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SYRIA INSURANCE AND CONVENTIONAL INSURANCE

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Abstract:
Sharia and conventional insurance are two financial protection systems that have fundamental differences in principles, operations, and objectives. Sharia insurance is based on the principle of mutual assistance (ta'awun) and risk-sharing in accordance with Islamic law, avoiding elements of riba (interest), gharar (uncertainty), and maysir (speculation). This model uses the tabarru' contract where participant funds are managed collectively to help fellow participants who experience disasters. Meanwhile, conventional insurance is based on a risk-transfer system, where participant risks are transferred entirely to the insurance company, which aims to seek profit. The main advantage of sharia insurance is the supervision of the Sharia Supervisory Board (DPS) and the principle of sharing underwriting surplus, while conventional insurance offers flexibility and broader coverage without the limitations of sharia principles. Although both have their own advantages and challenges, the selection of the type of insurance must be adjusted to the needs and values adopted by the individual or institution.

Keywords: Sharia insurance, conventional insurance,risk sharing, risk transfer,tabarru', usury, gharar, maysir contracts.

INTRODUCTION

In the modern financial world, insurance is an important instrument to provide protection against risks that can occur unexpectedly. Insurance is present as a solution for individuals and companies in facing uncertainty, whether in terms of health, life, property, or finance. Along with the development of the financial industry, two types of insurance systems have emerged that are commonly used, namely sharia insurance and conventional insurance. Both of these systems have the same main objective, namely to provide protection to participants, but differ in the principles, operational concepts, and legal basis used.

Sharia insurance is based on Islamic principles, such as ta'awun (mutual assistance) and mudharabah (profit sharing), and avoids elements of riba (interest), gharar (uncertainty), and maysir (speculation). In this system, participants contribute to a tabarru' fund that is managed collectively to help each other if a participant experiences a disaster. In addition, the management of funds in sharia insurance is supervised by the Sharia Supervisory Board (DPS) to ensure compliance with sharia principles. Meanwhile, conventional insurance works based on a risk-transfer system, where participants pay premiums to the insurance company, which is then fully responsible for the payment of claims that occur. This system aims to seek profits for the company and shareholders.

Although both types of insurance have their own advantages, the debate on the effectiveness and permissibility of conventional insurance continues, especially among Muslim communities that prioritize compliance with Islamic law. On the other hand, the challenge for sharia insurance lies in the limited understanding of the community and the limited products available compared to conventional insurance. Therefore, it is important to understand the fundamental differences between the two systems so that people can choose insurance that suits their needs and values.

METHODS

This study uses a qualitative approach with a literature study method with descriptive analysis. The literature study method is an activity related to collecting library data, reading, recording and managing research materials (Yulia et al., 2022).

The literature study method is an approach used to collect, analyze, and synthesize relevant literature or sources of information that have been previously published. This method involves searching for various sources of literature, such as books, articles, reports and others to gain a comprehensive understanding of the topic being studied.

The stages of literature study in this research are data collection.with problem identification. Next, the data that will be used in relation to the research is filtered. Then the articles that have been filtered are analyzed to obtain a theoretical basis that supports the research. The data sources used in this research were 10 journals related to the research focus.

RESULTS

Sharia insurance is a financial protection system rooted in the principles of ta'awun (mutual assistance) and takaful (mutual guarantee) among its participants. In this system, participants contribute funds into a tabarru' pool, which is then used to help fellow participants in the event of a disaster. Sharia insurance must align with Islamic principles, avoiding elements such as riba (interest), gharar (uncertainty), and maysir (speculation). Its fund management is transparent and supervised by the Sharia Supervisory Board (DPS) to ensure compliance with Islamic law. On the other hand, conventional insurance operates on a risk-transfer model where participants pay premiums to an insurance company, which assumes full responsibility for claims. As a profit-oriented business entity, the company manages these funds without the constraints of sharia principles, allowing investment in various interest-based instruments.

The fundamental differences between sharia and conventional insurance span across principles, contracts, fund management, profit systems, investments, and supervision. Sharia insurance emphasizes mutual assistance and risk-sharing among participants, with each contributing to a social fund for collective support. In contrast, conventional insurance relies on risk transfer, where participants' risks are assumed entirely by the insurance provider. Contracts in sharia insurance are based on tabarru' (grants) and wakalah bil ujrah (agency with fee), ensuring contributions are managed per Islamic guidelines, while conventional insurance uses sale-and-purchase contracts wherein premiums are exchanged for promised protection. In fund management, sharia insurance ensures participant contributions remain their property, merely managed by the insurer, whereas in conventional insurance, premiums become the insurer's assets. Profit systems also diverge, with sharia insurance distributing underwriting surpluses back to participants or for collective use, whereas conventional insurers retain all profits. Investments in sharia insurance are restricted to halal instruments such as sukuk, sharia-compliant stocks, and mutual funds, excluding sectors involving interest, uncertainty, or gambling. Conversely, conventional insurers can invest freely, even in prohibited sectors. Supervision also differs, with sharia insurance under the scrutiny of the DPS to uphold Islamic compliance, while conventional insurance is regulated solely by financial authorities like Indonesia's Financial Services Authority (OJK).

