

The Urgency of Establishing a World Class *Takāful* Operator in Indonesia: Reason and Concept

Wahyudin Rahman¹, Nur Fatwa²

Abstract. *This study analyzes the urgency of establishing a World Class Takāful Operator (WCTO), initiated by the National Committee on Islamic Finance and Economics (KNEKS). This is due to several reasons, including a deadline for work plans and the separation of Sharia Units in 2024, risk mitigation support to Bank Syariah Indonesia (BSI), preparation of the ASEAN Framework Agreement On Services (AFAS) in 2025, strengthening halal value chain and improvement of the national insurance image. Using qualitative descriptive analysis, this study recommends the ideal concept (models, mechanisms, market segmentation and distribution channels) for WCTO formation. The ideal concept for WCTO requires the combination of social and commercial insurance, consolidation with portfolio transfers, retail and corporate balance and existing distribution channels with digitalization. This finding becomes a new insight into takafful literature.*

Keywords: *Sharia Insurance; Takāful; Merger; Spin-Off*

Abstrak. *Penelitian ini menganalisis urgensi pembentukan Class Takāful Operator (WCTO) yang telah di inisiasi Komite Nasional Keuangan dan Ekonomi Syariah (KNEKS). Hal ini karena adanya batas waktu rencana kerja dan pemisahan Unit Syariah tahun 2024, dukungan mitigasi risiko kepada Bank Syariah Indonesia (BSI), persiapan ASEAN Framework Agreement On Services (AFAS) tahun 2025, penguatan rantai nilai halal dan meningkatkan citra asuransi nasional. Dengan analisis deskriptif kualitatif, penelitian ini merekomendasikan konsep ideal (model, mekanisme, segmentasi pasar dan jalur distribusi) pembentukan WCTO. Adapun konsep ideal WCTO dilakukan dengan kombinasi asuransi sosial dan komersial, konsolidasi dengan transfer portofolio, perimbangan retail dan korporasi dan existing jalur distribusi dengan digitalisasi.*

Kata kunci: *Asuransi Syariah; Takāful; Merger; Spin-Off*

^{1,2}University of Indonesia

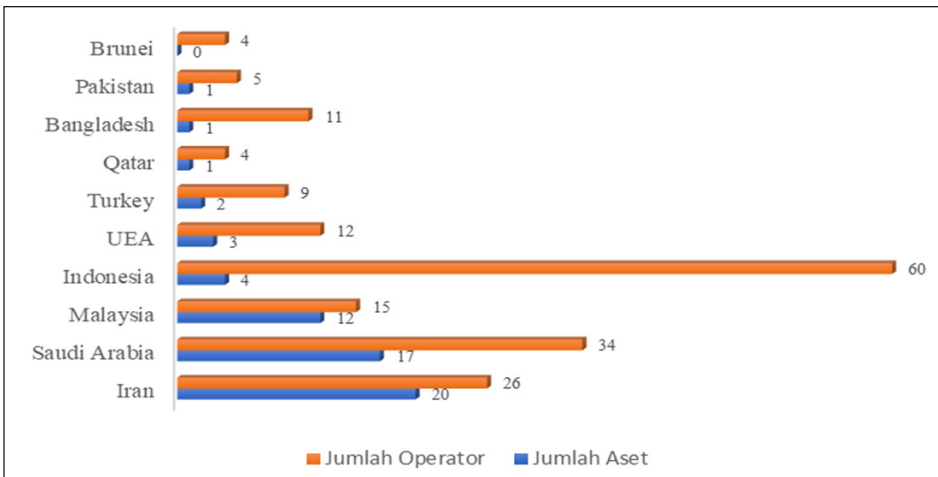
E-mail: ¹wahyudinrahman22@gmail.com, ²nurfatwa@ui.ac.id

Introduction

Indonesia has enormous potential in developing sharia finance, one of which is through the sharia insurance industry, which has been present since 1994. The development of sharia insurance is supported by Law No. 40 of 2014 concerning insurance as a legal basis that can accommodate the development of the sharia insurance industry. This industry also has an essential role in maintaining the stability of the national economy. The application of maqasid sharia to the country's economic recovery due to the impact of the COVID-19 pandemic on the community, Micro, Small, and Medium Enterprises (MSMEs), the potential for long-term funds for national development, and encouraging financial inclusion through various sharia insurance products.

Indonesia has 7 sharia life insurance operators, 6 sharia general insurance operators, and 1 sharia reinsurance operator, while in the form of sharia units there are 23 sharia life insurance operators, 20 sharia general insurance operators, and 3 sharia reinsurance operators (OJK, 2021). When compared to other countries, Indonesia is ranked 1st in the number of sharia insurance operators with the highest number of 60 operators (including in the form of sharia units) but ranks fourth in terms of asset acquisition after Saudi Arabia, Iran, and Malaysia. While in the Southeast Asia region, it occupies the second position after Malaysia, as shown in Figure 1 below. This condition confirms that with a large number of sharia insurance operators, they are still unable to raise the value of assets.

Figure 1. Total Assets & World *Takāful* Operators in 2020



Source: Islamic Finance Development Report, 2021

Based on table 1 below, in terms of the growth of sharia insurance assets in the last 5 years, there was an increasing trend until 2019 with an average growth of 11% and a contraction in 2020 and 2021 by -3% due to a decrease in investment in the capital market as a result of the COVID-19. However, the contribution obtained shows an increasing but not significant trend with an average growth of 9% followed by claims acquisition with an average of 33%. This shows that sharia insurance remains solid in obtaining contributions in a situation of uncertain economic conditions due to COVID-19.

Table 1. Assets, Contributions and Claims in the Last 5 Years

Tahun	Aset (IDR juta)	Kontribusi (IDR juta)	Klaim (IDR juta)	Pangsa Pasar (%)
2017	39.839	13.743	4.948	5.48
2018	42.947	15.743	7.555	5.42
2019	45.453	16.703	10.605	5.20
2020	44.440	17.345	12.921	5.68
2021	43.550	23.691	20.091	5.33

Source: OJK, 2022. *Processed*

Furthermore, in terms of market share development, the national sharia insurance industry has stagnated in its 27-year journey. It cannot be separated from the numbers below 6%. This is considered very low compared to Indonesia's total Muslim population. The number reaches 229 million people, or 87.2% of the total population of 273.5 million people (World Population Review, 2020). Indonesia also accounts for 12.7% of the world's Muslim population. The total consumption of Indonesian *halāl* goods and services in 2017 was around US \$218.8 billion. This figure is expected to rise by an average of 5.3% per year until it reaches US \$330.5 billion in 2025 (Halal Economy and Strategy Roadmap, 2018). Meanwhile, according to projections from the Compound Annual Growth Rate (CAGR), the *halāl* industry will increase by 6.2% in the period 2018 to 2024. This has huge potential to be accommodated by the sharia insurance industry in strengthening the *halāl* sector and expanding market share.

Currently, the majority are only accommodating the consumer segment of banks and Islamic financial institutions. The new government requires sharia insurance for the pilgrimage through Government Regulation Number 79 of

2012 concerning the Organization of the *Hajj*, which is obliged to provide *hajj* protection by providing participants and *hajj* officers, and also the pilgrimage through the Regulation of the Minister of Religion Number 8 of 2018 concerning the Implementation of the *Umrah* Worship. Many *halāl* sectors have not been accommodated. Whereas sharia insurance Operators can become risk mitigation partners for every stage of business carried out by *halāl* industry players. This can strengthen the *halāl* value chain. Strengthening the *halāl* value chain can be done by opening new relationships in the *halāl* sector.

