

REGULATORY CHALLENGES AND SHARIA COMPLIANCE IN THE OPERATIONAL MANAGEMENT OF TAKAFUL COMPANIES

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ABSTRACT

The Islamic insurance (takaful) industry in Indonesia holds significant potential, given the country's dominant Muslim population and the growing Islamic financial ecosystem. Nevertheless, the industry's growth continues to face numerous challenges, particularly with regard to regulation and Sharia compliance. This study aims to analyze the implementation of Sharia compliance in takaful company operations and to identify regulatory challenges that affect the sustainability of the industry. The research employs a qualitative-descriptive approach using library research and normative legal analysis. Data were obtained from legislation, DSN-MUI fatwas, OJK regulations, industry reports, and relevant scientific literature. Analysis was conducted through content analysis, comparative analysis, and qualitative-descriptive analysis. The findings reveal that takaful companies in Indonesia have generally implemented Sharia compliance principles through the use of tabarru' and tijarah contracts, the separation of participant and company funds, and oversight by the Sharia Supervisory Board (DPS). However, the effectiveness of compliance still faces obstacles, including a suboptimal role of the DPS, differences in fatwa interpretation, and the lack of standardized Sharia auditing. From a regulatory perspective, the main challenges include the absence of a dedicated Sharia insurance law, fragmentation of regulations between technical and Sharia authorities, low Islamic financial literacy, limited capital, reduced product competitiveness, slow digital transformation, and the industry's readiness to comply with the Islamic Business Unit (IUBU) spin-off policy. Therefore, it is necessary to strengthen the regulatory framework, enhance Sharia governance capacity, and accelerate innovation and digitalization in order to improve the competitiveness and sustainability of the takaful industry in Indonesia.

Keywords:

Islamic Insurance, Takaful, Sharia Compliance, Regulation, Sharia Supervisory Board

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1. INTRODUCTION

The development of Islamic insurance institutions in Indonesia began in late 1994, marked by the establishment of Asuransi Takaful Indonesia on August 25, 1994. This establishment was formalized through the Minister of Finance Decree No. Kep-385/KMK.017/1994, with the founding of PT Asuransi Takaful Keluarga. The initiative was conceived by the Takaful Indonesia Formation Team (TEPATI), comprising various stakeholders, including ICMI through the Yayasan Abdi Bangsa, Bank Muamalat Indonesia, Asuransi Jiwa Tugu Mandiri, officials from the Ministry of Finance, and Indonesian Muslim entrepreneurs (Aryani, 2024; Azmi, 2024; Kompas, 2022).

The emergence of Islamic insurance in Indonesia is closely linked to the establishment of Bank Muamalat Indonesia as the pioneer of Islamic banking. The presence of this bank created a need for supporting institutions that also operate in accordance with Sharia principles, including insurance. In conducting financing activities, a risk protection mechanism free from elements of *riba*, *gharar*, and *maysir* was required. This necessity prompted the birth of Islamic insurance, which not only supports the operations of Islamic banking but also fulfills the community's need for financial protection services that are consistent with Islamic law (Kholis, 2021).

Nevertheless, the development of Islamic insurance in Indonesia has been shaped by many dynamics driven by various factors, including low public literacy, negative stigma toward Islamic insurance due to minimal government response, ambiguity regarding the pros and cons of the *halal* status of *takaful* management, and competitive disadvantage compared to conventional insurance (Handayani et al., 2023a). In addition to the low level of public literacy, another challenge in the development of Islamic insurance is the divergence of views within the community, particularly among Islamic scholars. This divergence arises because the concept of Islamic insurance is not explicitly mentioned in the primary religious texts (*nash*), placing it within the domain of *ijtihad*—issues that remain open to differing opinions and discussion.

