



# The Role of Qardh Loans in Improving Financial Health and Determining Going Concern Assumptions for Sharia Life Insurance in Indonesia

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## Abstract

The development of uncertainty in the future has many causes, such as the emergence of the COVID-19 pandemic. Insurance is one of the options for anticipating risks in the future. The study aims to find suitable insurance solution options for the future. The research method uses an empirical juridical approach, while the method used is an analytical descriptive method. The research results on sharia life insurance are safeguards, filter as an alarm, and the level of solvency must reach an adequate level, according to the provisions provided by the OJK of Indonesia. With qardh loans from managers, the shortage of tabarru and tanahud funds can be met so that the level of financial health becomes healthy and going concern is achieved. The manager must meet the adequacy of working capital to guarantee that the qardh loan is fulfilled. This research is essential to formulate an insurance model that can avoid default.

## INTRODUCTION

The development of uncertainty in doing business in the future is increasingly difficult to predict. Based on

www.cnbcindonesia.com, there are six cases of default of life insurance companies throughout Indonesia, as shown in Table 1 below (Puspadini, 2023):

**Table 1. List of Insurance Companies that Default**

Insurance Name	Reason	Information
Bakrie Life	Since 2008, it has experienced a crisis, and its stock price has plummeted, resulting in the insured's premium being lost and the insured defaulting.	They experienced a decrease in the value of investments in the capital market
Bumi Asih Jaya	OJK revoked its business license in 2013	The company owes considerable debts to policyholders
Jiwasraya	The default issue arose in October 2018	Jiwasraya has a payment obligation of Rp 12.4 trillion
Bumiputera 1912	Experiencing mismanagement resulting in default on insurance claims to customers since 2020	Problematic life insurance has yet to be completed since 25 years ago, leading to default.
Wanaartha Life	OJK revoked its business license in December 2022	Wanaartha Life has liabilities that are far greater than their assets
Kresna Life	Default on some policy products due to liquidity problems since May 14, 2020	OJK seeks to take action to deal with this problem by coordinating with top management to prepare rescue measures



Business continuity must still be fought for whatever the business, including sharia life insurance. Various monitoring indicators are needed to facilitate better evaluation and recommendations for future improvements. There is a need for solvency-level standards that can be used as an alarm, where there is a need for strict supervision from the competent authorities so that inadequacy to meet standards can be met immediately. There are differences between managing Shariah insurance and managing traditional insurance, including Qardh loans. According to Almurhim, Saudi Arabia adheres to a cooperative insurance model called Islamic insurance. The first alternative that Sharia life insurance managers must do is to provide Qardh loans to cover the inadequacy of the solvency level standards of Tabarru Fund and Tanahud (Almulhim, 2019; POJK-RI, 2023).

#### METHOD

Empirical Juridical Approach is an empirical juridical method with (Damayanti et al., 2016) *legal sociology that* designates a specific study of situations, the rules that law operates, and the behavior they produce. Empirical studies have recognized that insurance companies must respond to applicable regulations. For example, implementing the Risk Based Capital system increases

the capital adequacy of the insurance industry. The empirical juridical approach is an approach whose research sources come from (Eling & Jia, 2018) *field research* in the form of interviews, searching for data at the institution concerned, reviewing existing laws and regulations and reviewing library materials. The empirical juridical approach examines law as a pattern of behavior shown in applying legal regulations. The Descriptive analytical method is utilized in applying the empirical legal approach, which involves the acquisition of secondary data from the Indonesian Financial Services Authority (OJK) and its subsequent application to the context of Islamic life insurance in Indonesia. Data analysis is a method used to analyze, review and process certain data groups to conclude the problem being studied and handled. Deductive is analyzing information from a general problem to a specific problem. This method can analyze whether the Financial Services Authority uses existing evidence by legal and empirical rules in deciding sanctions. This study took samples of Sharia life insurance, which provides complete financial statements for 2020-2021, with data periods used per quarter. To facilitate the presentation of research results, researchers use codes for each life insurance company as Table 2 follows: (Aluysius et al., 2023)

**Table 2 List of Insurance Companies Sampled by the Study**

No.	Insurance Company	Code
1.	PT Prudential Sharia Life Assurance	Pruden
2.	PT. Sharia Life Insurance Takaful Family	Takaful
3.	PT. IAI Financial	IAI
4.	PT. Mitra Abadi Service Insurance	AJS JMA
5.	PT. BNI Life Insurance Sharia Unit	BNISYA
6.	PT. Allianz Life New Zealand	Allianz
7.	PT Asuransi Jiwa Syariah Amanah Giri Artha	AJS Amanah
8.	PT. AXA Mandiri Financial Service UUS Syariah Insurance	AXA
9.	PT. Sharia Life Insurance Central Asia Raya	CAR Life