At the same time, awareness of sharia insurance in Indonesia is still low. This problem has already taken root due to the community's attitude toward insurance, which is not a basic need, and the perception of some scholars regarding the prohibition of insurance, including sharia insurance. According to OJK Financial Literacy & Inclusion Statistics 2019, the public literacy index (understanding) of sharia insurance is only 3,74%, and the inclusion (access) rate is 1.9%. Very small, still far below the Islamic financial literacy and inclusion index of 8.93% and 9.1%, respectively. The condition is also exacerbated by the rise of default cases of several national life insurance companies, such as PT Bumiputera, PT Jiwasraya (Persero), PT Wanaartha Life, PT Kresna Life, and others, regarding cash value returns to customers for investment features. This has an indirect impact on the Islamic insurance industry. As a result, this is a tough task for education and requires time and effort that is not instantaneous and more energy to restore the image of national insurance.

Another challenge that is no less important in industrial development is the lack of capital. The strength of capital is a benchmark for the development of sharia insurance. The limited capital of Islamic insurance reduces its means of competing with conventional insurance. The thing that has the most impact is the low acceptance capacity, which means that the potential of corporations has not been accommodated much. Furthermore, Ramadhani, (2015) and Ichsan, (2016) found in their research that this challenge is very strong because of the global economic downturn, as well as the condition of the public who are not educated about insurance, the free market has begun to be implemented, and the lack of innovation in sharia insurance products. This is what limits the expansion, acceptance, and facilities for sharia insurance services to develop. In addition, it will also have an impact on limited access space, economies of scale, and business segmentation that can be served by sharia insurance operators.

To answer this challenge, the National Committee for Sharia Economics and Finance (KNEKS) has taken the initiative in the Master Plan for Sharia

Economics and Finance (MAKSI) 2019-2024 to establish a world-class sharia insurance State-Owned Enterprise (SOEs) or World-Class *Takāful* Operator (WTO). However, in its implementation until now, no concrete steps have been found regarding the need for consideration of various parties and in-depth studies. In light of the numerous sharia insurance problems and future challenges mentioned above, as well as the lack of studies or literature on the subject, a comprehensive study is required to address the issues while encouraging the development of what is expected to be a great solution to sharia insurance problems. Therefore, this study aims to explain the urgency of the establishment of a WCTO in Indonesia and provide an ideal concept (model, mechanism, market segmentation, and distribution channel) for the formation of a WCTO. The study's findings are expected to provide new insights into the *takāful* literature as well as significant implications for the government and other stakeholders in determining policies and implementing the establishment of the WCTO in order to improve the *halāl* ecosystem and bring Indonesia to the center of Islamic economic and finance by 2024.

The papers are arranged in the following order: A literature survey of the relevant studies is provided in the next section. The research methods and data used to carry out the analysis are presented in Section 3. Section 4 discusses the results and implications of this paper. Finally, section 5 concludes this paper.

Literature Review

Until now, there has been no research on establishing the WCTO in Indonesia as a whole, and it is hoped that this research will be the beginning of further research. However, the researcher's present relevant research literature and approach or benchmarking methodologies from other industrial conditions, such as Pandu Adi (2021) with the title "Policy Analysis for the Establishment of the Sovereign Wealth Fund in Indonesia" and Renova Siregar (2021) with the title "Urgency for the Establishment of a Policy Guarantee Institution (LPP) in Protecting and Guaranteeing Customer Funds Managed by Insurance Companies" and Ni Luh Putu (2019) with the title "The Urgency of Establishing a Special Legislation Institution in Indonesia", Iwan Fahri (2019) with the title "The Urgency of Establishing a Waqf LKS", Agus Pandoman (2019) with the title "The Islamic Central Bank in Indonesia" and Asep Saipudin (2018) with the title "Establishment of SOE Holding Hospital". The difference between these five studies, on average, only shows reasons with a normative and comparative approach. Therefore, in general, there is no gap in research in this research. Still,

we will present the relevant literature in part, which is the basis for the theory and review of this research, so that gap research can be found in detail so that solutions can be found in this study.

Sharia Insurance Principles, Concepts, and Models

The term Operators' identity using the name "*takāful*" globally is more widely used in almost all countries than the term Islamic insurance. While in Indonesia it is better known as the identity of the name "Islamic insurance". This is adjusted to the terms contained in the regulation in order to distinguish it from conventional insurance. The term *takāful* is also synonymous with a sharia insurance operator who has become a pioneer of sharia insurance in Indonesia. According to Suma and Qoimmudin (2020), in Islamic fiqh literature, sharia insurance can and is commonly referred to, namely (1) *takmin* = safe, calm, and peaceful; (2) *tadamun* = solidarity, mutual responsibility; (3) *tanahud/istikhad* = mutual promise; and (4) *takāful* = mutual support. While AAOIFI (2017) defines *takāful* as a process of agreement among a group of people to deal with injuries due to certain risks to which they are all vulnerable, It is supported by research conducted by Man (2017) that Islamic insurance exists based on the assumption that conventional insurance contains usury (interest), *mayisir* (speculation), and *gharar* (uncertainty). According to him again, these three things are the main things that must be removed in sharia insurance.

In the research literature, Jannah and Nugroho (2019) describe the characteristics of Islamic insurance, namely the concept of risk-sharing, which is a concept where each member shares risk with the other. So when a member is affected by a disaster/loss, other members will help with the source of funds managed by Islamic insurance operators. This is what distinguishes conventional insurance from the concept of risk transfer. This is a concept and a sharia insurance scheme that has its own characteristics and is certainly different from conventional insurance systems. Marimin (2019) in his research, that the role of insurance in protecting *al-kulliyah al khamsi* can be in the form of *ijabiyah* (embodiment) and in the form of *salbiyah* (prevention/rejection). Therefore, philosophically, the goal of Muslims in participating in sharia insurance is to protect religion, life, mind, lineage, and property. According to Prayitno P.D., et al. (2021), sharia insurance has implanted maqasid sharia. For example, insurance products that protect religion are *Hajj* and *Umrab* insurance products, Islamic education insurance (scholarships), life insurance, and property insurance.

In terms of the sharia insurance model that has developed in the archipelago, there are several models of combination *tabarru* and *tijarah* contracts, such as social and commercial hybrids with a balanced composition (operator) and a larger composition of social hybrids than commercial (cooperative/mutual/participation). As well as the implementation of the *tabarru* contract as a whole, such as social insurance. In particular, social insurance is owned directly by the government. According to Sula (2016), the *takāful*, *ta'awun*, and *tadhamun* systems are ideal and something that sharia wants *takāful* that is not dominated by commercial elements. The concept of social and mutual insurance needs to be initiated and refined in the future. However, both the world and Indonesia still need an Islamic commercial insurance system. Meanwhile, Chachi (2017) said the concept of mutual solidarity, cooperatives, and a combination of insurance models were left to the *ijtihad* of Muslim jurists to decide, depending on the *maṣlahah* (public benefit or utility). Therefore, this results in a different opinion.

From various *takāful* theory literature, all world researchers agree on definitions, principles, and concepts that have the same essence. But not for the *takāful* model and mechanism that applies in each country; it varies according to the conditions of the country. In one country, several models can be applied with different classification mechanisms and *takāful* identities.

