

# The Opportunities of Sharia Insurance Company in Assisting MSMEs Under the Insurance Act in the Industrial Era 4.0

Setia Putra\*

Faculty of Law  
University of Riau  
Pekanbaru, Indonesia

\*setia.putra@lecturer.unri.ac.id

Puspa Gundry

STAI Hubbul Wathon  
Kabupaten Bengkalis, Indonesia

**Abstract**—The issuance of Law No. 1 of 2016 concerning Guarantees which became effective in 2019, provides greater market opportunities for the guarantee industry, including sharia guarantee companies. However, Islamic guarantee companies still face a number of challenges. Based on OJK statistics related to the Indonesian guarantee institution as of June 2018, there were 2 players in sharia private guarantees with total assets of Rp1.04 trillion. Assets of sharia guarantee companies contributed 5.72% to the total assets of the guarantee industry amounting to Rp18.12 trillion. Therefore, sharia guarantee companies have the opportunity to assist in the capital of micro, small and medium enterprises (MSMEs), whose number in Indonesia was 55,206,444 Units. Furthermore, SMEs was encouraged to take advantage of the existence of Law Number 1 of 2016 concerning Guarantees. Because MSMEs usually faced obstacles, both internal and external. The partnership between sharia guarantee companies and MSMEs was expected to help the national and national economy.

**Keywords:** *companies, sharia guarantees and MSMEs*

## I. INTRODUCTION

The guarantee business in all of guarantee institutions in the world was closely attached to the micro, small and medium business sector (MSME). There wasn't exception in Indonesia, it was also used as support for access to credit worthy status. However, in Indonesia, the prestige of the credit guarantee business was not as popular as the bank or insurance business. In fact, in other countries in the world, such as the European Union, Japan and South Korea, the guarantee business was utilized not only by new business loans, but also established business loans [1].

In principle, credit guarantee makes it easy for MSMEs to obtain credit from banks and non-bank financial service institutions that are constrained by collateral / collateral. MSMEs, which was the backbone of the Indonesian economy, should be able to develop their businesses by obtaining guarantees from third parties. This is not only because of the number of SMEs who later became a consideration, but also because of its potential as a driver of the economy [2].

The issuance of Law No. 1 of 2016 concerning Guarantees which became effective in 2019. It provides greater market opportunities for the guarantee industry, including sharia guarantee companies. However, Islamic guarantee companies still face a number of challenges. Based on OJK statistics related to the Indonesian guarantee institution as of June 2018, there were 2 players in sharia private guarantees with total assets of Rp1.04 trillion. The assets of sharia guarantee companies contributed 5.72% to the total assets of the guarantee industry amounting to Rp18.12 trillion. Meanwhile, there were 21 other guarantee companies. They were a government guarantee company, 18 regional guarantee companies, and 2 conventional private guarantee companies.

The government guarantee company gave the largest contribution of 81.64% of the total assets of the guarantee industry, followed by the regional guarantee company of 12.09%. While conventional private guarantee companies contributed 0.54%. therefore, sharia guarantee companies have the opportunity to assist in the capital of micro, small and medium enterprises (MSMEs), whose number in Indonesia was 55,206,444 Units. Furthermore, SMEs was encouraged to take advantage of the existence of Law Number 1 of 2016 concerning Guarantees. Because MSMEs usually faced obstacles, both internal and external (<https://finansial.bisnis.com/read/20180916/89/838656/uu-penjaminan-tantangan-industri-penjaminan-syariah>).

## II. METHODS

This research was expected to be able to find out the constraints and opportunities face by Islamic insurance companies and how are the strategies of Islamic insurance companies in helping MSMEs in Indonesia. This type of research was a normative legal research. The nature of this research was a descriptive.

## III. RESULTS AND DISCUSSION

In terms of channeling funds to the public, its practice in sharia guarantee institutions is different from that done in

conventional guarantee institutions. The most fundamental difference is that there is no usury or interest in Islamic banks, and uses a profit sharing financing system (*musharakah* and *mudharabah*). In contrast to conventional banks which have been agreed upon from the beginning of the determination of the amount of interest and installment fees each month. If there is a risk then all of that is only borne by the borrower, only one party will responsible for the loss. Another difference is the relationship between Islamic banks and their customers are the use of concept of partnership, even there was also assistance without a guarantee because of the sharia guarantee institution prioritizes benefit [3].

Sharia guarantee companies have enormous potential in the economy. The Islamic banking system is very suitable for developing MSMEs that have a strategic role in driving national economic development. Thus, the contribution of Islamic banking in the development of SMEs is expected to run more optimally. One example is to increase the accessibility of funding, namely providing easier requirements and conducting training and business assistance.

