic banking losses. This research implemented a descriptive qualitative approach combined with a literature review to examine the role of life insurance in finance, risk mitigation, and benefits. The strategic risk mitigation technique that widely adopted by banks was Providing financing life insurance cover as protection against financing to face the tragedy. Furthermore, the availability of this insurance was a tool for consumers to meet their financial responsibilities as well as an action to avoid burdening other successors. If we look closely, we can see that there were two chemicals that can make both parties (banks and customers) feel protected, those were in line with economic fairness principles.

Keywords*:* (financing life insurance, risk mitigation, economic justice)

INTRODUCTION

Islamic banking financing is becoming increasingly competitive and in the public interest. According to the Financial Services Authority in 2021, Islamic banking financing climbed 6.83 percent year on year (yoy) to Rp.421.57 trillion. As reported by Kontan.co.id, Islamic banking believes that business will be better in 2022 than it was previously. [1] (Kontan.co.id, 2022)

The banking industry's ability to finance itself is not without risk. Furthermore, the financing mechanism in Islamic banking spans a wide range of time periods, from a few months (short term), one to three years (medium term), and more than three years (long term). However, you must all agree that the faster the tempo, the greater the risk of unpredictability. [2](ojk, 2019) One of the hazards that could develop is the death of the customer who is the subject of the loan. If this happens, there will be a new difficulty with finance, and if no action or risk management is performed, the risk would normally fall on the successors.

Essentially, there are regulations of Usul Fiqh that are mentioned in the DSN-MUI Fatwa regarding Sharia Insurance Guidelines that "all harm (danger) must be eradicated" when it comes to protection and effective care for conditions that are expected to develop in the future. There are numerous risks of loss in the context of life insurance financing in sharia banking, not only for banks but also for consumers, and even the heirs will incur the risk of death if the customer still has financing/credit commitments with the bank.

The situation described above was the risk of funding in Islamic banking. There must be adequate risk management in place, so that existing hazards may be properly managed. Banking actions in minimizing this will be communicated at the start of the contract, as well as the availability of clients who will be financing life insurance as protection against these risks. Financing life insurance is a result of a partnership between banks and insurance firms that gives benefits to the bank in the form of credit repayment if the person who utilizes the credit facility (the debtor) dies. When the risk of death happens during the coverage period, the insurance company will pay off the remaining finance obligations.

DISCUSSION

A. The Presence of Life Insurance in Financing

The description of insurance meaning is defined in the Commercial Code (hereinafter abbreviated as KUHD) Article 246; insurance coverage of an agreement, whereby an insurer binds himself to an insured, by receiving a premium, to provide compensation to him for a loss, damage or loss of expected profits, which he may suffer due to an unspecified event.[3](kemenkeu, n.d.)

Another definition of insurance, the perspective of sharia science explained by the National Sharia Council of the Indonesian Ulema Council through its fatwa that sharia insurance is:

> "Sharia insurance (Ta'min, Takaful or Tadhamun) is an effort to protect and help each other among a number of people/ parties through investments in the form of assets and / or tabarru' that provide a pattern of returns to face certain risks through a sharia-compliant contract (engagement).[4](Dewan Syariah Nasional- Majelis Ulama Indonesia, 2021)

Discussing about insurance, one product that is highly fascinating but rarely heard of is life insurance financing, often known as customer financing coverage in banking. Customers who purchase life insurance receive a variety of benefits, including health and safety. Furthermore, sharia life insurance, which is life insurance based on the principle of mutual aid and protection among participants, has a mechanism. Risk sharing is another name for this notion. By purchasing a sharia life insurance product, you will have two benefits at once: self-protection and doing good by assisting other participants. [5] (BNI Life, 2022)

Insurance can be defined as a form of protection that is available and occurs as a result of human needs. Because in essence, humans are confronted with an unpredictable situation that may or may not be profitable. [6](R.Subekti dan R Tjitrosudibio, 1990) Every human being wishes for the safety of their possessions, as well as the best possible health and well-being. Humans can only try; God, on the other hand, is all-powerful and determines everything. As a result, every human being without exception is constantly exposed to a variety of threats that may occur in the future [7] (Ganie, 2010). The length of financing in Islamic banking carries a risk of loss for banks owing to incapacity to pay, as well as the possibility of the burden of liabilities being passed on to the heirs if the customer dies.

