

## The Role of Sharia Insurance in Providing Islamic Financial Protection to the MSME Sector in Medan City

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Sharia Insurance, Financial Protection, MSMEs, Medan City, Islamic Economics.

### Abstract

*This study aims to examine the role of sharia insurance in providing financial protection in accordance with Islamic principles for the MSME sector in Medan City. The main focus of this study is to understand the level of awareness, understanding, and adoption of sharia insurance products among MSME actors. In addition, this study also explores various factors that influence the decision of MSME actors in choosing sharia insurance products and explains how the benefits offered can support the sustainability of their businesses. Thus, this study is expected to provide a significant contribution to the development of the sharia insurance sector in Indonesia, especially in Medan City, as well as providing insight to stakeholders regarding the importance of sharia insurance for the sustainability of MSMEs*

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## INTRODUCTION

As the country with the largest Muslim population, Indonesia continues to attract the interest of sharia experts and observers. This presents a significant opportunity for Indonesia to transform into a major market in the sharia sector. With its enormous market share, the country offers an ideal environment for the growth of various industries, including sharia insurance. (Ahmad, RN, & Arif, F.L. 2023) The role of Islamic insurance is not limited to risk management alone; it also serves as an investment vehicle that supports sustainable economic growth. Furthermore, Islamic insurance is a crucial pillar in driving the national economy towards progress and development. (Sofyan, 2017). Beginning with the establishment of Family Takaful Insurance and General Takaful Insurance in 1994, which marked the beginning of the development of the sharia insurance industry in Indonesia, this sector has experienced rapid growth. By 2022, the number of sharia insurance companies in Indonesia had increased to 58, a truly impressive achievement for the sector's development (BPS). The growth of sharia insurance institutions demonstrates the high public demand for sharia-compliant products. (Fitriani, 2024). Now, sharia insurance is an alternative for the Muslim community to mitigate risks and overcome disasters. In the future, in the context of modern muamalah, sharia insurance plays a role in managing various potential risks, including personal risks, to avoid financial losses. (Fitriani, 2024).

The future prospects for Islamic insurance in Indonesia look very promising, supported by several key factors. First, Indonesia has the second-largest Muslim population in the world. Second, stable economic growth, rising savings rates, and a growing middle class are all positive indicators for the development of the insurance sector. (Ulum, 2017), especially those based on sharia (Azwina, R., Atika, A., & Dharma, B. 2023). Sharia insurance plays a vital role in economic development, with the primary objective of promoting improved living standards and the well-being of the Indonesian people. Economic growth is a challenging global phenomenon often

identified with modern economic growth. In general, economic growth refers to the process of increasing per capita income sustainably over the long term, reflecting an increase in wealth through the consumption of goods and services and an increase in people's purchasing power. This growth is a one-dimensional development measured by increased production and national income, as reflected in the Gross Domestic Product (GDP). Indonesia's economic development, particularly in Medan, is inseparable from the existence of Micro, Small, and Medium Enterprises (MSMEs). (Research, Community Service, Religion, Darul, & Lampung, 2022).

Indonesia's economic development is inextricably linked to the contribution of MSMEs, the mainstay of the national economy. In Medan City, according to data from the Department of Cooperatives, MSMEs, Industry, and Trade, as of the end of 2022, 38,343 MSMEs were registered in the Cooperative and MSME Data Collection System (SIMDAKOP). (Medan City Government 2022) Of these, 1,875 MSMEs have been officially assisted by the city government, receiving training and mentoring in various aspects, including human resources, finance, and digitalization. For additional information, in 2023, the North Sumatra Provincial Government recorded 1,166,918 business actors in its territory. Of these, 98.87%, or 1,153,758, were engaged in micro and small businesses. Although this data covers the entire province, Medan City, as the provincial capital, likely contributes a significant portion of the total. It should be noted that the number of MSMEs can change annually due to various factors, including economic growth, government policies, and market dynamics. Therefore, to obtain the latest and more accurate data on the number of MSMEs in Medan City in 2024, it is recommended to contact the Medan City Cooperatives and SMEs Office or access the official Satu Data Indonesia portal. (Medan City Government 2022)