Therefore, the role of financial institutions as facilitators of financial management can be divided into two major parts, they are [4]:

#### A. Making Books and Financial Statements

Bookkeeping is the first step for MSMEs to separate between funds will be used for private and business. For this reason, financial institutions should help and encourage MSMEs to be orderly and disciplined in making business financial books and reports. Thus MSMEs have a comprehensive business track record.

#### B. Training and Assistance on the Use of Funds

Although most of MSMEs realize that borrowed funds must be used for business, in practice there is often a deviation. To reduce these deviations, the role of financial institutions to assist the utilization of funds must be carried out.

Related to capital, the obstacles were faced by MSMEs in accessing financial institutions and the ability to access the financial institutions. The limitations of MSMEs in accessing funding sources were caused by the inability to provide collateral and conditions. The Guarantee Law was the result of efforts by the government and the Parliament to provide solutions for SMEs who often faced capital problems. Because more than 90% of businesses in Indonesia were MSMEs which have not yet been reached by bank loans or capital assistance. MSMEs could receive capital assistance from guarantee financing institutions without sacrificing collateral. Therefore, you have not longer to mortgage your home, land, business assets and so on. MSMEs can access financing or credit for working capital or investment for MSMEs. So that, they can compete and advance. The UMKMK has a strategic role in driving the country's economy when viewed from labor absorption, resistance to global economic shocks, and reach in driving the national economy. The partnership between sharia guarantee companies and MSMEs was expected to help the national and national economy.

MSMEs have a strategic role in driving the country's economy when viewed from labor absorption, resilience to global economic shocks, and reach in driving the national economy. The partnership between sharia guarantee companies and MSMEs were expected to help the national and national economy. The *Amanah* Article 33 Paragraph (4) of the 1945 Constitution of the Republic of Indonesia states that the national economy is based on economic democracy with the principles of togetherness, equitable efficiency, sustainability, environmental insight, independence, and maintaining the balance of progress and national economic unity [5].

This is reaffirmed in Article 2 of the Guarantee Law in which the operation of guarantees is based on the principles of [6]:

- national interest
- openness;
- accountability;
- professionalism;
- fair efficiency;
- education; and
- consumer protection.

In Article 3 of the Law, the guarantee business aims to [6]:

- Support the government policies, especially in the context of encouraging business independence and empowering the business world, especially micro, small and medium enterprises and cooperatives in the national economy;
- increase the access for the business world, especially micro, small and medium enterprises as well as cooperatives and other prospective businesses to sources of financing;
- encourage financing growth and create a conducive business climate for improving the strategic economic sector;
- increase the ability of national production which is highly competitive and has the advantage for export;
- support the growth of the national economy; and
- increase the level of national financial inclusiveness.

The mechanism of Sharia Guarantee is regulated in Article 38 Law Number 1 of 2016 concerning Guarantees, where Sharia Guarantee and Guarantee Activities involve 3 (three) parties, namely Guarantee Recipients, Guaranteed, and Guarantor [6]. The Guarantor has the right to claim the fulfillment of the Guaranteed financial obligation. The Guarantor has fulfilled his obligation to fulfill the financial rights of the Guarantee Recipient if the Guaranteed fails to fulfill their obligations. Sharia Guarantee activities must be stated in the Guarantee Certificate or Kafalah Certificate. Provisions regarding Kafalah Certificate are regulated in the Financial Services Authority Regulations. Thus, sharia guarantees provide a sense of security to financial institutions

in channeling financing because the risk of 'default' is mitigated through guarantees. It is more liquid than physical objects that are pledged. Sharia guarantee institutions must maintain the halal and clarity of the object of financing so as not to contain elements of speculation or mere benefits, this is what makes Islamic banks have the resilience in dealing with the economic crisis.

Sharia guarantees are carried out by direct guarantee or indirect guarantee. Then, the guarantee and Sharia Guarantee can be done in the form of joint guarantees. However, what must be considered is that the Sharia Guarantee agreement made must use a guarantee agreement in accordance with Sharia Principles [7].

Based on Sharia Principles, the business activities are not containing elements, including [8]:

- The usury is an addition of income (*batil*), among others, in the exchange of similar goods that are not of the same quality, quantity, and time of delivery (*fadl*), or in a lending and borrowing transaction that requires the recipient customer to return the funds received exceeding the loan principal due to the passage time (*nasi'ah*);
- *Maisir* is a transaction that is subject to an uncertain and chancy situation;
- *Gharar* is a transaction whose object is unclear, not possessed, is not known to exist, or cannot be submitted at the time and the transaction is made unless otherwise stipulated in sharia;
- *Haram* is a transaction whose object is prohibited in sharia; or
- Wrong doing is a transaction that creates injustice for other parties.