As a result of the aforementioned phenomena, Islamic banking and third parties mainly insurance companies, have taken the step of cooperating. This collaboration is commonly referred to as *Bancassurance*, which is a collaborative activity between insurance companies and banks (Financial Services Authority Circular No. 32/SEOJK.05/2016). [8] (Uswatun Khasanah, Manzilatul Fajriah, Dewi Arianti, Lady Avisha, 2021) The term cooperation in financing between Islamic banking and insurance is popularly known as financing life insurance products or in conventional banking, it is known as credit protection insurance.

As detailed in the Sharia Life Insurance Company which is quite popular among the public and Sharia Banking, particularly *PT. Asuransi Jiwa Syariah Al Amin* which provides Sharia products, and Sharia Banking, financing by Alamin; Sharia insurance scheme that protects or ensures financial recompense to Beneficiaries if the Insured Participant is unable to fulfill its responsibility to pay up its funding due to the risks guaranteed under the policy. Death is a given risk. [9] (Al Amin Syariah, 2022) Another example of, *BCA* Life Credit Protection is an insurance product that provides financial protection against the danger of death and total permanent disability with the Sum Insured equal to the remaining debt, which lowers on a monthly basis. [10] (PT. BCA Life, 2022)

Simply put, if the insured dies during the coverage period due to natural causes, illness, or accident in accordance with the terms and conditions based on the policy issued by the insurance company, and the insurer has received proof of death in an acceptable form and content in accordance with established procedures, then financing life insurance presences in sharia banking. The insurer (insurance) will reimburse the sum covered for the remaining financing/loan if appropriate (excluding payment penalties).

B. Life Insurance Islamic Banking Financing and Risk Mitigation

In accordance with Bank Indonesia regulation Number 9/19/PBI/2007, financing is defined as the provision of funds or equivalent claims or receivables.[11] (Bank Indonesia, 2007).

Self-financing is a general term that refers to financing or expenditures, specifically cash granted to support planned investments, which can be carried out by oneself or by others. Financing can also refer to funding provided by financial institutions such as provided by Islamic banking to its clients. [12](Muhamad, 2002)

Financing is also a procedure that begins with a feasibility investigation and ends with its realization. The actualization of finance, on the other hand, is not the final step in the financing process. Following the completion of the financing, Islamic banks must monitor and supervise the financing since non-performing financing might occur for a variety of reasons during the financing period. Islamic banks must be able to identify the causes of non-performing debt so that they can work to improve the quality of the debt. [13] (Usanti, n.d.)As a result, it is clear that the funding provided by banks to consumers is not without danger; this is referred to as credit risk or financing risk in Islamic banking.

Credit risk refers to the risk posed by a customer's or another party's failure to meet their commitment to repay a financial insti(Usanti, n.d.)tution's credit. [14](Ikatan Bankir Indonesia, 2015) during the process of providing credit, various reasons or factors such as declining business conditions of the customer, job loss, decreased income, and it could also be due to the character of the customer who does not have good faith to fulfill his obligations, may cause the customer to be unable to fulfill his obligations to financial institutions.

Another risk that could happen throughout the financing period is the customer's death. When a person dies, his or her heirs inherit the rights and obligations of the heir. Similarly, when a debtor dies, the heir has the right to acquire the debtor's property and the obligation to repay the debt with the property he received. The Civil Code regulates the rights and obligations of a deceased debtor's heirs.