This divergence of views has given rise to three main groups in assessing the legal status of Islamic insurance. Based on the research of Nurwanti et al. (2022), the first group, represented by scholars such as Sayyid Sabiq, Yusuf Qardhawi, and Muhammad Bakhil al-Muthi, holds that insurance is prohibited (*haram*). The second group, according to Abd. Wahab Khalaf, Mustafa Akhmad Zarqa, Muhammad Yusuf Musa, and Abd. Rakhman Isa, holds that insurance is permissible. Meanwhile, the third group, represented by Muhammad Abdu Zahrah, holds that social insurance is permissible, while commercial insurance is considered *haram*. It is precisely this divergence of views that has given rise to debate within the Muslim community regarding the validity and Sharia-compliance of insurance practices.

This study aims to examine the problems of Islamic Insurance (*Takaful*) in Indonesia concerning the compliance of management practices based on Islamic principles, as well as the challenges in the implementation of regulations that are essential to the existence of *takaful* in

Indonesia. Accordingly, this research is expected to open a window of literacy and contribute to a deeper understanding of the application of takaful in Indonesia.

2. LITERATURE REVIEW

2.1 Concept and Definition of Islamic Insurance

Islamic insurance, or takaful, is a financial protection system grounded in Islamic principles. According to DSN-MUI Fatwa No. 21/DSN-MUI/X/2001, Islamic insurance is a mutual protection and assistance enterprise through investment in the form of assets and/or tabarru' that are consistent with Sharia. Takaful technically refers to the reduction of risk through a mechanism of mutual guarantee among individuals, emphasizing solidarity and cooperation in facing risks (Maf'ula et al., 2022; Widyanata et al., 2024).

The difference between Islamic insurance and conventional insurance is fundamental in nature. This fundamental distinction lies in three aspects: first, the contracts used—Islamic insurance employs the tabarru' (donation) and tijarah (mudharabah/wakalah bil ujah) contracts, whereas conventional insurance uses a sale-and-purchase contract that contains elements of gharar and maysir (Salman, 2014). Second, fund ownership—in Islamic insurance, participant funds constitute a shared pool managed by the company as an administrator, not as the owner (Nur Rianto Al Arif & Awwaliyah, 2019). Third, the presence of a Sharia Supervisory Board (DPS) that oversees the compliance of operations with Sharia principles (Ahmed & Zuqibeh, 2013).

Islamic insurance applies two main types of contracts. The tabarru' contract is a donation contract for charitable purposes and mutual assistance, in which participants contribute to the tabarru' fund to help other participants who suffer a loss (Rahman & Binti Aziz, 2025). The tijarah contract is a commercial contract for fund management, encompassing wakalah bil ujah (agency with compensation) and mudharabah (profit-sharing) (Abdullah, 2018). Under wakalah bil ujah, the company acts as an agent and receives a fee (ujrah), whereas under mudharabah, the company manages investment funds with profit distribution in accordance with the agreed nisbah ratio (Wibisono & SH, 2025).

The Islamic insurance industry in Indonesia faces significant challenges in achieving sustainable growth. The market penetration of Islamic insurance is only 0.19% of GDP, despite Muslims comprising 87% of the population (IFG Progress, 2023). The main challenges include low Islamic financial literacy, insufficient product differentiation from conventional insurance, and a suboptimal Islamic financial ecosystem (Nugraheni & Muhammad, 2020). Maf'ula et al. (2022) identify opportunities arising from the ripple effect of the Halal Value Chain, the digitalization of Islamic finance, and the potential of the micro-takaful market.

2.2 Legal Basis and Regulation of Islamic Insurance

The legal foundation of Islamic insurance is derived from the Qur'an, Hadith, Ijma', and Qiyas. QS. Al-Hasyr (59:18) emphasizes the importance of preparing for the future, while QS.

Al-Maidah (5:2) affirms the principle of mutual assistance in righteousness. The Hadith of the Prophet Muhammad SAW further reinforces this foundation: "Whoever relieves a believer of a worldly difficulty, Allah SWT will relieve him of a difficulty on the Day of Resurrection" (HR. Muslim).