#### RESULTS AND DISCUSSION

Indonesia's insurance industry has recently faced challenges due to many bankruptcy cases. The chaos of the national insurance industry certainly weakens consumer and public confidence in the insurance industry. AAJI claims the share of life insurance in Indonesia will only reach 8 percent in 2022. OJK has taken several enforcement actions until the revocation of

problematic insurance licenses. Ogi Prastomiyono, President Director of OJK-Nonbank Financial Sector Supervisory (IKNB), said his party is also conducting a special audit of 11 insurance companies so that OJK can encourage and coordinate shareholders, directors and commissioners to prepare steps to save the company. The list of insurance companies that failed to pay staggering amounts to their policyholders or clients (Puspadini,



2023)in solving the 1912 Bumiputera problem in Indonesia took a long time as follows, in full, as seen in Table. 3 follows: (Dhf, 2023)

**Table 3. The Process of Solving the 1912 Bumiputera Problem in Indonesia**

Year	Profit Statement/(Loss)	Improvement efforts
1997-2002	Deficit Rp2.07 Trillion	Bumiputera management seeks to restructure and increase short and medium-term investment. The independence of BPA so that it does not affect the administrative and supervisory functions of the national regulatory agency (Bapepam LK)
2002-2010	Bigger deficit Rp4.94 trillion	For health improvement (RBC et al.), a maximum notice period of 5 years is given. Bapepam LK seeks to save the company and control Bapepam LK
2010-2014	Deficit Rp9.25 Trillion	The company is responsible for drawing up a fundamental work program, reorganizing management, and organizing operational dismantling. Companies are required to sign long-term obligations, and OJK supervision
2014-2016	The deficit increased by Rp13.46 trillion	Improvement efforts were made through management changes, entry of outsiders, financial decree No. 504/2004
2016-2018	Deficit Rp18.9 Trillion	Insurance premiums were still paid, and OJK appointed the Director of Statutes (PS) AJB Bumiputera as the management in 1912
2021-2020	Deficit Rp21.6 Trillion	Legal remedies were sought to dissolve the administration of the law. The rule was restored with the Statute of AJB Bumiputera (AD) 1912, I applied article 38 AD
2020	Rp30 Trillion Deficit	This causes payment error issues received by customers. Relevant parties, including OJK, have tried to overcome this ongoing problem. To improve by forming a new management team by the 1912 Articles of Association of AJB Bumiputera, Bumiputera submitted a Financial Restructuring Plan (FRP) to the Financial Services Authority (OJK). OJK is not against RPK. OJK asked Bumiputera to implement several steps so the related RPK could be carried out correctly.

Handling the problem, if there has been a default problem, requires a long time and is not necessarily completed like the 1912 Bumiputra case above. This will not happen to Sharia life insurance because there is already an alternative before the insurance company is declared in default. In such cases, the handling of capital insufficiency occurs, where the insurance company cannot pay insurance premiums because its liquidity is also considered significant. The claim expense ratio is a measure that compares demand costs and premium revenue. If the compensation cost exceeds the insurance premium income, it will cause a significant burden for the insurance company. Investing disproportionately in

insurance companies compared to the cost of claims may lead to a situation where the company is incapable of fulfilling claim payments to its customers (Kristanti et al., 2021; Melisa Anggraini et al., 2022)

According to Oktaviani et al. (Oktaviani & Hendratmi, 2020), The adequacy ratio assesses the adequacy of a company's funding sources, while the claim cost ratio gauges the company's ability to meet claim payments. Liquidity ratios indicate the company's capacity to fulfill short-term financial obligations. However, prolonged delays in processing claims can lead to significant bankruptcy risks for some service providers and diminish consumer trust. Liquidity reflects a company's capability