Sharia Unit Separation

According to Nasution (2019), the purpose of implementing a spin-off is to increase the growth rate of the sharia insurance industry. Operators are more independent in determining strategies and speeding up decision-making. In addition (Kuncoro and Yulianto 2018), the spin-off will increase employment and healthy economic growth and company innovation, and entrepreneurial potential. Different research from Ramadhani, (2015), Sihombing and Yahya, (2016), Al Arif et al., (2018), and Ghoni and Ariyanti, (2021) shows that spin-off does not improve financial performance and operational efficiency in Islamic financial institution entities. In addition, the spin-off becomes a burden for sharia unit players in increasing market share in the future. The sharia unit is generally not ready to spin-off from its parent company. Most companies believe that staying in the form of a sharia unit can provide a better efficiency level than the full-fledged form.

The existence of inconsistencies from various literature regarding spin-offs creates confusion for Islamic insurance industry players in determining the right option. In-depth research is still needed, especially during the COVID-19

pandemic. Whether the spin-off option is selected, all of them will continue to transfer portfolios following applicable regulations.

The *Halāl* Industry Concept and the *Halāl* Value Chain

The *halāl* industry believes that every industrial product, including its management, must comply with Islamic Law. Law Number 33 of 2014 concerning Guaranteed Halal Products is possible and guarantees the protection of the use of *halāl* food, including goods and services. The *halāl* industry also includes the process from beginning to the end of goods or services until they are in the hands of customers related to the supply chain (Mohamad & Backhouse, 2014). These processes include packaging, marketing, manufacturing, logistics, supply, maintenance, slaughter, and various activities from upstream to downstream, including environmental and social. The main requirement to strengthen the *halāl* industry is a commitment from the top management level through *halāl* policies, which are the basis for strengthening supply chain organizations (Saad et al., 2016). A strong *halāl* industry will also legitimize its value chain to form a strong and mutually sustainable *halāl* ecosystem. This is what is called a *halāl* ecosystem.

Mergers, Acquisitions, and Consolidations

Reflecting on the merger of three large Islamic banks owned by HIMBARA, the mechanism for the formation of the WCTO is also possible in the form of a merger. According to Wiyono (2021), the merger of the three banks becomes more efficient and competitive, expands business diversification, has the capacity to finance large projects, has better financial performance, has a higher level of customer trust, and is taken into account in national and global markets, and has risk management stronger with more solid capital support. As supported by Ulfa (2021), mergers can accelerate the completeness of the *halāl* value chain in developing the *halāl* industry, financing MSMEs that support it, and participating in large-scale project financing. Then it will increase market share, efficiency, and competitiveness, so it can encourage inclusion and Islamic financial literacy. In contrast to Masud (2015), in his research, there were positive results after the acquisition. In addition, acquisitions greatly affect liquidity but do not occur in profitability ratios or the company's market value ratio (Dianah et al., 2017). Meanwhile, according to Tarigan, J. et al. (2015), consolidation can be applied within the scope of business groups, especially BUMN in the holding program. Referring to the existing literature and facts, these three mechanisms can enable the

establishment of a WCTO by taking into account the conditions and regulations of the Islamic insurance industry.

World Class Overview

To quote Rulindo (2019), the presence of the WCTO must be able to sustainably prosper the people by integrating with Islamic financial institutions and the real sector. The term "world class" in *Takāful* Operators does not have to be large in the number of branches or large in terms of the number of agents, but rather affordable services and easy access via mobile phones and other media. Meanwhile, according to Kandampully (2006), the world's leading companies are companies that have successfully introduced products or services to the market by providing and offering something that far exceeds consumer expectations. These companies maintain their market leadership positions by continuing to operate on the cutting edge and extending their conventional parameters to attract consumers with creativity and innovation, as well as by creating market-moving products or services through superior value to consumers. Hardjosubroto (2015) defines "world-class" as companies that are considered to provide high and consistent values and have product and service quality standards that are on par with the world's leading companies. Based on the literature, the requirements to become world-class in the formation of WCTO must be mastering the domestic market and the international market with the power of creativity and innovation, as well as having a network that is able to meet the expectations of consumers in at least several countries in the world.

SWOT and Stakeholder Analysis

SWOT analysis is used to analyze the need for WCTO formation. SWOT stands for an organization's internal and external strengths (strengths), weaknesses (weaknesses), opportunities (opportunities), and threats (threats). According to Jogiyanto (2005), a SWOT analysis is carried out to determine the values of the strengths and weaknesses of the resources owned (internal), as well as opportunities and threats that come from outside the organization. Sondang P. Siagian (2019) argues that the SWOT analysis is one instrument that is good enough to be used as a reference in the process of determining the steps to take in a business project. Then, Irham Fahmi (2014) added, that to conduct a more in-depth SWOT analysis, one must look at external and internal factors as part of the SWOT analysis, namely external factors (EFAS) and internal factors (IFAS), David

and Fred R. (2005) explain the factors in the analysis of SWOT. Then, in the formation of the WCTO, it is necessary to identify the person or institution that will be involved in the overall operations and business of the company. Individuals or organizations with an interest in and/or influence over a specific institution are referred to as stakeholders. Stakeholders in each program can be classified as determinants and decision-makers of a policy; coordinators of other stakeholders; facilitators; policy implementers; and accelerators (Nugroho, 2014). Warsono et al., (2009) classified stakeholders into two parts, namely market stakeholders and non-market stakeholders.

Methods

This study uses a qualitative descriptive analysis method to identify and analyze the reasons for the urgency of various conditions and situations and the data collected. In addition, using a phenomenological approach, which allows researchers to apply and apply their subjective and interpersonal skills in the exploratory process (Alase, 2017), The researcher describes his understanding of the phenomenon being studied and rewrites what he finds and understands, and then rewrites what he understands. The author is not justified in giving his argument against what is obtained in the field.

Data sources are derived from primary data obtained directly from informants. Interviews were conducted in November and December 2021 with 5 leaders of sharia operators in the SOEs insurance cluster, 1 Sharia Insurance Expert, the General Chair of AASI, and 1 person from the regulator. The purpose of the interview is to find out holistically and validly the reasons and needs, including providing recommendations for the ideal model, mechanism, segmentation, and distribution channel in the formation of the WCTO. The problems investigated in the interview are the condition of the sharia insurance industry and the plan to establish a SOE sharia insurance that has been proclaimed in MAKSI KNEKS 2019-2024. Then there are secondary data sources, such as laws and regulations, government regulations, books, journals, webinars, and the internet, which do not directly provide data to data collectors. General analysis, legislation, comparative analysis, phenomenological analysis, SWOT analysis, and stakeholder analysis were all used to analyze the data.

This study explores two things that, according to the researcher, deserve to be studied more deeply; among others, the reasons and urgency, as well as analysis of the needs of the WCTO and stakeholders, as well as providing the ideal model, mechanism, segmentation, and distribution channel for the establishment of the WCTO.