In this situation, financial protection that mitigates the negative impact of these risks becomes crucial. One of the most common financial challenges faced by SMEs is difficulty accessing financing. Research from Gadjah Mada University (UGM) shows that approximately 60% of SMEs in developing countries, including Indonesia, face difficulties in obtaining formal credit. (Ariza & Aslami, 2021). Yet, access to financing is crucial for MSMEs to develop their businesses and innovate. Furthermore, the risk of non-performing loans also poses a serious threat to MSMEs. According to research conducted by Bank Indonesia, the risk of non-performing loans in the MSME sector reached 4.29% of total credit in 2022. This illustrates that poor financial management and a lack of understanding of credit are significant problems for MSMEs. However, the challenges faced by MSMEs are not solely financial. Various non-financial obstacles also require attention. (Ariza & Aslami, 2021) A survey conducted by the International Finance Corporation (IFC) revealed that approximately 60% of MSMEs have experienced product or service failures in the past three years. This reflects the significant challenges faced by MSMEs, as evidenced by the lack of appropriate innovation and the difficulty in adapting to market changes. Furthermore, labor-related issues are also a non-financial risk that requires serious attention. A report from the International Labor Organization (ILO) highlighted poor working conditions, discrimination, and a lack of social protection for workers in the MSME sector. The survey by the International Finance Corporation (IFC) revealed that approximately 60% of MSMEs have experienced product or service failures in the past three years. (Al Farisi, Iqbal Fasa, & Suharto, 2022) This reflects the lack of appropriate innovation and the difficulty in adapting to market changes, which are significant challenges for SMEs. Furthermore, labor-related issues are also non-financial risks that require serious attention. A report from the International Labor Organization (ILO) highlighted poor working conditions, discrimination, and minimal social protection for workers in the SME sector. (Al Farisi et al., 2022).

Sharia insurance is present as a solution that offers financial protection in accordance with sharia principles. (Nadira, 2021) Sharia insurance not only provides risk coverage, but also provides a sense of security and blessings for MSMEs who uphold halal values and adhere to Islamic law. Sharia insurance operations are based on the principles of mutual assistance (ta'awun), justice (adl), and are free from elements prohibited in Islam, such as usury (riba), gharar (uncertainty), and

maysir (gambling). Therefore, Sharia insurance is an appropriate alternative for MSMEs seeking Sharia-compliant financial protection. However, despite its significant potential for providing financial protection for MSMEs in Medan, the level of understanding and awareness of this product among MSMEs remains relatively low. Many do not fully understand the benefits and workings of Sharia insurance, nor how it can help them manage business risks. This presents a challenge for Sharia insurance companies in educating the market and introducing their products to MSMEs.

Study(Nurrahimah, Audia, & Masse, 2024)This study aims to explore the role of Islamic insurance in providing financial protection in accordance with sharia principles to the MSME sector in Medan City. The main focus of this study is to analyze the role of Islamic insurance in providing Islamic financial protection to MSMEs, by highlighting the extent of their awareness and understanding of the product, the factors that influence the decision to use Islamic insurance, and the tangible benefits perceived in supporting business sustainability. With this approach, this study is expected to contribute to expanding Islamic financial literacy, strengthening a more inclusive marketing strategy for Islamic insurance for MSMEs, and serving as a reference for Islamic financial institutions and policymakers in increasing MSME participation in Sharia-based financial protection.

#### Literature review

Study(Nurrahimah et al., 2024)The study of sharia insurance in Indonesia continues to grow, particularly in relation to the MSME sector. This study examines the relationship between sharia insurance and economic growth, focusing on its role in increasing per capita output and the sustainability of MSME businesses. This study reveals that sharia insurance contributes significantly to creating financial stability for MSMEs through improved risk management. The results show that the presence of sharia insurance not only provides financial benefits but also strengthens entrepreneurs' economic resilience against various external threats. This demonstrates that the presence of sharia insurance can improve community welfare, especially for MSMEs who need financial protection. In this context, sharia insurance becomes a financial instrument that not only provides a sense of security against business risks but also aligns with Islamic values held by the community. Meanwhile, it analyzes the operational challenges faced by sharia insurance companies in Indonesia, focusing on business models and innovation. This study makes a significant contribution to understanding the potential of sharia insurance in the context of the Indonesian economy.

#### Sharia Insurance

The term "insurance" has roots in various foreign languages, such as the Dutch word 'assurantie' which means coverage, the Italian word 'assicurazione' and the English word 'assurance' which both mean guarantee, as well as the Arabic word 'At-ta'min' which comes from the word 'amanah', meaning protection, inner peace, a sense of security, and freedom from worry.(Adolph, 2016). According to Article 1 paragraph (2) of Law Number 40 of 2014 concerning Insurance, sharia insurance is defined as a collection of contracts between sharia insurance companies and policyholders, as well as between policyholders themselves. The purpose of managing alms according to sharia principles is to help and protect each other. This management is carried out by providing compensation to participants or policyholders for losses, damages, costs incurred, loss of profits, or legal liability to third parties due to unforeseen circumstances and making payments based on the death or survival of participants, certain benefits or based on the results of fund management.(Sugianto, Yafiz, & Khairunnisa, 2021).