Currently, many countries have adopted dual banking system, Sharia and conventional banking, but not many have implemented a dual deposit insurance system. In the application of Sharia-compliant securities guarantees, there are differing views on the basis of its thought and operationalization. For savings with the gift of gift, *qard*, and *murabahah*, sharia members agree to allow guarantees on such savings. For example, given the nature of the deposit as a deposit, the bank guarantees the return of the principal to the customer. The repayment of the principal may be guaranteed by the bank to a third party, in the event that the bank is unable to meet its obligations. It is because of the implementation of Sharia-compliant securities guarantees necessary to meet some of the principles. Sharia is not containing usury; *gharar* (uncertainty) and *maysir* (gambling). For this reason, there are several things that need to be addressed differently with conventional savings guarantees ranging from guaranty contracts, guarantee fund management and guarantee scope. In a Sharia-compliant guarantor, the contract (agreement) between the guarantor and the participating bank of the guarantor must be clearly and legally established. Some of the covenants between the guarantor and the bank of the guarantor may be considered: *tabarru*, *kafalah*, or *dharib* [2].

Dealing to *tabarru* 'agreement, the participating bank collects a premium (fee) to be managed by the guarantor who will later be used to repay the customer's deposit when the guarantor participant bank is revoked. This act can be combined with the *Taawuni* Agreement which can be interpreted as the principle of helping one another among the guarantee participants. This *tabarru* 'treaty is commonly used in commercial insurance contracts often referred to as *takaful* contracts.

The bank's willingness to collect premiums and to bear each other's guarantee securities must be based on voluntary nature. Thus, in the savings guarantee system, the implementation of *tabarru* 'covenants is best done for savings guarantees whose nature of participation is not mandatory. Although the use of this agreement can only be applied when all Sharia banks agree on the need and importance of being a guarantor.

At this time, the accumulation of premiums does not belong to the guarantor but rather to the joint bank of the guarantor. The guarantor only acts as a security administrator and receives a fee from the guarantor fund management. Whereas the covenant is a form of guarantee contract which in the language of meaning is *a-dhaman* (guarantee), *hamalah* (burden) and prayer (dependency). In this agreement, the guarantor promises to fulfill what is promised to the guarantor. Historically, this agreement has often been used for debt repayment guarantees, restitution guarantees, and / or guarantees to bring people together [1].

In the contract, the guarantor (*kaful*) guarantees the repayment of the deposit up to a certain amount of the deposit customer (*makfuul lahu*) in case the bank (*makfuul 'anhu*) is unable to fulfill its obligations due to its revocation. In return for the guarantee, the bank pays periodic fees. With such a fee, the agreement is also called the "*kafalah* bill". Depending on the practice of the past, some Sharia scholars view the payment of fees (severity) on the *kafalah* contract as not being allowed to recall the purpose of the agreement for good and to help alone. While others, including DSNs, are under the auspices of the deed, the guarantor may receive a fee (s) as long as they do not burden the secured party [9].

According to Shafi'i Antonio, *Kafalah* is a guarantee given by the guarantor to a third party to fulfill the obligations of the second party or the one covered. The requirements for carrying out a *kafalah* are [10]:

- *Kafil* (guarantor), namely the Sharia Guarantee Institution.
- *Makful lahu* namely Sharia Bank.
- *Makful hu anhu*, namely Entrepreneurs, Employees, Private Employees and Civil Servants.
- There are 3 types of Financing that can be guaranteed in MSMEs, namely financing for working capital / business purposes, financing for investment, and financing for consumptive (non-productive) purposes.
- The maximum financing period is up to 5 years.

- The guarantee period is in accordance with the financing period, which is a maximum of up to 5 years.
- Age Requirements: they are: Self-employed up to 65 years of age, Civil Servants and Private Employees up to 55 years, Financing ceiling (the highest limit in financing) in accordance with the provisions of micro-financing products that apply to maximum knowledge. ceiling of the maximum ceiling of Rp. 500,000,000 per *makhful anhu*.

Because of requirements and limitations, sharia guarantee companies can be more careful and selective in choosing MSMEs that will be given financing and become business partners. MSMEs can prepare and complete the requirements requested for the existence of trust for sharia guarantee companies. However, sharia guarantee companies must also be able to provide facilities to MSMEs in developing their businesses in order to advance the people's economy and increase national economic growth.

#### IV. CONCLUSION

Based on the results of the analysis, it can be concluded that the role of financial institutions in the development of MSMEs as follows:

- Sharia guarantees are carried out by direct guarantee or indirect guarantee. Sharia guarantees can be done in the form of joint guarantees. However, what must be considered is that the Sharia Guarantee agreement made must use a guarantee agreement in accordance with Sharia Principles free from usury, *maisir*, *gharar*, haram and *dzalim*.

- The main obstacles for sharia guarantee companies to carry out their role in the development of MSMEs, namely the difficulty of assessing feasible and bankable MSMEs that meet the requirements set in lending, MSME awareness of sharia financing is still low, the difficulty of fostering carried out by Islamic insurance companies and partly Large MSMEs have not conducted financial separation between personal and business finances.

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