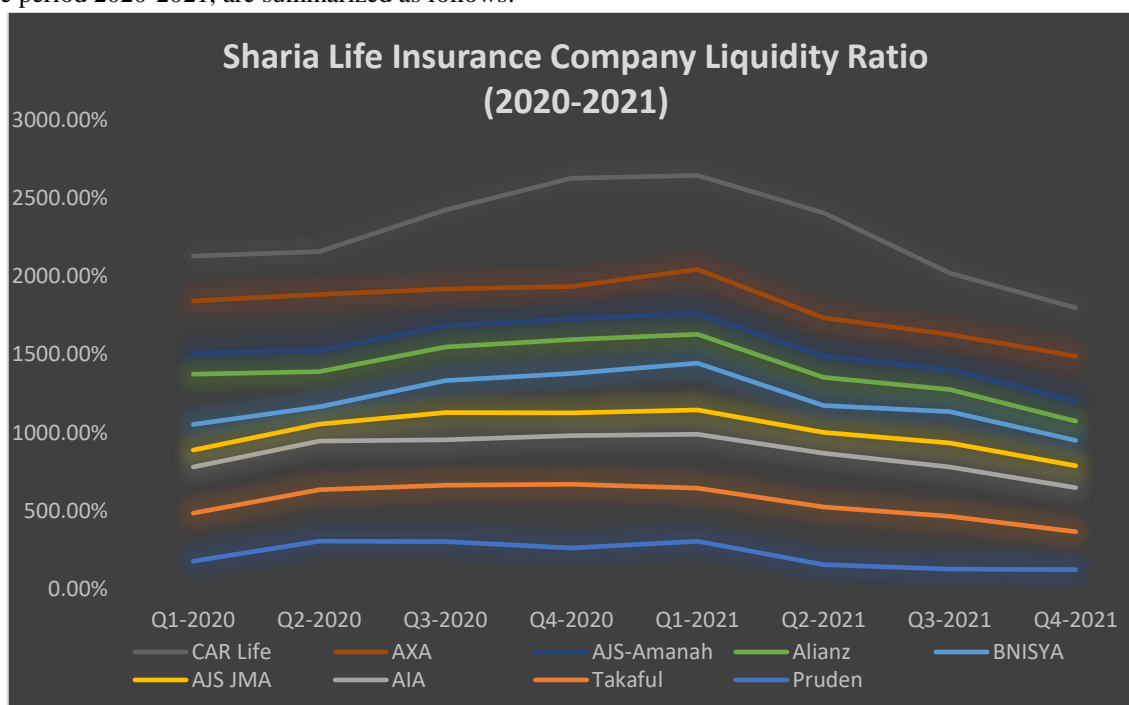


to handle short-term variations in claims, liabilities, and similar elements. The financial health of a company is assessed through a range of metrics, including solvency ratios, equity adequacy, claims expense ratios, investment adequacy ratios, and liquidity. Moreover, aspects such as the magnitude, expansion, and fluctuation of claims are also taken into account (Caporale et al., 2017; Garrido et al., 2016; Nsiah-Boateng & Aikins, 2013; Van Gestel et al., 2007).

The findings from the analysis of selected sharia life insurance companies, which formed the research sample over the period 2020-2021, are summarized as follows:

### 1. Liquidity ratio

The liquidity ratio acts as a measure of financial vulnerability with a negative coefficient, and as an indicator of attractiveness for acquisition with a positive coefficient. For companies looking to acquire, effectively managing equity and cash flow makes it beneficial to employ liquid assets (Hermawan et al., 2021; Oktaviani & Hendratmi, 2020) indicators of financial vulnerability (Cummins et al., 1999)



**Graph 1. Sharia Life Insurance Company Liquidity Ratio (2020-2021)**

Graph 1 illustrates that fluctuations in the initial liquidity level of the Coronavirus attack in quarters 1-2020 have decreased, with the passage of time continuing to correct until the end of quarter 1-2021 to normal again, all reaching more than 100% millimal limit.