In its official fatwa, the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) explained that sharia insurance, also known as Ta'min, Takaful, or Tadhmun, is a mechanism for protection and mutual assistance between multiple parties through capital investment based on tabarru. 'Tabarru' is voluntary alms given to mutual assistance in the face of certain risks. This sharia insurance is managed based on a contract or agreement in accordance

with sharia principles. According to the National Sharia Council of the Indonesian Ulema Council (DSN-MUI),(Fatah, 2024) Sharia insurance not only serves as a means of financial protection, but also as a manifestation of the spirit of solidarity and mutual assistance taught in Islam. The contracts made in Sharia insurance must comply with various Sharia provisions.(Yuni & Nasution, 2022), such as the prohibition of *riba* (interest), *gharar* (uncertainty), and *maisir* (gambling), so that every transaction is conducted transparently and fairly for all parties involved. The fatwa issued by the DSN-MUI in 2001 serves as a guideline for the implementation and development of the sharia insurance industry in Indonesia, ensuring that its operations remain in line with Islamic values and have a positive impact on the community's economy.

Based on this description, it can be concluded that sharia insurance is a form of insurance that focuses on the principle of mutual assistance among its participants. In this system, participants collectively form a fund known as a '*tabarru*' fund, which is managed according to sharia principles to better...

addressing certain risks. Sharia insurance is more than just financial protection; it is a concrete manifestation of the spirit of togetherness and solidarity taught in Islamic teachings.(Gultom et al., 2024)With the '*tabarru*' fund, Sharia insurance participants can support each other and maximize benefits, especially when facing future uncertainty and risks.

### **Sharia Insurance Protection in the MSME Sector in Medan**

Sharia insurance plays a crucial role in providing Islamic financial protection for the Micro, Small, and Medium Enterprises (MSMEs) sector in Medan. Operationally, Sharia insurance provides financial protection in accordance with Sharia principles, which not only provides a sense of security but also ensures that all transactions are conducted based on valid Islamic contracts.(Zahara, Pahlawan, & Tambusai, 2024)

### **Principles of protection in Islamic insurance**

Protection in Islamic insurance is based on the concepts of *tabarru*' (donation), *ta'awun* (mutual assistance), and *mudharabah* (profit sharing). Based on these principles, insurance participants contribute '*tabarru*' funds.(Sugianto et al., 2021)which is used to help other participants who experience certain risks.

### **Type of protection provided**

The protection provided in sharia insurance for MSMEs in the city of Medan includes several aspects, including:

#### **1. Protection against financial loss**

MSMEs frequently face various risks such as fire, natural disasters, theft, and bankruptcy. Sharia insurance provides protection against these risks through a compensation scheme based on the '*tabarru*' fund.(Yeni Aprilinda Lubis and Tri Inda Fadhila Rahma, 2022).

#### **2. Protection against health risks for owners and employees**

In MSME operations, the health of business owners and employees is a crucial factor. Sharia insurance offers Sharia-compliant health insurance products that cover medical and treatment costs in accordance with Islamic law.

#### **3. Protection against the risk of death**

If the business owner dies or becomes permanently disabled, the family or heirs can receive insurance benefits in the form of compensation that can be used to continue the business or meet living needs.

#### **4. Protection against Credit and Financing Risks**

Many MSMEs rely on financing from Islamic financial institutions. Sharia insurance can protect against the risk of default due to circumstances beyond the business owner's control, such as serious illness or other calamities.(Nelly, Siregar, & Sugianto, 2022).

#### **5. Protection against legal risks and third party liability**

MSMEs frequently face various risks such as fire, natural disasters, theft, and bankruptcy. MSMEs engaged in the production of goods or services are at risk of legal claims from consumers or third parties. Sharia insurance can provide legal protection to help ease the financial burden of lawsuits or claims that arise.(Fadlah, A., & Makrus. 2019).

### **Protection management mechanisms in Islamic insurance**

In Sharia insurance, fund management is conducted based on the principles of transparency and fairness. The following are the protection mechanisms in Sharia insurance:

#### **1. Contract used**

Sharia insurance uses the contracts of 'wakalah bil ujah' (reward representation), 'tabarru' (donation), and 'mudharabah' (profit sharing), which ensure that funds are managed according to fair and sustainable principles. Akbar,(A., Imsar, & Silalahi, PR (2024).