DSN-MUI fatwas provide legitimacy and operational guidance for the Islamic insurance industry. Key fatwas include: (1) Fatwa No. 21/DSN-MUI/X/2001 on the General Guidelines for Islamic Insurance, which declares Islamic insurance permissible (mubah) provided it is free from gharar, maysir, riba, and other prohibited elements; (2) Fatwa No. 51/DSN-MUI/III/2006 on the Mudharabah Musytarakah Contract; (3) Fatwa No. 52/DSN-MUI/III/2006 on the Wakalah Bil Ujrah Contract; and (4) Fatwa No. 53/DSN-MUI/III/2006 on the Tabarru' Contract (Salman, 2014).

The regulatory framework is built through a tiered legal system. Law No. 40 of 2014 on Insurance serves as the highest legal basis governing the operation of Islamic insurance businesses. However, Muhaimin (2024) identifies contemporary legal problems, including the absence of a specific law governing Islamic insurance, the lack of implementing regulations for Law No. 40/2014, and the absence of regulations concerning a distinctive Sharia insurance policy. PMK No. 18/PMK.010/2010 provides operational guidance, affirming Islamic insurance as a ta'awuni (mutual assistance) effort through a tabarru' fund that remains the property of the participants.

OJK has issued POJK No. 69/POJK.05/2016, which governs licensing, ownership, governance, and financial soundness, as well as POJK No. 73/POJK.05/2016 on good corporate governance, including the role of the DPS. These regulations reflect efforts to harmonize Sharia principles with good corporate governance standards (Abozaid & Khateeb, 2024).

The DPS is a crucial element in the governance structure of Islamic insurance, ensuring that all products, transactions, and operations comply with DSN-MUI fatwas and Sharia principles (Ahmed & Zuqibeh, 2013). The characteristics of the DPS, including expertise, independence, and frequency of supervisory meetings, have a significant influence on the performance and Sharia compliance of Islamic financial institutions (Baklouti, 2022; Mollah & Zaman, 2015). Recent research highlights the importance of balancing knowledge accumulation with DPS independence in enhancing the effectiveness of Sharia supervision (Kok et al., 2022).

2.3 Challenges in the Implementation of Regulation

Sharia governance is the primary distinguishing factor between Islamic and conventional financial institutions. A systematic literature review by Lestari et al. (2025) identifies five key elements of Islamic governance: (1) Sharia board governance; (2) management and board of directors governance; (3) audit and risk governance; (4) sustainable governance; and (5) Muslim management and board governance. The effective implementation of Sharia governance requires a clear regulatory framework, adequate human resource competency, and an integrated oversight mechanism (Abozaid, 2020).

The implementation of Islamic insurance regulations faces significant challenges. Muhaimin (2024) concludes that the optimal arrangement is through a specific law (*lex specialis*) that is separate from Law No. 40/2014 in order to provide stronger legal certainty. Regulatory fragmentation and coordination between OJK as the technical regulator and DSN-MUI as the Sharia authority still need to be optimized. The challenge of adapting regulations to innovations such as digital *takaful* and micro-*takaful* requires a framework that is more responsive to technological developments while maintaining principles of prudence and Sharia compliance (Mafula et al., 2022).

The integration of the principles of *Maqasid Shariah* and the Sustainable Development Goals (SDGs) into the *takaful* legal framework represents a recent trend that can enhance the relevance and socio-economic impact of the Islamic insurance industry (Ibrahim & Markom, 2024). Lessons from countries such as Malaysia demonstrate the importance of innovation-supportive regulations, including the revival of *waqf*-based *takaful* models and the integration of blockchain technology to improve transparency and efficiency (Rosele et al., 2024).

3. RESEARCH METHODS

3.1 Type and Research Approach

This study employs a library research approach with a qualitative-descriptive method. The qualitative approach was chosen because it aims to understand phenomena in depth, to describe, and to analyze the regulatory challenges and Sharia compliance in the operational management of *takaful* companies in Indonesia comprehensively (Creswell, 2023). This approach is appropriate for examining problems that are both normative-juridical and empirical in nature, as is the focus of this study.