### 2. Solvency Level

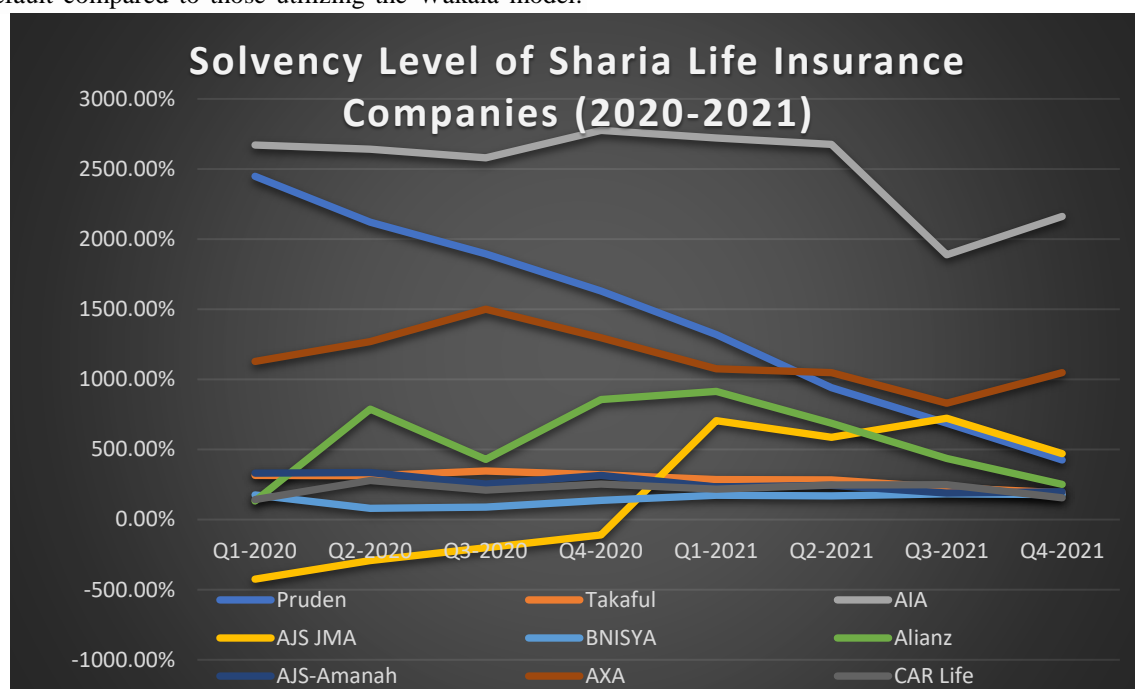
Model internal terutama memodelkan variabel mikroekonomi, yaitu jumlah klaim asuransi yang menanggung biaya kecelakaan dan memberikan perlindungan terhadap risiko. Model volume klaim yang optimal memungkinkan perusahaan asuransi untuk meningkatkan kebijakan penetapan harga, menilai cadangan kerugian yang sesuai, dan yang paling penting menentukan kebutuhan modal solvabilitas. Duc Khuong

Nguyen's research uncovered that the solvency of European insurers is linked to their real-world operations and commitments to policyholders. This connection is positively associated with specific company traits like financial leverage, Return on Assets (ROA), combined ratios, and the nature of the business (Araichi et al., 2016; Nguyen & Vo, 2020). Based on Cummins A(Cummins et al., 2017), Solvency holds significant importance, extending beyond insurance companies to include



stakeholders such as investors and policymakers. Nonetheless, the cascading impact of an insurance company's failure may not be as significant as observed in the banking sector. Takaful insurance companies with diversified operations face a heightened risk of insolvency compared to those specializing in specific areas. Sharia insurance companies adopting the Mudharabah model demonstrate a greater resilience to default compared to those utilizing the Wakala model.

These discoveries provide valuable information for managers, regulators, and policyholders in the Islamic insurance sector. The solvency level, which serves as an indicator of a company's capacity to fulfill its obligations, is evaluated using risk-based capital (RBC) as a measure to assess the financial health of Islamic insurance companies (Al-Amri et al., 2021; Nurlatifah & Saputri, 2022).



Graph 2.

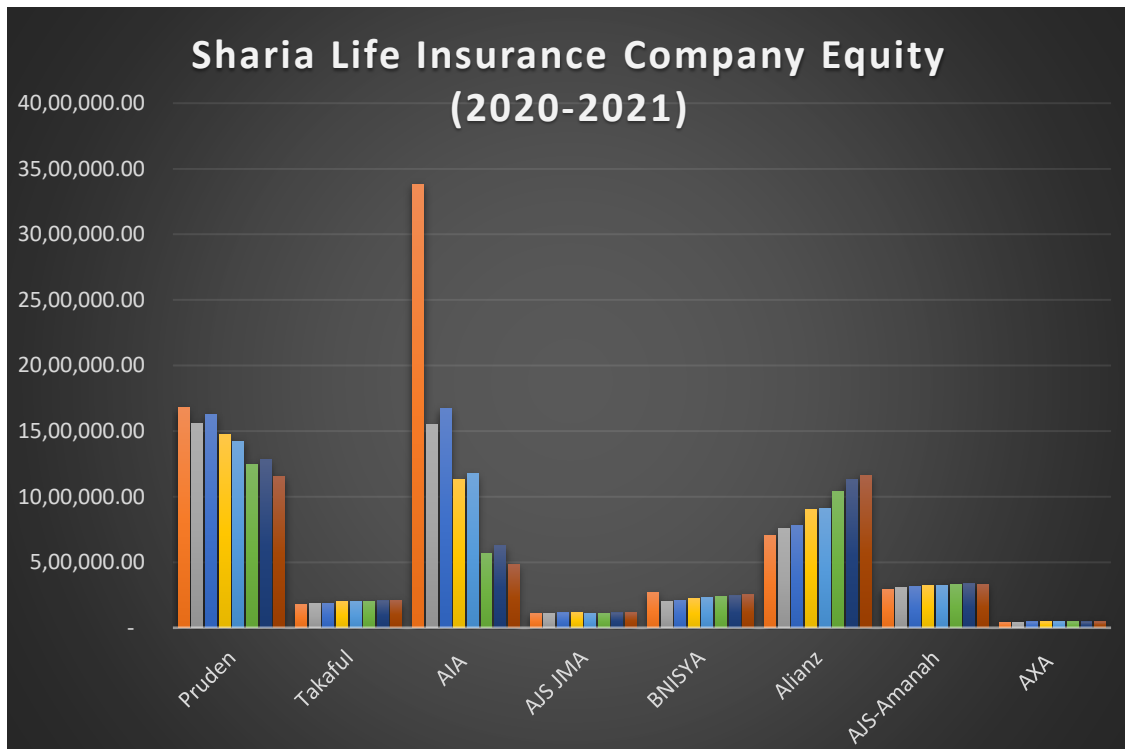
Solvency Level of Sharia Life Insurance Company (2020-2021)