#### **2. Distribution of Tabarru Funds**

The 'tabarru' funds are used to help participants who are struck by disaster, thus creating a system of mutual assistance in Islamic teachings.

#### **3. Halal investment**

Funds collected in Sharia Insurance are invested in instruments that comply with Sharia principles, such as sukuk and the halal real sector.

### **Benefits of Sharia Insurance for MSMEs in Medan City**

- a. The benefits provided by Sharia insurance for MSMEs include:
- b. Providing financial certainty in facing business risks.
- c. Increase the trust of business partners and investors.
- d. Maintaining business continuity through better risk mitigation.
- e. Providing social security for MSME owners and workers.

With Sharia insurance, MSMEs in Medan City can grow further with a financial protection system that is not only financially secure, but also in accordance with Islamic principles.(Amelia Putri & Sugianto, 2023).

### **Micro, Small, and Medium Enterprises (MSMEs)**

MSMEs (Micro, Small and Medium Enterprises) are a form of productive economic enterprise run by individuals or business entities in accordance with the provisions of Law Number 20 of 2008.(Al Farisi et al., 2022). The criteria are divided into three categories:

1. A micro-enterprise is a productive business owned by an individual or a sole proprietorship, with a maximum net worth of Rp. 50,000,000.00 (fifty million rupiah), excluding land and buildings where the business is located. Furthermore, a micro-enterprise may have annual sales of up to Rp. 300,000,000.00 (three hundred million rupiah).(Ondang, Singkoh, & Kumayas, 2019).
2. A small business is an independent economic enterprise run by an individual or business entity that is not a subsidiary or branch of a medium or large business. This business has net assets of more than Rp. 50,000,000.00 (fifty million rupiah) up to a maximum of Rp. 500,000,000.00 (five hundred million rupiah) and sales revenue of more than Rp. 300,000,000.00 (three hundred million rupiah) up to a maximum of Rp. 2,500,000,000.00 (two billion five hundred million rupiah).(Nugroho, 2018).
3. A Medium Enterprise is a stand-alone business and is not a subsidiary or branch of a small or large business. This business has net assets of more than Rp500,000,000.00 (five hundred million rupiah) up to a maximum of Rp10,000,000,000.00 (ten billion rupiah), and annual sales of more than Rp2,500,000,000.00 (two billion five hundred million rupiah) up to a maximum of Rp50,000,000,000.00 (fifty billion rupiah). Thus(Ondang et al., 2019), MSMEs play an important role in the economy with various business scales that contribute to the development of the regional and national economy.

Indonesia is the country with the largest number of Micro, Small, and Medium Enterprises (MSMEs). Between 2015 and 2019, the MSME sector in Indonesia experienced significant growth.(Halim, 2020), which increased by 8.32%, from 59.2 million units in 2015 to around 64.19 million units in 2019. In addition, MSME productivity per business unit also showed progress, namely increasing from 27.93 million units in 2015 to 89.12 million units in 2019.

MSMEs play a vital role in driving economic growth and creating jobs. This sector can serve as the backbone of the Indonesian economy and help ease the government's burden in alleviating poverty and increasing per capita income, both regionally and individually (Ichsan, 2014). Thus, the MSME sector also contributes to maintaining the stability of the national economy and financial system.

Based on 2021 data from the Ministry of Cooperatives and SMEs, MSMEs make a significant contribution to the stability of the Indonesian economy, particularly in job creation, labor absorption, and the formation of Gross Domestic Product (GDP), the acquisition of non-oil and gas export value, and the creation of fixed capital or investment.(Ardiani & Nopiyani, 2024). During the period 2015 to 2019, the contribution of MSMEs to job creation reached 99.99%, labor absorption 96.94%, and GDP formation 60.57%.