This type of research is normative legal research combined with a systematic literature review. Normative legal research emphasizes the analysis of legal materials, namely legislation, fatwas, and regulations related to Islamic insurance (Marzuki, 2017). Meanwhile, the systematic literature review is used to examine findings from various relevant prior studies in order to build a comprehensive analytical foundation (Lestari et al., 2025).

3.2 Data Sources and Types

The data in this study are drawn from two types of sources: a. Primary Data Sources, namely legal materials that are directly binding, including: (1) Law No. 40 of 2014 on Insurance; (2) DSN-MUI Fatwa No. 21/DSN-MUI/X/2001 on the General Guidelines for Islamic Insurance; (3) DSN-MUI Fatwas No. 51, 52, and 53/DSN-MUI/III/2006; (4) POJK No. 69/POJK.05/2016 and POJK No. 73/POJK.05/2016; and (5) PMK No. 18/PMK.010/2010 on the Basic Principles of Conducting Insurance Business Based on Sharia Principles. b. Secondary Data Sources, namely legal materials that provide explanation of primary legal materials, including: scientific books, reputable national and international journals, institutional reports (OJK, DSN-MUI, IFG Progress), and prior research relevant to the topics of Islamic insurance and *takaful*. Secondary data covers literature from the period 2013–2025 to ensure the relevance and currency of the information.

3.3 Data Collection Technique

Data collection was carried out through documentary study and systematic literature review. The documentary study involved examining, recording, and classifying written materials relevant to the research problem (Sugiyono, 2013). This technique included the collection of regulations, fatwas, official institutional reports, scientific journals, and reference books related to the topics of regulatory challenges and Sharia compliance in takaful operations.

The literature review was conducted by searching scientific articles through academic databases such as Google Scholar, Scopus, and Web of Science, using the keywords: "takaful", "Islamic insurance", "Shariah compliance", "Shariah governance", "Islamic insurance Indonesia", and their combinations. Literature selection was based on criteria of topical relevance, publication quality, and currency of data (Lestari et al., 2025; Maf'ula et al., 2022).

3.4 Data Analysis Technique

The collected data were analyzed using three analytical techniques: a. Content Analysis: used to analyze the substance of legislation, DSN-MUI fatwas, and OJK policies related to Islamic insurance. Content analysis aims to identify regulatory gaps, normative inconsistencies, and the need for improvement of the Islamic insurance legal framework in Indonesia. b. Comparative Analysis: used to compare the regulatory framework and Sharia compliance practices in Indonesia with those of other countries, particularly Malaysia and GCC countries, as an effort to identify best practices that can be adapted (Ibrahim & Markom, 2024; Rosele et al., 2024). c. Qualitative-Descriptive Analysis: used to describe, interpret, and synthesize findings from various literary sources systematically in order to answer the research questions. This approach follows the procedures of data reduction, data presentation, and conclusion drawing (Miles et al., 1969).

3.5 Analytical Framework

This study employs two main analytical frameworks. First, the Shariah Governance framework, which encompasses five key elements: Sharia Board governance, management governance, audit and risk governance, sustainable governance, and Muslim management board governance (Lestari et al., 2025). This framework is used to evaluate the effectiveness of Sharia compliance oversight in takaful companies in Indonesia.

Second, the Maqasid al-Shariah framework, which integrates the objectives of Sharia (hifdz al-din, hifdz al-nafs, hifdz al-aql, hifdz al-nasl, hifdz al-mal) with the Sustainable Development Goals (SDGs) as a benchmark for the relevance and socio-economic impact of the takaful industry (Ibrahim & Markom, 2024). Both frameworks are used in a complementary manner to holistically analyze the challenges and opportunities for the development of Islamic insurance in Indonesia.

3.6 Validity and Reliability of Data

To ensure the validity and reliability of the data, this study applies the principle of source triangulation, cross-checking information from various different sources, including government regulations, Sharia institutional fatwas, industry reports, and scientific research findings (Sugiyono, 2013). In addition, this study uses sources that have undergone peer review and have been published by reputable institutions to ensure the credibility and reliability of the information used.