Risk handling in both systems reflects these foundational contrasts. Sharia insurance implements a risk-sharing model where participants jointly bear the burden of potential loss. Each member contributes transparently to a tabarru' fund, used to assist those in need. The insurance company acts purely as a fund manager, with no ownership over the pooled funds. Any underwriting surplus funds remaining after claims and costs may be redistributed or saved for future participant support. In conventional insurance, risk is fully transferred from the individual to the insurer. The participant pays a fixed premium, and the company assumes all risk, paying claims per policy without involving other participants. Premium funds are invested for corporate profit, including interest-based instruments, and no surplus is shared with the policyholder.

Sharia insurance holds distinct advantages. It is free from riba, gharar, and maysir, aligning it with Islamic ethics and ensuring fairer treatment for participants. Its cooperative concept fosters community solidarity through the tabarru' fund, promoting transparency and mutual aid. Additionally, participants may receive a share of surplus funds, and operations are overseen by the DPS, which ensures compliance with Islamic law. However, sharia insurance also faces limitations. Product options are fewer than in conventional insurance, which often offers broader coverage, especially for high-benefit plans. Investment avenues are more restricted, potentially limiting profit margins. Public understanding of sharia insurance remains low, and due to fewer participants and limited investments, premiums may be higher though justified by its ethical advantages.

The principles of riba, gharar, and maysir significantly shape sharia insurance practices. Riba, the gain from interest or unequal exchange, is avoided through prohibition of interest-based investments and implementation of profit-sharing models like mudharabah and wakalah bil ujrah. This ensures all participant benefits are halal and just. Gharar, or excessive uncertainty, is minimized by transparent contracts and clear policy terms. Participants retain ownership of their contributions, and management is handled with clarity and fairness. This reduces ambiguity and enhances trust. Maysir, or gambling, is mitigated by the collective risk-sharing nature of sharia insurance. Participants do not lose their premiums if no claim is made; instead, funds are used to aid others, and any surplus can be returned or preserved for future needs. This fosters financial stability, fairness, and real benefits regardless of individual claims.

The Sharia Supervisory Board (DPS) plays a critical role in upholding Islamic principles within sharia insurance. DPS ensures that insurance products comply with sharia, reviewing all contracts such as tabarru' and wakalah bil ujrah before market release. It also monitors fund management, ensuring investments are confined to halal instruments and excluding sectors linked to interest, gambling, or uncertainty. Beyond oversight, DPS issues fatwas and sharia guidance to resolve any operational dilemmas, preserving ethical integrity. Furthermore, it supervises the fair distribution of underwriting surpluses and serves as a trust anchor for participants. By ensuring transparency and educating the public, DPS enhances awareness, confidence, and the credibility of sharia insurance in the broader financial ecosystem.

CONCLUSION

Sharia insurance and conventional insurance have the same goal, which is to provide protection against financial risks, but differ in principles, operational systems, and fund management. Sharia insurance is based on the principle of mutual assistance (ta'awun) and risk-sharing, while conventional insurance applies a risk-transfer system to insurance companies. In sharia insurance, funds collected from participants are managed in tabarru' funds, where participants help each other if someone experiences a disaster. On the other hand, in conventional insurance, the premiums paid become the right of the insurance company, which is fully responsible for paying participant claims.

In terms of sharia compliance, sharia insurance must avoid riba (interest), gharar (uncertainty), and maysir (speculation) in all its operations. Therefore, investment in sharia insurance may only be made in halal financial instruments, such as sukuk, sharia mutual funds, and sharia stocks. The existence of the Sharia Supervisory Board (DPS) also ensures that all transactions are carried out in accordance with Islamic principles. On the other hand, conventional insurance is more flexible in investment, but often involves interest-based instruments that are not permitted in Islam.

Although sharia insurance offers a more transparent system and is in accordance with the principles of Islamic justice, the challenges lie in product limitations, lack of public understanding, and investment limitations. Conventional insurance has a wider coverage and is better known by the public, but its system is oriented towards corporate profits. Therefore, the choice between sharia and conventional insurance must be adjusted to individual needs, financial principles, and religious beliefs.

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