The growth of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia provides a clear picture of their important role in the national economy. Through case studies, we can see how MSMEs contribute significantly to economic development. In developing countries like Indonesia, MSMEs are a major provider of employment, and this is inseparable from three unique characteristics inherent in them: first, the high number of MSMEs, especially micro and small enterprises (MSMEs) spread across rural areas.(Siska, nd), including protected areas; second, the nature of these businesses is labor-intensive, especially involving female workers and those with low education; third, the majority of MSME activities focus on the agricultural sector. MSMEs play a central role in advancing a nation's economy. During the 1998 financial crisis, small and medium enterprises (SMEs) were able to survive better than large companies, thanks to their less reliance on large liquidity and external loans. Large companies, which typically rely on foreign funding, are more vulnerable to exchange rate fluctuations. In Indonesia(Rahmawati, F.N.Asmarani, H.Asriningtyas, I.&Sujianto, AE2023). Most of the capital structure of MSMEs comes from personal investment, and many of them collaborate with others to raise funds. Micro and small enterprises often excel in labor-intensive industries.(Siregar et al., 2023), with a focus on the utilization of natural resources, such as agriculture, plantations, animal husbandry, fisheries, trade, and restaurant operations(Junaidi, & Nurlaela, Kurniadi, 2021)In the hospitality, banking, rental, corporate services, and forestry sectors, small businesses also demonstrate excellence in creating added value. Several factors underscore the strategic role of MSMEs in the Indonesian economy: they are key players in various economic activities; second, MSMEs are the largest employers; third, they contribute to driving local economic growth and community empowerment; fourth, MSMEs open new markets and become sources of innovation; and fifth, they support economic empowerment through export activities

## METHODS

This research is a descriptive research with a descriptive qualitative approach. The data used in this research is qualitative in nature, which aims to gain an in-depth understanding of the phenomenon being studied. Descriptive research is conducted to collect information about the condition of a symptom as it exists at the time the research is conducted. The purpose of this research is to compile a systematic, factual, and accurate description or picture of the facts, characteristics, and relationships between phenomena related to the role of sharia insurance in providing financial protection for the MSME sector in Medan City.

A descriptive qualitative approach was used to comprehensively and in-depthly understand the phenomenon within the research context. Using this approach, this study aims to explore the experiences, perceptions, and factors influencing the implementation of Islamic insurance in the MSME sector.

This study specifically examines the role of Sharia insurance in providing financial protection to the MSME sector in Medan City, highlighting how Sharia insurance contributes to financial risk mitigation and the challenges faced in its implementation. Data were collected from various sources, including books, scientific journals, and written reports related to Sharia insurance and economic growth.

### **Data Types and Sources**

In this study, the data collected consists of two types, namely primary data and secondary data, with the aim of obtaining a more comprehensive understanding of the factors that influence the use of sharia insurance in the MSME sector in Medan City.

### **Data Type**

#### **Primary Data**

Primary data was obtained directly from primary sources through observation, interviews, and discussions with micro, small, and medium enterprises (MSMEs). Primary data collection techniques included, first, observation of MSME business activities at the research location, including how they manage finances, deal with business risks, and understand and access sharia insurance. Second, in-depth interviews with MSMEs to delve deeper into their understanding of the concept of sharia insurance, the benefits they experience, and the obstacles they face in accessing sharia insurance services.

#### **Secondary Data**

The secondary data in this study was obtained through a review of various literature and previous journals relevant to the research topic, particularly those discussing the development of MSMEs and the role of Islamic insurance. Furthermore, the secondary data was supported by research reports, scientific publications, and other officially published and publicly accessible documents. The combination of primary and secondary data is expected to provide a more comprehensive picture of how Islamic insurance can provide Islamic financial protection for MSMEs in Medan.

### **Data source**

The data sources in this study consist of primary data sources obtained directly from research subjects through observation and interviews, as well as secondary data originating from various related literature and documents.

#### **a. Primary Data Sources**

This study uses primary data collected through in-depth interviews and direct observation of Micro, Small, and Medium Enterprises (MSMEs) in Medan City, including one lecturer from UINSU specializing in Islamic economics and 10 MSMEs from various business sectors as the main respondents. They were selected purposively based on their involvement or interest in

Islamic insurance products. Interviews were conducted to explore their understanding of the concept of Islamic insurance, perceived benefits, obstacles to access, and perceptions of the contribution of Islamic insurance to the sustainability of their businesses. This primary data collection aims to provide a comprehensive picture of the level of literacy, decision-making, and effectiveness of Islamic insurance as a financial protection instrument in accordance with Islamic principles for the MSME sector in Medan City.

#### **b. Secondary Data Sources**

Secondary data sources in this study were obtained from various literature and official documents that support the research analysis, such as academic journals discussing sharia insurance and financial protection for MSMEs at the national and international levels, which provide insight into global trends and best practices in implementing sharia insurance for the MSME sector. Regulations and policies related to the sharia insurance industry and the MSME sector in Indonesia were also analyzed, including regulations issued by the government and fatwas issued by the National Sharia Council of the Indonesian Ulema Council.