4. RESULT

4.1 Sharia Compliance Practices of Islamic Insurance in Indonesia

4.1.1 Implementation of Sharia Compliance

Sharia compliance is the primary foundation that distinguishes Islamic insurance from conventional insurance. Nurhisam et al. (2016) assert that Sharia compliance cannot be separated from the existence of the Sharia Supervisory Board (DPS), which serves as the supervisory authority in every Islamic financial institution, including Islamic insurance. The implementation of Sharia compliance encompasses three fundamental aspects: the conformity of products with DSN-MUI fatwas, the management of funds free from prohibited elements (haram), and a transparent operational mechanism consistent with Sharia principles.

In practice, Islamic insurance companies in Indonesia have implemented the separation of tabarru' funds and company funds (ujrah) as a form of compliance with DSN-MUI fatwas. The tabarru' fund, which represents participants' contributions for mutual risk-sharing, must not be commingled with the company's operational funds. This system ensures the principle of ta'awun (mutual assistance) and transparency in the management of participant funds (Lestari et al., 2025). Companies are also obligated to avoid investments in instruments containing riba, gharar, maysir, and business sectors that are prohibited under Islamic law, such as the alcohol, gambling, and other industries that contradict Islamic values.

4.1.2 The Role of the Sharia Supervisory Board (DPS) in Ensuring Compliance

The DPS plays a central role in ensuring Sharia compliance in the operations of Islamic insurance. According to Nurhisam et al. (2016), the DPS is responsible under a strict legal system for ensuring that all company activities conform to Sharia principles. The duties of the DPS include advising the board of directors on Sharia matters, conducting periodic reviews of products and transactions, and reporting the results of supervision to DSN-MUI.

The effectiveness of the DPS is heavily dependent on its competence, independence, and frequency of supervisory meetings. Research by Kok et al. (2022) identifies the importance of striking a balance between the accumulation of Sharia knowledge and DPS independence in enhancing the quality of oversight. Nevertheless, a study by Bank Indonesia in collaboration with Afriyeni & Susanto (2019) concluded that the role of the DPS in Indonesia has not been optimal, which has had an impact on risk management in Islamic financial institutions as a whole.

4.1.3 Sharia Compliance Audit Mechanism

The Sharia compliance audit (Shariah review) is an important mechanism for ensuring the implementation of Sharia principles in the operations of Islamic insurance. Based on AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) Standard No. 2 on Shariah Review, there are three main procedures: (1) planning review procedures, to gain a comprehensive understanding of operations; (2) executing review procedures and review of working papers; and (3) documenting conclusions and reporting.

In the Indonesian context, the Sharia compliance audit is conducted internally by the DPS and externally through reporting mechanisms to DSN-MUI. This process ensures that Islamic insurance products, from design and marketing through to claims settlement, are in conformity with applicable fatwas. However, challenges remain in the standardization of Sharia compliance audit procedures, resulting in variations in practice from one company to another.

4.1.4 Indicators of Sharia Compliance in Practice

Sharia compliance in Islamic insurance can be measured through several concrete indicators. First, the use of contracts in accordance with DSN-MUI fatwas, namely the tabarru' contract for the mutual risk-sharing mechanism and the tijarah contract (wakalah bil ujah or mudharabah) for fund management. Second, investment management limited exclusively to halal instruments and sectors, with a portfolio that has received DPS approval. Third, transparent financial reporting that separates tabarru' funds from company funds, as well as the fair distribution of underwriting surpluses to participants.

Data from OJK as of December 2024 indicates that all 59 Islamic insurance companies (17 full-fledged and 42 UUS) have a DPS in place and report Sharia compliance on a regular basis. Nonetheless, there remain differences of opinion among DPS members regarding MUI fatwas in several aspects of implementation, indicating the need for greater harmonization of fatwa understanding and interpretation at the industry level (Hidayat et al., 2025; Ritonga et al., 2025).