Graph 2. Explaining that in quarter 1, one Sharia life insurance company experienced a decrease in solvency level below 120%, namely PT. Asuransi Jasa Mitra Abadi for the period of quarter 1-2020 to quarter 4-2020 decreased the solvency level to below 0, but with the cards loan for quarter 1-2020 of IDR 40,515.95 so that the solvency level became 507.09%, as well as for quarter 2-2020, with the cards loan of IDR 43,166.34 so that the solvency level became 416.01%. For quarter 3-2020, qardh loans amounted to IDR 52,551.95, so the solvency rate became 787.99%, while qardh loans for quarter 4-2020 amounted to 30,014.08, the solvency rate became 457.30%. This, qardh loans are very helpful in increasing the level of solvency that initially does not meet the required conditions to meet the required life insurance financial health requirements. This is where the role of qardh loans acts as an effective early alarm. Qard loans, often referred to as benefit loans, whereby the loan facility is not charged interest by shareholders and as a source of short-term solvency of participants' funds in the event of a deficit (Puspita et al., 2020)(Ed. et al., 2021)

### 3. Equity

Utilizing equity as collateral can help secure Qardh loans. The composition of a company's capital is

significant in its capacity to fulfill the requirements of stakeholders (Eling & Jia, 2018; Yildirim et al., 2018)



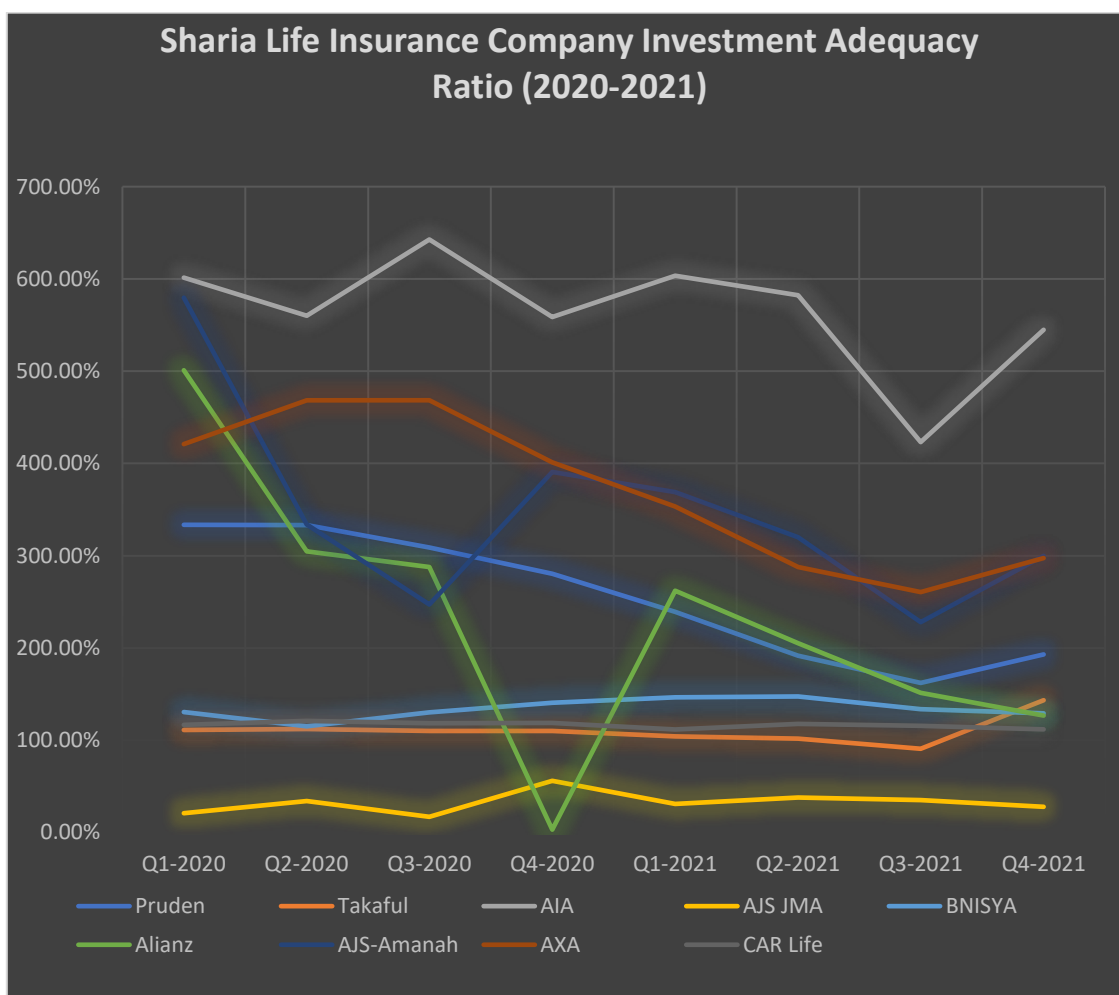
**Graph 3. Sharia Life Insurance Company Equity (2020-2021)**