To gain a clearer picture of the condition and development of the MSME sector and the extent of Sharia insurance penetration in this sector, this study is based on secondary data sourced from previous studies, industry surveys, academic publications, reports from various independent research institutions, and the results of case studies discussing the implementation of Sharia insurance in the MSME sector. The data is used to analyze the factors that support and hinder the growth of Sharia insurance among MSMEs and understand their perceptions of the benefits offered by Sharia-based insurance products.

Using a comprehensive combination of primary and secondary data sources, this study aims to provide a deeper understanding of how sharia insurance can play a role in providing financial protection in accordance with Islamic principles for the MSME sector in Medan City. Furthermore, this study also seeks to identify factors that hinder the utilization of sharia insurance by MSMEs and develop recommendations that can help increase MSME acceptance and participation in Sharia-based financial protection schemes. Therefore, the results of this study are expected to contribute to encouraging the growth of a stronger and more financially resilient MSME sector through a protection system that aligns with Islamic economic principles.

### **1. Data Collection Techniques**

Data collection techniques were conducted systematically to obtain accurate, valid, and relevant information. This study utilized two primary data sources—primary and secondary—to gain a comprehensive understanding of how Islamic insurance plays a role in providing financial protection in accordance with Islamic principles for micro, small, and medium enterprises (MSMEs) in Medan City. Some data collection techniques used in this research are:

#### **a. In-depth Interview (In-depth Interview)**

In-depth interviews were conducted directly with MSMEs in Medan who have used or are interested in Sharia insurance. These interviews aimed to gather detailed information about their experiences, understanding, and perceptions of Sharia insurance. The in-depth interview technique was used to obtain information that could not be obtained through other methods, such as questionnaires, as it allows for deeper exploration of the challenges faced by respondents.

Interviews were conducted based on systematically developed interview guidelines. Some of the key aspects explored through the interviews include:

##### **1. Level of Literacy and Understanding of Sharia Insurance**

Knowledge of MSME actors about the concept of sharia insurance and its differences with conventional insurance, sources of information used by MSME actors to understand sharia insurance.

##### **2. Experience, Products and Benefits of Sharia Insurance**

Types of sharia insurance products utilized by MSMEs.

Real benefits felt after becoming a participant in sharia insurance.



Experience in claims process and its impact on business sustainability.

**3. Obstacles and Challenges in Utilizing Sharia Insurance for MSMEs**

Inhibiting factors in accessing Sharia insurance include premium costs, administrative procedures, and product understanding.

Lack of availability of sharia insurance products according to the needs of the MSME community.

**4. Recommendations and Hopes for MSMEs**

Suggestions for improving Sharia insurance literacy among MSMEs.

Proposed policies or strategies to expand the accessibility of sharia insurance for the MSME sector.

**b. Observation**

Direct observations were conducted with MSMEs to determine how they manage business risks by utilizing Sharia insurance. Aspects observed included: how MSMEs utilize Sharia insurance protection in their daily operations, the claims process, and its impact on business continuity. Observations allowed researchers to obtain factual data directly without respondent intervention, resulting in more objective results.

**2. Data analysis**

The data analysis in this study is qualitative descriptive data analysis, qualitative data analysis is the presentation of data in written form and explains it as it is according to the data obtained from the research results. The main purpose of using descriptive methods is to describe the nature of a situation that is currently running at the time the research is conducted. The real benefits felt after becoming a participant in sharia insurance. Field Observation This study uses data analysis techniques carried out by Miles and Huberman (2014). They emphasize that the qualitative data analysis process is carried out interactively and continuously, until the collected data reaches saturation point. This analysis process consists of three main stages, namely:

**a. Data Reduction**

Data reduction is the process of selecting, focusing, and simplifying data obtained in the field, with the aim of making the data more relevant to the research objectives. At this stage, unrelated or less important data will be removed, while data that has important value will be grouped based on emerging themes and patterns. Information obtained from interviews, observations, and questionnaires will be written and typed in the form of detailed descriptions or reports to facilitate presentation for analysis. This data reduction helps filter information, so that only the most meaningful data is used in the research.

**b. Data Presentation**

Data presentation aims to facilitate understanding and analysis of the collected information. Data can be presented in various forms, such as brief descriptions, tables, diagrams, charts, or even flowcharts. According to Miles and Huberman (2014), the most frequently used data presentation in qualitative research is narrative text, which systematically explains research findings. Good data presentation allows researchers to see the relationships between variables and the patterns they form, which can then be used as a basis for drawing conclusions.

**c. Conclusion Drawing**

After the data has been categorized and analyzed, the next step is to draw conclusions based on the findings. This process involves identifying patterns, relationships, and trends that emerge from the collected data.