Results and Discussion

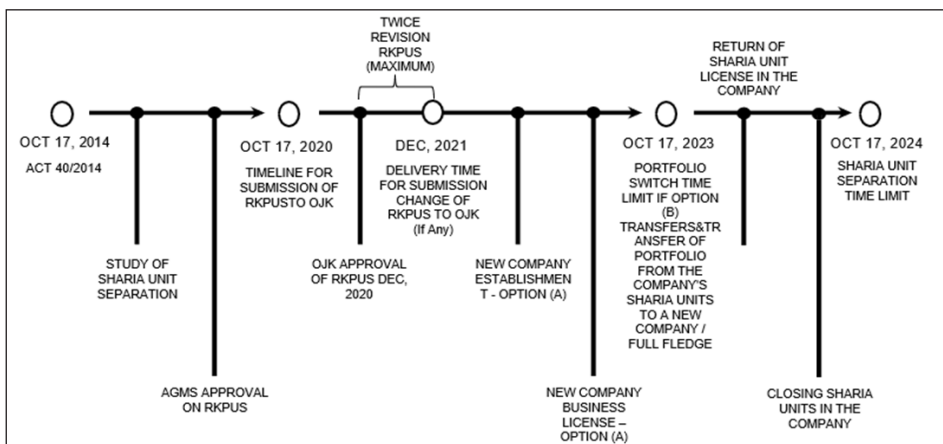
The Urgency of Establishing a World Class *Takāful* Operator

Establishment or formation becomes very urgent and important because of several factors, phenomena and facts that influence, among others;

1. Deadline for Revision of Work Plan for Sharia Units Separation (RKPUS) in 2021 and Separation of Sharia Units in 2024

Law number 40/2014, Article 87 concerning Insurance, requires the separation of sharia units if they have *tabarru* funds of at least 50% of the total value of the parent company's insurance funds or 10 years since their promulgation (no later than October 17, 2024). Furthermore, POJK No. 67/2016 concerning Business Licensing and Institutional Insurance Companies, Sharia Insurance Companies, Reinsurance Companies, and Sharia Reinsurance Companies specifically regulates article 17 paragraph 7 regarding the obligation to submit the RKPUS no later than October 17, 2020 regarding spin-off options or portfolio transfer options to sharia insurance operators (full fledged) and paragraph 9 states that the company can revise the RKPUS twice in 1 year since it was approved by the OJK (maximum end of 2021). After that, carry out the stages of the selected options until October 17th, 2024, according to the timeline in figure 2 below.

Figure 2: Time Line for *Spin off* or *Portfolio Transfer*



Note: Author's Compilation from Regulation

In table 2 below, the classification of several SOEs that have chosen the spin-off and portfolio transfer options in the RKPUS is based on AASI survey data (2021). There are 9 grandchildren of SOEs, including 6 general sharia insurance operators, such as Jasindo Syariah, the sharia unit of BRINS, Tugu, ASEI, JR Putera, and MAGI. Meanwhile, life sharia insurance operators include the sharia units of BNI Life, BRI Life, and AXA Financial.

Table 2. List of Sharia Insurance Operators Owned by SOE

Operator/ Description	Jasindo Syariah	BRINS	Tugu	ASEI	JR Putera	MAGI	BNI Life	BRI Life	AXA Financial
Operator Form	Full Fledge	Window	Window	Window	Window	Window	Window	Window	Window
RKPUS Options	-	Spin Off	Spin Off	Transfer Portfolio	Transfer Portfolio	Transfer Portfolio	Spin Off	Spin Off	Spin Off
Parent Company	Jasindo (IFG Holding)	Bank BRI	Pertamina	Indonesia Re	Jasa Raharja	Bank Mandiri	Bank BNI	Bank BRI	Bank Mandiri

Source: Company Profile. *Observation and processed by the author.*

To substantiate this reason, the author interviewed Tatang Nurhidayat (Chairman of AASI), who said that "The obligation to spin-off is also the right momentum to combine state-owned insurance companies that implement sharia and the government must be the investor, not just a regulator". According to Syakir Sula (Sharia Insurance Expert), "sharia insurance and reinsurance operators must unite, especially those owned by SOEs in whatever form they take to increase their capital, so they can get greater insurance and reinsurance capacity". Supported by Reza Ronaldo (Director of Sharia Insurance owned by SOEs), said "the existence of a spin-off obligation and work plan makes it easier to combine the sharia units of SOEs in insurance clusters".

According to the description above and the interviews that have been summarized, it can be explained that the reasons for the obligation to spin-off no later than 2024 and the RKPUS in 2021, which have been included in the Law and its supporting regulations in general, for the Islamic insurance industry to have mapping, strategic planning, and risk management in the spin-off process. Meanwhile, for SOE insurance clusters, it is urgent and important to consolidate 9 grandchildren of SOE insurance clusters, both general insurance, and sharia life insurance, to increase capital and business scale to support the strengthening

of IFG. Furthermore, it also prevents excess costs incurred by the operator if the company has already been established, but after that, consolidation occurs. This aims to be more efficient in the administration of the children and grandchildren of SOE insurance clusters.

2. Risk mitigation support to PT Bank Syariah Indonesia Tbk (BSI).

The presence of BSI is great hope and momentum for the revival of the sharia insurance industry. The majority of business sources come from Islamic banking (AASI, 2020). Based on an interview with Tatang Nurhidayat, "almost 65% of the sharia insurance industry's business comes from Islamic banking, especially from the three merged Islamic banks, and the sharia insurance market niche through BSI must be aligned within the scope of the sharia ecosystem". So this is the reason for the need for large insurance to support BSI. " Reza Ronaldo also said that "the existence of a large BSI must be balanced with the existence of a sharia insurance operator with large capital". So that we can enlarge our business scale, and it is undeniable that the majority of our business is filled with a portfolio from BSI, including its assets. " Likewise, according to Agung Djatnika (Head of the Sharia Division BNI Life), "54 percent of the sharia life insurance business comes from BSI financing".

The sharia insurance industry also has the largest assets, which is 37.3% of the market share of Sharia IKNB (OJK, 2020). This is based on POJK No. 65/2016, which says banks are required to implement risk management for various types of risk, one of which is operational risk. With the increase in capital, business scope, and network, BSI needs a sharia insurance operator partner in risk mitigation to support the smooth running of all funding interests and the distribution of financing provided to customers, including BSI assets and interests.

Most sharia insurance Operators have not been able to accommodate BSI's needs, especially in corporate and syndicated financing such as infrastructure, power generation, energy, and aviation. This is due to the limited acceptance of sharia insurance operators due to the maximum limit for retention of own capital according to POJK No. 39/2020 concerning the second amendment to POJK No. 14/2015. In practice, BSI is forced in an emergency to use conventional insurance. The presence of a WCOT with a large capital capacity can help BSI minimize the use of conventional insurance. According to Syakir Sula in an interview, "the position of BSI and sharia insurance operators must be the same according to the principles of mutual support, benefit, and maintaining *sharia maqāṣid*".

Based on the results of the interview, it was concluded that the urgency of the establishment of the WCTO was due to the presence of BSI to support the strengthening of mutually beneficial cooperation with the aim of benefiting the people and to become a commensurate partner in accommodating all financing risk mitigation needs, assets, and interests. According to Thomson and Perry (2006), in a strong collaboration, there will be collaboration and mutual benefit, complementing and supporting each other.

3. Preparation for the 7th ASEAN Framework Agreement On Services (AFAS) in 2025

The government and the DPR have approved the Protocol to Implement the 7 Package of Commitments on Financial Services Under the AFAS (Financial Services Protocol) Bill, October 2020. In this 7th Protocol commitment, Indonesia affirms the granting of permits for ASEAN investors to open general insurance services. The incoming investment is expected to contribute to developing the domestic sharia insurance industry market. Both conventional and sharia insurance have a foreign ownership limit in accordance with applicable regulations, namely 80% according to Law No. 40/2014 and PP No. 3/2020 regarding amendments to No. 14/2018 concerning Foreign Ownership in Insurance Companies.