According to Chart 3, not all insurance is stable; there are also insurances with decreased equity, such as PT Prudential Sharia Life Assurance and PT. IAI Financial, while those who experienced an increase in Equity were PT. Allianz Life New Zealand. Insurance companies PT Prudential Sharia Life Assurance and PT. IAI Financial, which experienced a drastic decline, must immediately recover its equity so that it is not sustainable and can maintain sufficient equity to meet loan needs so that business continuity is running. Cummins J highlights the critical role of financial capital in the insurance industry, emphasizing that insurance companies must maintain equity capital to provide assurance to policyholders regarding claim payments in case they surpass expectations and to meet regulatory mandates. Additionally, adherence to Shariah principles can lead to cost reductions for investors when assessing and comparing companies across the region, simplifying cross-border investments, and enhancing risk-sharing

mechanisms. These factors collectively contribute to lowering the cost of acquiring equity capital (Cummins et al., 2017; Karimov et al., 2020)

#### 4. Investment Adequacy Ratio

The Investment Adequacy Ratio (IAR) holds significant importance as it reflects the capacity of insurance and reinsurance firms to fulfill their commitments to policyholders and participants, especially responsible (reservation) insurance and reinsurance companies. Risks arise if IAR falls below 100% and growth continues to decline. A high investment sufficiency ratio allows a company to meet unanticipated liquidity needs without prematurely selling investments that could incur large losses due to temporary market conditions or tax consequences. Adequacy ratio measures the sufficiency of a company's financial resources (Oktaviani & Hendratmi, 2020; Siregar et al., 2022).



**Graph 4. Sharia Life Insurance Company Investment Adequacy Ratio (2020-2021)**

Graph 4 illustrates that in quarter 1, Investment Adequacy is still at a position above 100%, except PT. Asuransi Jasa Mitra Abadi below 100% (quarter 1-2020 to quarter 4-2021, namely 21%, 34%, 17%, 56%, 31%, 38%, 35% and 28%), PT. Takaful Keluarga Sharia Life Insurance experienced below 100% for quarter 3-2021 and PT. Allianz Life Indonesia in quarter 4-2020 was 3.13%. It can be concluded that those who experience inadequacy of investment are PT. Mitra Abadi Services Insurance. The decline in investment adequacy ratios during or after the COVID-19 pandemic can be attributed to several factors directly or indirectly related to the pandemic; The COVID-19 pandemic had a significant impact on global financial markets, leading to notable fluctuations. As a consequence, it could lead to a reduction in the value of investment assets and a decrease in the investment adequacy ratio. The pandemic caused