In the initial stages, conclusions drawn are still tentative and may change if additional evidence emerges during further data collection. Therefore, verification is necessary to ensure that conclusions are supported by strong and consistent evidence. Verification can be performed by comparing data from various sources, triangulating data, and referencing previous theories and research.

By applying Miles and Huberman's data analysis techniques, this study has the potential to produce more structured, valid, and comprehensive findings, as well as provide a deeper understanding of the role of Sharia insurance in providing financial protection for MSMEs in Medan City.

## RESULTS AND DISCUSSION

### Research result

#### Level of Understanding and Awareness of MSMEs Regarding Sharia Insurance

Interviews and observations indicate that the level of understanding of sharia insurance among MSMEs in Medan is still relatively low. Of the 10 informants, only 3 (30%) understood the basic concepts of sharia insurance, such as the principles of *tabarru'* (reciprocity), mutual assistance (*ta'awun*), and justice. Most others only understood insurance in general terms, without distinguishing between conventional and sharia insurance. As stated by one MSME, Mas Ragil (42 years old), owner of a meatball stall:

"I've heard of Sharia insurance, but I don't know how it differs from regular insurance. They say it's more halal, but I don't understand how the system works."

The lack of public awareness campaigns from Sharia insurance companies and the lack of public education contribute to the lack of awareness among MSMEs. This indicates that program understanding remains a major obstacle to the effectiveness of Sharia-based financial protection.

#### Target Accuracy and Protection Benefits

Some MSMEs who have participated in Sharia insurance have reported tangible benefits, particularly in the form of compensation for fire or business accidents. However, challenges remain in terms of access to services, particularly for health coverage and financing risks. Mr. Jhon (55), a printing business owner, explained:

*"I took out sharia insurance because my shop burned down. Thank God, I got compensation. But for medical expenses, I'm still confused about how to claim."*

This shows that although the program is well-targeted for some MSMEs, many have not maximized the benefits due to a lack of understanding and complex claims procedures.

#### Timeliness in Claims Process and Services

Based on field findings, the processing time for Sharia insurance claims varies. Some MSMEs are satisfied with the fast disbursement process (less than 7 days), but others complain of delays of more than two weeks, especially for major loss claims. According to another informant, Mr. Sumanto (47), owner of a local coffee shop and Arabica coffee bean seller in Medan:

*"I waited almost three weeks for an insurance claim for a lost item. They said they needed to investigate. But during that process, I was confused and my business was disrupted."*

This delay is caused by a strict verification process and a lack of field personnel from insurance companies.

#### The Impact of Sharia Insurance on the Sustainability of MSMEs

Research has found that sharia insurance can increase a sense of security and business sustainability. Of the 10 informants, 6 stated that they felt more confident in taking business risks after participating in sharia insurance. Ms. Dea (39) a 3-year-old MSME in the crafts sector said:

*"I feel more at ease when something happens. I used to be afraid of losing money if I had a work accident. Now that I have protection, I can focus more on growing my business."*

Thus, the existence of sharia insurance has been proven to contribute to business sustainability, especially in managing unexpected risks.

## Discussion

### Limited Sharia Insurance Literacy is a Major Obstacle

The findings in the results section indicate that only 30% of MSMEs in Medan City understand the concept of sharia insurance. This indicates that low literacy is a major barrier to the penetration of sharia insurance products. Many business owners are unfamiliar with basic principles such as *tabarru'*, *ta'awun*, and justice. As a result, they struggle to differentiate between sharia and conventional insurance. The lack of public awareness campaigns by insurance providers and a lack of public education are the main causes, as emphasized by (Nurrahimah et al.2024), that massive education is the key to encouraging MSME participation in sharia financial schemes.

As part of the effort to deepen the primary data in this study, the researchers conducted an interview with Dr. Nurhayati Mubin, MEI, a senior lecturer in Islamic Economics at the State Islamic University of North Sumatra (UINSU). Her insights provide a significant contribution to understanding the real conditions and opportunities for developing Islamic insurance, particularly for micro, small, and medium enterprises (MSMEs) in Medan.

"According to Dr. Nurhayati, the low level of Islamic financial literacy, particularly in insurance, is a fundamental challenge that requires cross-sectoral intervention. She stated that most MSMEs still rely on informal, often inaccurate information, even confusing the concepts of conventional and Islamic insurance. This situation creates confusion and discourages most business owners from utilizing Islamic insurance products, as they are perceived as complex and inappropriate for their circumstances."