Referring to an interview with Syakir Sula, he said, "one of the existence of world-scale SOE sharia insurance and reinsurance, which will later have a large capital, is to anticipate globalization, not only as a target market for other insurance but to become a big player in the country and region itself". In line with what Eka Indria (Head of the Sharia Division of BRINS) said, "the globalization of markets, both regionally and globally, has led to the need for the incorporation of insurance cluster SOEs that implement sharia, and this also takes a long time due to the culture and mindset of the combined identities being very different so that it can be 1 (one) to 2 (two) years to form a new culture and mindset. Therefore, the formation must be carried out as soon as possible in 2022". Meanwhile, Basuki (Head of the Sharia Division of BRI Life) said that "there is an urgency for the merger of the Sharia Unit SOE in the insurance cluster because the merging itself requires a short time and the MEA will occur in 2025".

Based on the summary of the interview results, it is stated that the reason for the establishment of the WCTO is to prepare for market globalization, especially in the ASEAN regional market in 2025. It takes time to prepare to be competitive and also to meet capital and other infrastructure needs. Based on the description above, it can be concluded that in order to be competitive in the

face of the 7th AFAS Protocol free market, it takes a long time the formation the WCTO, and it takes time to unify the company's corporate culture, improve the structure of capital accumulation, and encourage transfers. Sharia insurance product innovations provide consumers with a broader range of products at lower prices while also increasing the capacity of sharia reinsurance to provide protection. On the other hand, WCTO opens opportunities to access the financial services industry of partner countries by opening branches or representative offices and competing in other countries. This is also why the sharia insurance company that is formed must be world-class.

4. Strengthening *Halāl* Value Chain

Furthermore, a representative from OJK said that "the authorities also continue to open up the potential for *halāl* with seminar programs, trainees for trainers aimed at Islamic boarding schools, MSMEs, and students of the Islamic economics study program. Perhaps with the existence of large sharia insurance operators, they can work together to develop literacy and inclusion together to strengthen this *halāl* value chain". Syakir Sula said that "SOEs Sharia insurance and reinsurance with large capital will be a game changer in supporting the *halāl* value chain both through the *halāl* product industry and the sharia financial and social industry so that it has an impact on the country's economy".

The current *halāl* value chain has not been fully accommodated by Sharia Insurance. Tatang Nurhidayat, in an interview, "the *halāl* industry, including its *halāl* value chain, is a huge potential and a new market that the sharia insurance industry has not properly accommodated". Many actors experience limited access because the *halāl* industry still uses conventional insurance and does not know the benefits and awareness of insurance. There is no Sharia law and no government mandate. So it has an impact on the weakness of the *halāl* value chain and the *halāl* ecosystem itself. Therefore, the author classifies and links the *halāl* value chain with risks and its mitigation solutions through sharia insurance products. According to table 3, business processes carried out by business actors, starting from business plans to customers, some risks can be harmful to business actors. Moreover, they have financing from banks, financial institutions, and peer-to-peer lending. Lending/lease parties also have an interest so that there is a sense of concern, and prevention is carried out through risk management with sharia insurance options. With the classification, sharia insurance operators can optimize this potential.

Tabel 3. Integrated Halal Value Chain with Sharia Insurance

Islamic Finance Institution	Disbursement from Bank & Non Bank				
Small Micro Medium Business Actors	Start Up Business	Supplier	Production	Distribution	Customer
	<ol style="list-style-type: none"> 1. Business Plan 2. Resources 	<ol style="list-style-type: none"> 1. Raw Material 2. Equipment 3. Supply Management 	<ol style="list-style-type: none"> 1. Processing 2. Packaging 3. Labeling 4. Halal Certification 	<ol style="list-style-type: none"> 1. Branding 2. Marketing & Sales 3. Shipping 4. Storage 	<ol style="list-style-type: none"> 1. End Customer 2. Reseller 3. Traditional Market 4. Outlets
Risk Mitigation	<ol style="list-style-type: none"> 1. Failure to pay installments due to death and bad financing 2. Damage or Loss of Guaranteed Assets 3. Work accident 	<ol style="list-style-type: none"> 1. Damage or Loss of Raw Materials and Equipment 2. Business Interruption 	<ol style="list-style-type: none"> 1. Damage or Loss to Production Machinery 2. Business Interruption 3. Environment Liability 	<ol style="list-style-type: none"> 1. Damage or Loss of Goods In Transit 2. Cyber Risk 3. Corporate Liability 	Product Liability

Source: KNEKS FGD entitled "The Role of WCTO in the Halal Value Chain", November, 2020 and *Observation and Processed by the author.*

In Table 4, the author also classifies the *takāful* potential based on market segmentation from sectors/fields that have not been worked out properly. Complex risks, large protection limits, and lack of product innovation and access cannot be met by several existing sharia insurance operators. These include the corporate, consumer, SME, micro non-KUR/loan bank segments, and government/BUMN. The presence of the WCTO can maximize the potential of its capacity so that it can provide protection for the sector or field. In addition, the government's participation is required to require other insurance, such as the micro-sector. According to Reza Ronaldo, "the government is also a customer, namely buying sharia insurance products for state assets and individual state civil servants". So we believe that the government has a big role in strengthening the *halāl* value chain. Meanwhile, according to the OJK representative, "the authorities also continue to open up the potential for *halāl* with seminar programs, trainees for trainers aimed at Islamic boarding schools, MSMEs, and students of the Islamic economics study program. Perhaps with the existence of large sharia insurance operators, they can work together to develop literacy and inclusion together to strengthen this *halāl* value chain".

Table 4. Potential New Halal Market for Sharia Insurance

Segmentation	Sector
Corporate	Energy & Powerplant Aviation Infrastruktur Halal Industry Area
Consumer	Sharia TAPERA
Small Medium Enterprise (SME)	Halal Tourism Halal Fashion Halal Cosmetics & Pharmacy Islamic Boarding School
Mikro Non KUR/Loan Bank	Halal Culinary Micro Community
Government /SOE	Underlying Sukuk (Stated Owned Asset) Agriculture Farm Fisheries & Seafood Disaster
Others	Islamic Social Finance (<i>Zakab, Waqf, Infāq & Sadaqah</i>) Religious Buildings & Management (Mosque, <i>Majelis Ta'lim</i> etc)

Note: Author's observations and presented at the Forum Group Discussion with KNEKS by the author in July 2021

Based on the table above and the results of the interview, it can be concluded that the urgency of establishing a WCTO can boost the *halāl* value chain because it is a priority business source so that it will increase the contribution or income of Sharia Insurance. The government and OJK also have a significant role in requiring sharia insurance according to potential classification and jointly increasing literacy and inclusion. This is in line with what was conveyed by Saad et. al. (2016). The integration of sharia insurance with the *halāl* value chain in the *halāl* industry, as well as the cooperation of various parties, ultimately strengthens the *halāl* ecosystem. According to research by McKinsey (2020), as much as 30% of global income by 2025 will be generated from ecosystems.

5. Improving National Insurance Image

The rise of defaults experienced by conventional life insurance companies such as PT Asuransi Jiwa Bersama Bumiputera, PT Asuransi Jiwasraya (Persero), PT Wanaartha Life, PT Asuransi Kresna Life, and others also had an impact on the sharia insurance industry. Accelerating the establishment of the WCTO could be the main solution to restore the image of the national insurance industry in Indonesia. WCTO implements an Islamic economic system based on justice. The principles and concepts of sharia insurance have been tested to be strong and healthy even in the COVID-19 pandemic because they offer different schemes and uphold *sharia maqāsid*. This is in accordance with the theory presented by Man (2017), Prayitno P.D., et al. (2021), and Marimin (2019). If the participant submits a claim and disburses the cash value, it will be from a different pocket.