4.2 Challenges in Islamic Insurance Practices in Indonesia

4.2.1 Low Sharia Financial Literacy and Inclusion

The greatest challenge facing the Indonesian Islamic insurance industry is the low level of Islamic financial literacy among the public. The 2025 National Survey on Financial Literacy and Inclusion (SNLIK), conducted by OJK in collaboration with BPS, recorded the Islamic financial literacy index of Indonesian society at 43.42%, an increase from 39.11% in the previous year. Nevertheless, this figure remains significantly behind the conventional financial literacy index of 66.45%, indicating a substantial gap between public understanding of Islamic and conventional financial services (Nursyamsi, 2025; OJK, 2025). Even OJK 2022 data specifically indicates an Islamic financial literacy rate of only 9.1%, far below the general financial literacy rate of 49.68%.

This low literacy rate has had an impact on the level of Islamic insurance inclusion, which remains extremely low at less than 3–4%. Members of the public tend to choose conventional

insurance products because they do not fully understand the advantages and benefits of Islamic insurance, nor the fundamental differences in its operational mechanism. Handayani et al. (2023b) identify that negative stigma toward Islamic insurance is also attributable to the minimal government response in terms of large-scale education and socialization programs.

Regulatory challenges constitute a significant structural obstacle. Muhaimin (2024) identifies several contemporary legal problems: the absence of a specific law (*lex specialis*) that separately governs Islamic insurance, the lack of clear implementing regulations for Law No. 40/2014, and the absence of regulations concerning a distinctive Islamic insurance policy. This situation creates legal uncertainty that can hinder innovation and product development.

Regulatory fragmentation is also evident in the coordination between OJK as the technical regulator and DSN-MUI as the Sharia authority. Differences in DPS opinions regarding MUI fatwas across various companies indicate that varying interpretations persist, which in turn may give rise to inconsistencies in industry practices (Hidayat et al., 2025; Ritonga et al., 2025). In addition, the harmonization of domestic regulations with international standards remains an ongoing task aimed at broadening the appeal of the Indonesian Islamic insurance market at the global level.

4.2.2 Limited Capital Capacity and Product Competitiveness

The Islamic insurance industry faces serious challenges in terms of capital capacity. OJK data as of December 2024 records a reinsurance deficit of IDR 10 trillion due to limited capital capacity among Islamic insurance companies (OJK, 2024). This situation constrains the ability of companies to underwrite large risks and to develop competitive, innovative products.

In terms of competitiveness, the pricing of Islamic insurance products is often less competitive than that of conventional insurance. This is attributable to several factors: still-limited economies of scale, higher Sharia compliance costs (including DPS and Sharia audit expenses), and limited product diversification. The market share of Islamic insurance, at only around 3–5% of the total national insurance industry, demonstrates that Islamic insurance products have not yet been able to compete effectively in a market dominated by conventional insurance (Nugraheni & Muhammad, 2020).

Maf'ula et al. (2022) identify that a lack of product differentiation constitutes a significant barrier to attracting a broader market segment. Many Islamic insurance products are merely "conversions" of conventional products with the addition of an Islamic label, without substantive innovation that reflects the values and uniqueness of Islamic insurance. As a result, prospective customers do not perceive a significant difference that would serve as a compelling reason to switch from conventional insurance.

Product innovation tailored to the needs of specific market segments—such as micro-insurance (*micro-takaful*) for low-income communities, *waqf*-based insurance, or *takaful* products integrated with the halal ecosystem (*halal value chain*)—remains very limited. Yet lessons from Malaysia and GCC countries demonstrate that technology-based product

innovation, such as blockchain-based takaful and AI-powered underwriting, can significantly improve accessibility and efficiency (Ibrahim & Markom, 2024).

4.2.3 Suboptimal Digital Technology Integration

The role of fintech in Islamic insurance has yet to develop optimally in Indonesia. Findings indicate that 92% of respondents believe that integrating Islamic insurance with Islamic banking applications could significantly improve accessibility, yet implementation remains limited (Ibrahim & Markom, 2024). Blockchain technology for transparency in takaful contracts and AI-based risk assessment models are still very underutilized.