In a study on the accountability of debtor heirs in credit, Dewi Ayu Pambudi explains that seeing "All death debts that occur after a person dies only become the burden of the heirs and the deceased," according to Article 123 of the Criminal Code. According to the requirements of this article, if a person dies while owing a debt, the debt obligation is transferred to his heirs to be paid. Similarly, if a creditor dies, the debtor's obligation to pay the debt goes to his or her heirs. [15](Pambudi, 2016)

In light of the aforementioned concerns, Islamic banking has made steps to provide life insurance coverage for the funding that occurs. The use of insurance in all financing is a means for banks to avoid incurring losses as a result of a risk. The goal of this insurance is to cover damages caused by a debtor's death while he or she is still owing money on the loan (credit). In addition, if the debtor dies within the insurance period, the insurance company or insurer is responsible for repaying the remaining unpaid amount. Risk management includes the actions listed above. Risk management is defined as a way of recognizing, determining attitudes, and selecting remedies that is logical and systematic as well as tracking and reporting hazards associated with each action or process. [16] (Ferry N. Idroes, 2011)

C. The Presence of life insurance financing and the realization of the concept of economic justice

It is deemed to be fair in this sub-discussion since it provides tangible benefits for both clients and Islamic banking stakeholders. First, banks benefit by avoiding the danger of future problematic financing caused by deceased clients, because sources of income and the ability to pay monthly installments of obligations will almost surely not be met.

Second, the consumer benefits since existing bank obligations will be transferred to the insurance business in question. In fact, this would be unjust and harsh, given that customers who use financing facilities and receive and disburse funding from banks will be burdened after the accident if they die. With life insurance, the financing of customer liabilities will be automatically charged or paid off; this mechanism will be critical in ensuring that the customer's successors are not burdened by the financing or loan obligations obtained by the customer.

The presence of sharia-based financing life insurance brings forward the principles of a just economy, which can be taken together as a benefit acquired by both parties. This is because not only will banks feel safe, but customers will also benefit from highly profitable benefits. Moreover, if the customer's financing life insurance premium has been adequately covered, if the client is involved in an accident and dies, the remaining financing obligations in the bank will be the insurance's responsibility to complete.

There is a single rule of ushul fiqh defined in the Fatwa of the DSN-MUI Fatwa of the National Syari'ah Council No: 21/DSN-MUI/X/2001 concerning General Guidelines for Sharia Insurance that:

> "*All harm should be avoided as much as possible."**[17]** (DSN-MUI, 2021)

If you die in the middle of a financing commitment to the bank, it will be a calamity if you do not have financing life insurance. It is because the liability may be transferred to your heirs.

Essentially, this mechanism is in accordance with Islamic justice ideas. Justice applies to all aspects of human life, including the legal, social, political, and economic realms. In fact, the Islamic economic system is founded on the idea of justice, which encompasses all parts of the economy and is inextricably linked to the Islamic banking industry's economic activities. When it comes to justice, Allah SWT states:

۞إِنَّ ٱللَّهَ يَأۡمُرُ بِٱلۡعَدۡلِ وَٱلۡإِحۡسَٰنِ
وَإِيتَآيِٕ ذِي ٱلۡقُرۡبَىٰ وَيَنۡهَىٰ عَنِ
ٱلۡفَحۡشَآءِ وَٱلۡمُنكَرِ وَٱلۡبَغۡيِۚ يَعِظُكُمۡ
لَعَلَّكُمۡ تَذَكَّرُونَ

> 90. Verily Allah instructs (you) to do justice and do good, to give to relatives, and Allah forbids from evil deeds, evil deeds and hostility. He instructs you in order for you to be able to take lessons.

Justice in economics, according to Mubyarto in Malahayatie, is the rule of the game in economic connections based on ethical principles, which are derived from Islamic rules, God's laws, or human social features. As a result, economic justice is a logical extension of the Islamic brotherhood notion. Economic justice ensures that each individual receives his or her rights in proportion to his or her contribution. [18](Malahayati, 2018)

CONCLUSION

It is critical to recognize the importance of life insurance protection for customer financing in Islamic banking. This is so that the financing obligations can be paid off or shifted to the insurance party as indicated in the contract, in addition to risk management for the banking sector and protection for clients who die while still having financing. On the other hand, make an effort so that when he dies, he leaves no debts or loans behind and does not burden his successors. Another essential issue is that the availability of life insurance in finance provides both parties with benefits and justice (customers and sharia banking).

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