In addition, sharia reinsurance and qard al hasan schemes layer the power to prevent operator defaults. If the *tabarru* funds used for claim payments run into a deficit, funds will be assisted by the operator's retakaful fund and qard from the operator's ujah fund. Meanwhile, participants' investment funds have also been covered with underlying and placement obligations in sharia investment instruments as stipulated in the regulations. Reflecting on the case of PT Asuransi Jiwa *Syar'iah Mubārokaḥ*, which initially experienced a deficit of ujah funds, then *tabarru* funds became jurisprudence for developing regulations that at that time had not been strictly regulated in 2010. In addition, the opposite was the case of PT Asuransi Takaful Umum in 2016 regarding the erosion of ujah funds. So it is necessary to perform cost-efficiency measures such as revitalizing branches and rationalizing employees. Meanwhile, the *tabarru* funds can still be used to pay claims until now. Then the added value is the use of clear contracts and transparent management.

According to Tatang Nurhidayat says that "the establishment of a WCTO is the right solution to restore the image of the national insurance industry in Indonesia.. In the midst of the largest Muslim population and a belief in insurance based on Islamic principles, it is easier to restore that reputation through a new or joint corporate identity. This also indicates that the government is focusing on fixing the national insurance industry". Added by Kamiludin (Sharia Unit Head of Jasa Raharja Putera) said that "the initiation of this formation is also aimed at improving the reputation of insurance because it is a big case in the national insurance industry". In line with Syakir Sula's opinion, "the concept of sharia insurance has been tested to be strong and healthy even in the COVID-19 pandemic because it offers a different scheme and upholds *maqashid sharia*".

As supported by the conclusion of the interview, the important reason that will be attached to the formation of a WCTO is that the principles and concepts of sharia insurance are its own characteristics that distinguish it from conventional insurance. This is because it is in accordance with the teachings of Islamic Law in the midst of the Indonesian population who are Muslim. The management system is transparent, attractive, and survives in times of crisis so as to increase public trust in the national insurance industry.

Needs Analysis for the Establishment of WCTO

Quantitatively, the reasons and urgency for the establishment of the WCTO can be seen from what has been stated above. However, qualitatively, the *raison d'être* or reasons for the need for the existence of the WCTO can be reviewed and collected based on existing facts and opinions or views of experts, the General Chairperson of sharia insurance, the Head of the Sharia Division of BUMN insurance clusters, and the OJK, where a SWOT analysis is presented according to the table below. The goal is to emphasize all strengths and weaknesses that can be identified in order to provide development recommendations based on the potential that exists in the company's internal environment, as well as analyze opportunities and threats that come from the company's external environment.

Table 5. Internal Factors Analysis Summary (IFAS) Matrix

Industry Internal Factors	Weight	Rating	Score
<i>Strength</i>			
1. Financial services in accordance with syar`i principles	0,13	4	0,50
2. The operational concept of transparency and fairness	0,13	3	0,38
3. Financial performance resilience (RBC, BOPO, SU and L/R) than conventional insurance	0,05	3	0,15
4. Have the uniqueness and characteristics of the product	0,05	3	0,15
5. Industry with the largest number of assets in IKNB Sharia	0,02	2	0,04
6. Industry with 4th asset acquisition globally and 2nd in the ASEAN region	0,01	1	0,01
			1,23
<i>Weakness</i>			
1. Limited capital	0,17	1	0,17
2. The small capacity of sharia reinsurance	0,14	1	0,14
3. Lack of experienced experts	0,05	2	0,10

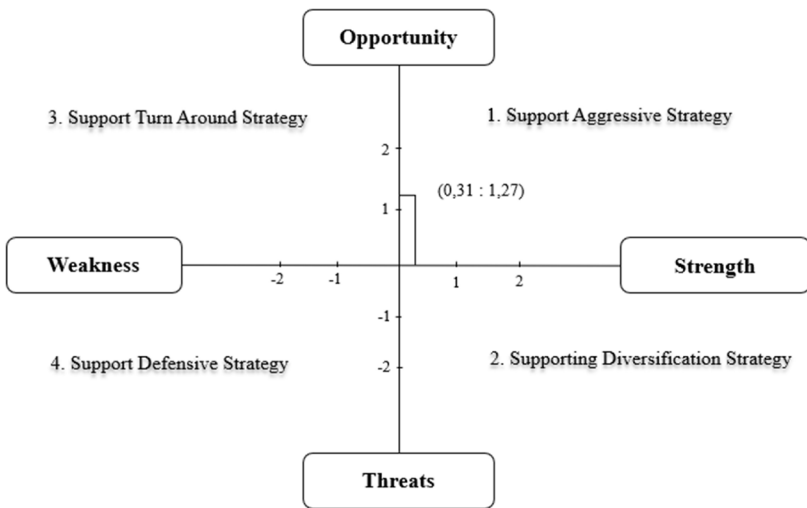
Industry Internal Factors	Weight	Rating	Score
4. Limited quality of experienced human resources	0,03	2	0,06
5. Lack of branch network and supporting infrastructure	0,05	3	0,15
6. The information technology system that is owned is not yet as advanced as conventional insurance	0,10	1	0,10
7. Lack of commitment by shareholders to existence of sharia insurance business	0,04	2	0,08
8. Unfocused management or consider Unit Sharia only complements the business	0,04	3	0,12
			0,92
Total	1		2,15

Table 6. External Factors Analysis Summary (EFAS) Matrix

Industry External Factor	Weight	Rating	Score
<i>Opportunity</i>			
1. Government support for economic development and Islamic finance	0,12	4	0,48
2. The public's passion for <i>halal</i> consumption and potential large Halal Industry and other <i>halal</i> sectors	0,08	4	0,32
3. The number of people who do not have insurance Sharia is still high	0,06	3	0,18
4. Significant developments in Islamic banking and non-bank financial institutions	0,10	4	0,40
5. Development of Islamic Social Finance	0,03	3	0,09
6. Development of Digitization such as Insurtech/TakaTech	0,10	4	0,40
7. Regulations on the obligation to spin off 2024	0,05	3	0,15
			2,02
<i>Threats</i>			
1. The level of public insurance awareness that is still Low	0,15	1	0,15
2. The number of cases of default by insurance companies	0,08	2	0,16
3. Globalization and the 7th AFAS Protocol Free Market	0,05	3	0,15
4. Implementation of IFRS 17	0,03	3	0,09
5. Sharia insurance literacy and education is still low	0,10	1	0,10
6. There is no law that specifically regulates sharia insurance	0,05	2	0,10
			0,75
Total	1		2,77

Based on the table above, the total value of the EFAS matrix is 2.77. This shows that the strategy carried out by the industry effectively describes the external opportunities that exist and avoids the negative effects of threats even though they are not significant. Furthermore, calculations are carried out in addition to the table above to find the most appropriate strategy. Based on this difference, the coordinates of the company are determined as shown in the image below.