Furthermore, he criticized the current outreach methods employed by Islamic insurance companies. He argued that formal approaches—such as seminars or brochure distribution—were ineffective in reaching MSMEs because they lacked concrete examples or approaches tailored to their real-world conditions. One-way education without direct involvement was deemed ineffective in fostering comprehensive understanding.

Dr. Nurhayati also emphasized the importance of collaboration between academics, industry practitioners, and local governments in building a stronger and more sustainable education ecosystem. Academics are considered capable of developing educational materials that are relevant and easily understood by MSMEs, while the government can act as a facilitator for long-term mentoring programs.

He further stated that improving the capacity of insurance agents is also crucial, as they are the spearhead in reaching business players. Agents must be able to explain the benefits and basic principles of Sharia insurance in simple, straightforward, and easy-to-understand language.

In addition to serving as a financial protection instrument, according to Dr. Nurhayati, Islamic insurance also has the potential to be a tool for economic empowerment if linked to Islamic values already prevalent in society. She emphasized that concepts such as *takaful* and *tabarru'* can inspire social solidarity and collective responsibility in facing life's risks.

*"When MSMEs realize that the premiums they pay are also used to help others, a spiritual and social awareness will be created that can strengthen the economic cohesion of the community."*

This interview not only reinforces empirical findings in the field regarding low Sharia insurance literacy among MSMEs, but also offers concrete solutions regarding the need for a more contextual, inclusive, and applicable educational approach. This demonstrates that developing Sharia insurance as part of a community financial protection system requires a synergy between science, public policy, and business practices that are adaptive to local characteristics.

### Uncertainty in the Claims Process Reduces Trust

Claims that take more than two weeks, as experienced by one informant, indicate that a strict verification system and a shortage of field staff are impacting the speed of service. For MSMEs whose operations depend on daily capital, claim delays can have serious consequences.(Yuni, T.,

& Nasution, A. 2022) Therefore, efficiency in claims management is a crucial issue in increasing trust in Sharia insurance. The use of digital technology and streamlining the claims process are urgently needed to ensure that businesses are not disadvantaged by slow systems.

### **Sharia Insurance as a Pillar of Long-Term Business Resilience**

Despite numerous challenges, findings indicate that Sharia insurance participants feel more confident in managing their businesses and taking risks. This demonstrates that Sharia insurance plays a role not only as a protection tool but also as a psychological booster and business motivation. With protection against business risks, MSMEs can focus more on expansion and development. These findings align with research. (Amelia Putri & Sugianto (2023) which confirms that the existence of sharia insurance significantly encourages the sustainability of MSMEs, especially in the face of economic uncertainty. (Aryawati, NPA, Widiaty, E., Yanti, ER, Tanjung, A., Anwar, A., Atika, A., & Utami, SO 2022).

## **CONCLUSION**

The results of this study indicate that the adoption of sharia insurance among MSMEs in Medan City remains low due to limited financial awareness and literacy. Many MSMEs are still unfamiliar with the concept of sharia insurance, with only 30% having a solid understanding of its principles. While 50% of respondents are aware of its benefits, 70% have no knowledge at all about sharia insurance, indicating the need for broader educational outreach. Factors such as premium affordability and financial literacy significantly influence MSMEs' decisions, with cost considerations playing the most important role. Meanwhile, trust in the institution and regulatory support have a relatively lower impact on their choice.

This study highlights the need for increased outreach and educational initiatives to improve MSMEs' understanding of Islamic insurance. Insurance providers should develop more affordable and flexible products that align with the financial capabilities of small businesses. Simplifying the claims process and increasing transparency can also help build trust among MSME owners.

Furthermore, government support, such as subsidies or incentives, can further encourage the adoption of Sharia insurance in the MSME sector. With this advancement, Sharia insurance can become a more widely accepted financial protection instrument that aligns with the needs and values of MSME entrepreneurs in Medan City.

### **Suggestion**

Based on the research findings, it is recommended that efforts to increase literacy and education regarding sharia insurance be continuously promoted, particularly among MSMEs in Medan. Massive and ongoing outreach is essential to introduce the basic principles of sharia insurance and its benefits in supporting business sustainability. Furthermore, sharia insurance institutions are expected to simplify the claims process and improve service systems to make them faster, more transparent, and easier for participants to understand. Developing flexible sharia insurance products tailored to the needs and financial capabilities of MSMEs is also a strategic step to increase their participation. Support from the government and other stakeholders is essential to

create an inclusive, trustworthy, and sustainable sharia financial protection ecosystem for the MSME sector.

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