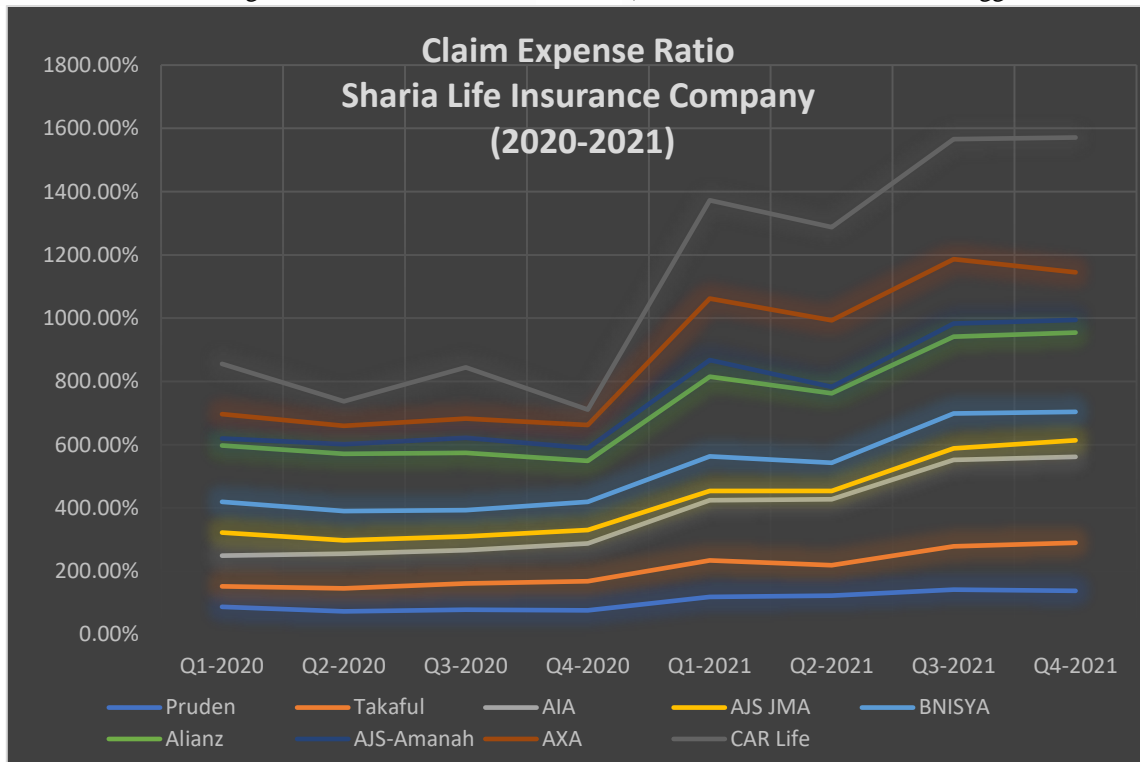
widespread economic disruption, affecting various sectors. This economic impact can reduce investment performance, especially in the sectors most affected. Changes in consumer habits and business operations during the pandemic may affect various industries, which in turn affect investment in those sectors. Government policy responses to the pandemic, including monetary easing and fiscal stimulus, could have short- and long-term effects on financial markets and investments. In the face of uncertainty, investors and companies may change their investment strategies, switching to more liquid or less risky assets, which could affect the investment adequacy ratio. Companies may require higher liquidity to overcome operational disruptions or reduced revenues due to the pandemic, resulting in the sale of investment assets.



5. Claim Expense Ratio

The claims cost ratio assesses the relationship between expenses related to claims and the income generated from premiums. When the expenses associated with claims exceed the revenue generated from insurance

premiums, it places a substantial burden on the insurance company. Additionally, if the investments made by the insurance company are not in sync with the claim costs, it can lead to challenges in meeting customer claims (Kristanti et al., 2021; Melisa Anggraini et al., 2022)



Graph 5. Claim Expense Ratio Sharia Life Insurance (2020-2021)

Graph 5 above shows an increase in the Claim Expense Ratio; during the 2020 period, it was still categorized as stable, except for PT. Central Asia Raya and Sharia Life Insurance experienced quite drastic fluctuations. Quarter 1-2020 fell to quarter 2-2020 and rose again. Quarters 3-2020 and 4-2020 decreased again. However, for the 2021 period, all insurance companies experienced varying increases, except PT Prudential Sharia Life Assurance, which was relatively stable. A high frequency or severity of losses, an increase in the number or magnitude of losses, which may indicate an insurance risk problem. In

health insurance, for example, this can mean an increase in illnesses or expensive illnesses. Due to the onset of the COVID-19 pandemic in 2020, there was an impact on the rise in claim costs in 2021. Graph 5 depicted above illustrates that claims and expenditures have an influence on premium levels, financial status, underwriting performance, asset size, and serve as indicators of a company's overall insurance activities. The correlation between graphs can be explained in the following table 4:

Table 4 The Correlation Between Graphs

No.	Code Insurance	Liquidity ratio	Solvency Level	Equity	Investment Adequacy Ratio	Claim Expense Ratio
1.	Pruden	ups and down	down	decrease	decrease	stable





2.	Takaful	ups and down	stable	stable	increase	stable
3.	IAI	ups and down	ups and down	decrease	ups and down	increase
4.	AJS JMA	ups and down	increase	stable	stable	increase
5.	BNISYA	ups and down	stable	stable	stable	increase
6.	Allianz	ups and down	ups and down	increase	ups and down	increase
7.	AJS Amanah	ups and down	stable	stable	ups and down	increase
8.	AXA	ups and down	ups and down	stable	stable	increase
9.	CAR Life	ups and down	stable	stable	stable	increase