Figure 3. SWOT Analysis Chart



From the table and figure above, it is explained that the score for the strength factor is 1.23 and for the weakness factor is 0.92, the difference is 0.31, while the score for the opportunity factor is 2.02, the score for the threat factor is 2.02. 0.75, then the difference is 1.27. The value of the different forms a coordinate point, namely (0.31 : 1.27). So that the position of the industry is already in quadrant 1, according to David and Fred (2005), the position of quadrant I is a good condition because it is able to optimize opportunities with strengths. However, due to the small difference between the analyzed factors, it shows that industrial growth is still small and not yet significant. This means that the industry is growing every year but is stagnant. Therefore, a special strategy that is concerned, big and aggressive, is needed to build a fast-growing industry (Growth-oriented strategy). This strategy begins by reducing fundamental internal problems such as limited capital so as to maximize the number of opportunities. According to Syakir Sula in an interview, he said that "there are 3 strategies used in overcoming capital, namely increasing

become minority shareholders, then KNEKS as the initiator and compiler of the establishment, OJK as supervisor, licensors, and so on. With these stakeholders, it is necessary to approach the highest management level to ensure the support and commitment of relevant stakeholders to the proposed intervention. As for stakeholders in the high influence-low interest quadrant who have high influence but low interest, such as MES, BAPPENAS, and the Ministry of Finance, they will be involved in formulating the formation and acceleration of coordination between other stakeholder lines. Furthermore, in the high interest-low influence quadrant, which has high interest and low influence, such as employees, Resources that must be maintained in the continuity of the process and after formation are in this quadrant. Finally, the low interest-low influence quadrant, such as the Director General of Taxes and BPJS, have low influence and interest but have mutually supportive relationships for technical acceleration collaboration.

The Ideal Model for Establishing a World Class *Takāful* Operator

In implementing the establishment of the WCTO, it is necessary to look at countries that have established Islamic insurance companies, especially those with the largest market share in the world. The author explains the comparison of models and ownership of Islamic insurance companies from Sudan, Saudi Arabia, Iran, Malaysia, United Arab Emirates (UAE), Bahrain, and Brunei Darussalam in table 7 below.

Table 7. Establishment of SOE Sharia Insurance Operators in Various Countries and Other Conditions

Country	Description
Sudan	The first country to establish Islamic insurance in the world was in 1977 under the name Islami Insurance Co, a subsidiary of Faisal Islamic Bank. In 2002 all insurance Operators converted to a mutual insurance model in accordance with sharia principles. Ownership of the Operator is majority from private and public.
Saudi Arabia	National Cooperative Insurance Company is a government insurance company established by Royal Decree in 1985. The company later changed its name to Cooperative Insurance Company. Cooperative model and has implemented a full Islamic-based insurance system. Currently, many corporate mergers are related to capital regulation.

Country	Description
Iran	Iran Insurance Co. was founded in 1938 and converted into Islamic-based insurance after the Islamic revolution in 1977. The main shareholder is the Government of Iran. IIC is the holder of the commercial insurance market share. Social insurance and other mutual insurance are also owned by the Government of Iran.
Malaysia	Syarikat Takaful Malaysia Berhad operated 22 July 1985. Its business is FTOs and is the parent of GTOs. The main shareholder is BIMB Holdings Berhad (BHB) with 59.17% share ownership. BHB's parent company is Dana Hajj Malaysia, the Malaysian Government's Hajj Savings Institution.
United Emirat Arab	The Abu Dhabi National Takaful Company PSC was established in 2003 by the Abu Dhabi Islamic Bank (ADIB) as a major shareholder of ADTC. State ownership through the Abu Dhabi Investment Authority (ADIA). A strong player in the UAE <i>takāful</i> market based in Abu Dhabi with a hybrid model and has general and family <i>takāful</i> products
Bahrain	Takaful International Company was founded in 1989. The first Sharia Insurance Company in the Kingdom of Bahrain and one of the pioneers of TOs in the Middle East. The main shareholder is the Kingdom of Bahrain. Has a hybrid model with family and general <i>takāful</i> products
Brunei Darussalam	TAIB General Takāful Sdn Berhad and TAIB Family Takāful Sdn Berhad were established in 1993. Subsidiaries of the Brunei Islamic Trust Savings Agency. In addition, Takāful Brunei Am Sdn Berhad and Takāful Brunei Keluarga Sdn Berhad 2001. Subsidiaries of the Brunei Darussalam Islamic Bank owned by the Ministry of Finance and the Sultan Haji Hassanal Bolkiah Foundation. The model is a hybrid and a dual insurance system

Source: Author's Compilation from various sources.

Referring to the table above, Sudan, Saudi Arabia, and Iran, which dominate the world market share, have fully implemented the *takāful* concept. The development of the *takāful* concept in the three countries is also different, namely mutual in Sudan, cooperative in Saudi Arabia and hybrid in Iran. Meanwhile, Malaysia, Brunei, Bahrain, and the UAE implement a dual insurance system and a hybrid model. Based on this comparison, the ideal model for establishing a WCTO in Indonesia is not much different from that of the UAE, Malaysia, Bahrain, and Brunei. The hybrid model of social (*tabarru*) and commercial (*tijārah*) insurance is still compatible with the conditions of Islamic insurance. Indonesia also has operators of social, mutual,

and compulsory insurance models. In the majority of countries, except Sudan, Islamic insurance is owned by the state. This is in accordance with what was revealed by Sula (2016) in his book and Chachi (2017) in his research that commercial insurance is still needed according to the complexity and conditions of the country. Supported by Tatang Nurhidayat in the interview, *"the ideal model according to current conditions is a hybrid of social and commercial insurance with a balanced composition because it cannot be separated from being profit-oriented"*. Supported by Reza, Ronaldo said that *"the most appropriate model is a combination of social and commercial insurance with a balanced percentage between tabarru's funds"*.

Meanwhile, Agung Djatnika said, *"the model fits the combination of social and commercial, but the social percentage is still higher"*. This is because it is to maintain people's funds and the purpose and character of sharia insurance, which is to help and work together". According to Eka Indria and Kamiludin, *"the model fits the existing one, namely the composition of tabarru's funds is greater than ujah funds and the percentage can be adjusted according to the type of product"*.

As for being world-class, SOEs must play a role. SOEs can solve existing problems and are pioneers in every change. According to Price Waterhouse Cooper (2015), for the next few years, SOEs will remain the main door and become increasingly "The Big Power" that has a global influence. Then, according to Moreno de Acevedo Sánchez (2016), globally, in terms of market capitalization, SOEs account for 10% of the largest companies, and approximately 2000 SOEs are in OECD countries. Through BUMN, this operator can reach a higher level and be recognized as a world-class company. The term "world-class" here is not a necessity but a real goal that can be realized. The key lies in making the right policies to direct state-owned companies to become world-class. As Minister of SOEs, Erick Thohir (2021) has stated that he will integrate the SOE program with Islamic economy and finance. Of course, with capital support and maximum quality of human resources, various product innovations and services, and networks both at home and abroad, and responsiveness in responding to international regulations, efficiency, and synergy by SOEs can reach a higher level and be recognized as a world-class company. This refers to the requirement to be world-class as defined by Hardjosubroto (2015), which means those who are considered to provide high and consistent value and have product and service quality standards that are on par with the world's leading companies. To become a world-class company, of course, in stages, both in preparation and targets. The identity of the world-class name in WCTO is, of course, a prayer and hope as well as a strategy to make it come true.