Compared to Malaysia, which has implemented an interactive mobile platform-based Takaful Literacy Program and increased participation by 18%, and Saudi Arabia, which uses a blockchain-based takaful system to enhance transparency and claims processing efficiency, Indonesia still lags behind in the adoption of digital technology for Islamic insurance (Ibrahim & Markom, 2024).

4.2.4 Challenges of Islamic Business Unit (UUS) Spin-Off

OJK has mandated the spin-off of Islamic Business Units (UUS) for insurance and reinsurance companies by no later than the end of 2026, as stipulated in Article 9 of POJK Number 11 of 2023. This policy affects dozens of Islamic insurance UUS still operating under conventional parent companies. The main challenges faced in this process include capital readiness, the availability of competent human resources, adequate operational infrastructure, and the preparation of an organizational structure and governance that comply with regulatory requirements. For companies with small-scale operations and limited capital, this obligation is considered quite burdensome, particularly when the operational systems and human resources are still heavily dependent on the parent company's infrastructure, making the separation a potential threat to business continuity (Kontan, 2025; Pratama, 2026; Putri, 2025).

The spin-off can also serve as an opportunity to strengthen Islamic identity and enable a more focused and optimal business development. The Indonesian Sharia Insurance Association (AASI) considers that the still-untapped market conditions represent a space for the industry to grow more rapidly following the spin-off, provided that there is conducive regulatory support and adequate capitalization (Republika, 2025).

4.2. Geographical Disparities and Service Access

The Indonesian Insurance Roadmap 2023–2027 identifies equitable access to Islamic insurance as a continuing challenge. The contribution income of Islamic insurance is concentrated on the island of Java, particularly in DKI Jakarta, West Java, Central Java, East Java, and Banten. The distribution of branch offices of Islamic insurance companies is also concentrated on Java, leaving communities outside Java with limited access to Islamic insurance products and services (OJK, 2023).

This geographical disparity is compounded by a lack of financial education and public awareness in the regions. Strategies are needed to bridge the gap so that Islamic insurance

services can be distributed equitably throughout the archipelago, including through the utilization of digital technology and partnerships with regional Islamic microfinance institutions.

5. CONCLUSION AND SUGGESTIONS

Islamic insurance (takaful) is a financial protection instrument grounded in the principles of ta'awun (mutual assistance), justice, and compliance with Islamic law through the application of the tabarru' and tijarah contracts, overseen by the Sharia Supervisory Board (DPS). In Indonesia, takaful operations have been supported by various regulations, DSN-MUI fatwas, and OJK oversight, which together form the foundation for sound Sharia governance. Nevertheless, the implementation of Sharia compliance still faces a number of challenges, particularly concerning the optimization of the DPS's role, the standardization of Sharia compliance audits, and the harmonization of fatwa interpretation at the industry level.

This study demonstrates that the main challenges facing the takaful industry do not stem solely from Sharia compliance, but also from regulatory and industry development dimensions. The absence of a specific law (*lex specialis*) comprehensively governing Islamic insurance, the fragmentation of authority between regulators and Sharia authorities, low Islamic financial literacy and inclusion, limited capital capacity, weak product innovation, and suboptimal digital transformation all constitute barriers that affect the industry's competitiveness. Furthermore, the mandatory spin-off of Islamic Business Units (UUS) and the disparities in service access between regions add to the complexity of Islamic insurance development in Indonesia.

Therefore, the sustainability and competitiveness of the takaful industry require the strengthening of a more specific regulatory framework, enhanced effectiveness of Sharia oversight, the development of product innovations that reflect Islamic values, and the acceleration of service digitalization. Synergy among the government, OJK, DSN-MUI, industry players, and educational institutions is also a key factor in improving public literacy and expanding Islamic financial inclusion. With adaptive regulatory support, strong Sharia governance, and optimal use of technology, Islamic insurance has the potential to become an important pillar in strengthening the national Islamic financial ecosystem while contributing to inclusive, sustainable economic development in accordance with the objectives of maqashid Sharia.

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