Overall, using claims and expenses as metrics has more advantages than disadvantages. Therefore, this measure proves to be a valuable tool for evaluating the size of the insurance market in a country and can be utilized as a comparative metric alongside commonly employed measures such as insurance depth or penetration. Sharia life insurance companies can be declared in default if the investment adequacy life insurance manager cannot close the qardh loan. Default cases on Sharia life insurance have yet to be found, and hopefully so on, and alarms are there to keep the default running well. Insurance companies can choose to conduct independent evaluations by following the guidelines specified in Financial Services Authority Circular Number 1/SEOJK.05/2021 (Apergis & Poufinas, 2020; OJK, 2021). Surveillance can be categorized into two types: agent-focused surveillance and system-focused surveillance. It is imperative that supervision is carried out in a professional manner to safeguard insurance management and participants by offering insights into inappropriate policies. Insurance managers are asked to solve the company's financial problems; if there is already a default problem, it is difficult to obtain it, and it has lost trust.

Shareholders in increasing capital for companies that experience large enough losses, it is usually challenging to worry that the paid-up capital (Maarse et al., 2005; Nurlatifah & Saputri, 2022) cannot be returned. During periods of financial crises, lenders encounter liquidity challenges and tend to extend loans to large corporations

and firms with substantial tangible assets as collateral. Corporate performance serves as another factor, as institutional investors are inclined toward well-performing companies that are not heavily followed by analysts. The level of economic maturity and the performance of the stock market positively influence efficiency, while regulatory measures such as capital adequacy exhibit a negative relationship with efficiency. Inflation and interest rates have varying effects, with a negative impact on technical efficiency and a positive influence on cost efficiency. Default incidents are not solely associated with cost inefficiency but can also result from financial fraud. There exists an inverse correlation between efficiency and bankruptcy risk in takaful companies. Islamic insurance companies with higher cost efficiency exhibit a wider margin of safety against default and experience lower volatility in ROA and ROE compared to less efficient Islamic insurance companies (Al-Amri et al., 2021; Eling & Schaper, 2017; Hermawan et al., 2021; How et al., 2014). Recovery for insurance companies that have experienced default will be more difficult to recover because trust has been lost. Qardh loans represent a prudent approach as they tackle the insufficient financial stability of a Sharia life insurance company proactively, thereby preventing the risk of failing to fulfill payment obligations and preserving the trust of existing clients.



## CONCLUSION

The 2020-2021 period is a period of Coronavirus attacks, where the current condition of all sectors is severely affected, including the insurance sector. Researchers researched Sharia life insurance using indicators that may impact default. These indicators include: 1) the liquidity ratio, in quarter 1-2020 decreased, with the passage of time continuing to correct until the end of quarter 1-2021 became normal again, all of which reached more than the 100% millimal limit, 2) solvency level, in quarter 1 there was one sharia life insurance company that experienced a decrease in solvency level below 0%, namely PT. Asuransi Jasa Mitra Abadi for the period of quarter 1-2020 to quarter 4-2020, but with the qardh loan, the level of financial health has increased above 120%. Thus, qardh loans are beneficial in increasing solvency (level of financial health). 3) Equity: Not all insurance is stable; there are also insurances with declining equity, such as PT Prudential Sharia Life Assurance and PT. IAI Financial is still considered financially healthy because the equity adequacy to meet the qard loan needs is sufficient. 4) Investment Adequacy, in the 1st quarter, showed that Investment Adequacy was still at a position above 100%, except PT. Asuransi Jasa Mitra Abadi below 100% (quarter 1-2020 to quarter 4-2021), PT. Takaful Keluarga Sharia Life Insurance experienced below 100% for quarter 3-2021 and PT. Allianz Life Indonesia in quarter 4-2020 was 3.13%. It can be concluded that those who experience inadequacy of investment are PT. Asuransi Jasa Mitra Abadi, helped by qardh loans in addition to improving financial health and affecting the increase in investment adequacy; 5) The Claim Expense Ratio, showing an increase during the 2020 period, is still categorized as stable, except PT. Central Asia Raya Sharia Life Insurance experienced drastic fluctuations (quarter 1-quarter 4-2020). However, for the 2021 period, all insurance companies experienced a varied increase, but it did not impact the financial health of Sharia life insurance. During 2020-2021, no Sharia life insurance defaulted, and Sharia life insurance companies could maintain going concern. Thus, sharia life insurance can better survive in the face of crisis.

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