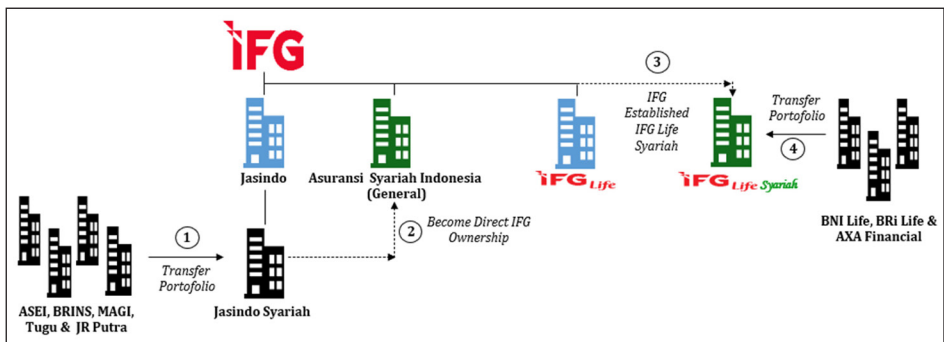
Based on the author's observations from various sources, currently the largest *takāful* operators in the world come from Gulf Cooperation Council countries, such as Islamic Insurance Co (Iran), Aman Takaful (Kuwait), Salama Takaful & Noor Takaful (UAE). in the Southeast, such as Takaful Malaysia (Malaysia) and Takaful Brunei (Brunei). Others, such as Takaful Zurich, Prudential Takaful, and Allianz Takaful, were established in their respective countries. The company has assets of over 1 trillion with a network that has spread in various countries. Therefore, in the first stage, Indonesia, through the WCTO, must compete and excel at the ASEAN level in 2025 as the 7th AFAS protocol, and in the next stage, go international by opening several services in the Middle East, Europe, and other continents that have Muslim and prospective customers interested in sharia protection.

While the formation mechanism is also adjusted to the decision of the Ministry of SOEs No. SK-315/MBU/12/2019 concerning restructuring subsidiaries or joint ventures within SOEs and No. PER-8/MBU/08/2020 concerning the Strategic Plan of the Ministry of SOEs for the 2020–2024 Period, one of which is the plan to strengthen insurance holdings. Efficiency and strengthening of holdings are the main factors for consolidation. The concept of consolidation proposed by Tarigan, J. et al. (2015) is more in line with insurance conditions than mergers or acquisitions because it is still a sharia unit. Based on an interview with Syakir Sula, he said that *"merger is the right condition and is owned by the state directly. This is to get direct supervision from the state"*. In line with Kamiludin, who said that *"mergers can increase efficiency and productivity for companies, solve several problems, such as financial difficulties, and increase access to capital"*. As supported by Reza Ronaldo, *"the formation can be through IFG by establishing a sharia IFG and/or becoming a joint shareholder with BSI and BPKH"*. Meanwhile, according to Tatang Nurhidayat, *"the mechanism is in accordance with existing regulations, but because the majority are in the form of Sharia Units, the ideal is to consolidate and be owned by the state at a minimum, with insurance and guarantee holding in the early stages, and the second stage can also be owned by the public or can be acquired in particular on WCTO life"*. Supported by Eka Indria, Basuki and Agung Djatnika said, *"the ideal mechanism is more suitable for consolidation by transferring portfolios from Sharia Units to full-fledged operators in accordance with existing regulations"*.

Based on interviews, reviews of the Ministry of SOE regulations, efficiency and strengthening of insurance holdings, the formation of the WCTO can use a consolidation mechanism with the option of portfolio transfer. This is because all

operators are still in the form of sharia units except Jasindo Syariah, so that they can refer to the provisions of POJK No. 67/2016 Article 17. In accordance with figure 5 above, it explains that for general sharia insurance, namely PT Asuransi Jasindo Syariah, as a subsidiary of PT Asuransi Jasindo, which is a member of IFG as the operator anchor for the sharia unit of PT BRI Insurance, PT Tugu Insurance, PT Asuransi Asei Indonesia, PT Jasaraharja Putera Insurance, and PT Asuransi MAGI. Then IFG took direct share ownership of PT Asuransi Jasindo Syariah from PT Asuransi Asuransi Jasindo so that it became a direct subsidiary of IFG. PT Asuransi Jasindo Syariah may change its name (e.g., to become PT Asuransi Syariah Indonesia). As for sharia life insurance, IFG must first establish IFG Life Syariah and become the anchor operator of the sharia unit of PT BNI Life Insurance, PT BRI Life Insurance, and PT Asuransi AXA Financial Indonesia.

Figure 5. Mechanism of Establishment of World Class *Takāful* Operator (General & Life)



Note: Author's observations and presented at the Forum Group Discussion with KNEKS by the author in July 2021

WCTO's Ideal Segmentation and Distribution Channel

According to Eka Indria, in the interview, she said that *“the retail segment, including the micro segment, must remain larger than the corporate segment. This aims to support the community and maintain an underwriting surplus or lower limit”*. So far, Kamiludin said, *“the character of sharia insurance is retail due to limited capacity. With the existence of WCTO, the portion may remain large in retail but the percentage is reduced, for example, to 55% retail and 45 percent corporations”*. Meanwhile, according to Syakir Sula, *“the ideal segmentation has a balanced position between corporations and retail because the objects of protection are more diverse”*. Based on excerpts from several interviews, it can

be concluded that the market segmentation of WCTO General, the micro segment must be increased gradually to accommodate MSME businesses in remote areas of the country with technological innovations and sales partners of a maximum of 15%. Meanwhile, the corporate segment was increased to accommodate the large-scale industry and *halāl* sector with a maximum of 40%, and the retail segment remained the largest, but nominally there was a decrease of up to 45%. With this composition, the general WCTO will be able to accommodate all protections for the interests of the people. As for WCTO Life, the individual segment is larger than the group segment. The policy of WCTO Life has a 60% individual segment and a 40% group segment, and it can be WCTO Life's policy. It is focused on providing benefits to the communities below.

Meanwhile, the ideal distribution channel will be used by World Class Takaful Operators following the existing ones and in accordance with the OJK circular letter No. 19/SEOJK.05/2020, companies can only market insurance products through distribution channels, including direct marketing, insurance agents, bancassurance, and/or BUS. According to an interview with Tatang Nurhidayat, *"the distribution channel can use all channels according to OJK regulations but can be focused on the digitalization channel"*. Supported by Eka Indria, who said, *"digitalization is very important to reach the people of Indonesia"*. Based on this, distribution channels and business processes are still carried out by utilizing technology or digitizing processes from upstream to downstream. For example, collaborating with Islamic Banking is carried out using a host-to-host Application Programming Interface (API) to obtain real-time insurance policies and process claims. This needs to be focused on developing in order to be able to access all Indonesian people with the speed of membership and claim business processes at an affordable cost. Digital distribution channels can enter direct marketing channels through web and smartphone applications, or they can be in the form of Insurtech or Takatech, which have been equipped with artificial intelligence. This is also the stage to become a world-class operator focused on technology.

Conclusion

This study explains and analyzes the urgency of establishing a WCTO in Indonesia, initiated by KNEKS to overcome problems in the sharia insurance industry. This study resulted in five main reasons for the establishment of the WCTO. These include the deadline for the revision of the RKPUS in 2021

and the obligation to separate Sharia units in 2024, risk mitigation support to Indonesian Islamic Commercial Banks, preparation for the implementation of the 7th AFAS Protocol in 2025, strengthening the *halāl* value chain, and the national insurance image improvement. Those are important for the Indonesian government and relevant stakeholders to accelerate the establishment of the WCTO, leading Indonesia to become the world's Islamic financial center before 2024.

Furthermore, the ideal model of the WCTO is the hybrid of social (*tabarru*) and commercial (*tijārah*) insurance with a higher *tabarru*, value. This aligns with the theory of Sula (2016) and Chachi (2017) that commercial insurance is still needed in current countries. Furthermore, the formation mechanism can be carried out through consolidation mentioned by Tarigan, J. et al. (2015), by carrying out portfolio transfers. This is because insurance SOEs are almost entirely in the form of sharia units. This is also in line with SOE regulations concerning holding strengthening and efficiency, implemented with IFG and the strengthening capital by the shareholders. SOE is also the owner and a shortcut to becoming a world-class company, starting from name identification to creating ASEAN market share mastery in 2025.

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