ISSN : 0216-8175 EISSN : 2303 - 2499

MIMBAR
Jurnal Sosial dan Pembangunan

Publisher : UPT Publikasi Ilmiah Unisba
Jalan Taman Sari No. 20, Bandung, Jawa Barat, 40116, Indonesia.
Phone : (022) 4203368, 4205546 ext. 6737
Email : mimbar@unisba.ac.id
Website : https://ejournal.unisba.ac.id/index.php/mimbar/index

Enhancing Literacy in Sharia Disaster Insurance Practices in Indonesia

[1]Ellectrananda Anugerah Ash-shidiqqi, [2]Maranatha Lisatyaningrung Hainekam Fobia

[1,2,] Sugeng Hartono University
Correspondance author: ellectra_aa@yahoo.co.id*

A r t i c l e

Article History
Received: 2024/ 3/ 6
Reviewed: 2024/ 9/ 16
Accepted: 2024/ 9/ 18
Published: 2024/12/ 30

DOI:
10.29313/mimbar.v40i2.2047

Volume : 40
No. : 2
Month : December
Year : 2024
Pages : 227-234

To cite this article (APA Style):

Ellectrananda Anugerah Ash-shidiqqi, Maranatha Lisatyaningrung Hainekam Fobia. (2024). The article title is sentence case style. Jurnal Mimbar. 40(2), 227-234. 10.29313/mimbar.v40i2.2047

A b s t r a c t

Reducing losses from natural disasters is an essential component of effective recovery and resilience building. Recognizing this, the Indonesian government has allocated a dedicated budget for disaster management through the State Budget (APBN) and Regional Budget (APBD), as stipulated in Law No. 24 of 2007 concerning Disaster Management. This allocation aims to ensure that resources are available for immediate response and long-term recovery efforts. However, the increasing frequency and severity of natural disasters, exacerbated by climate change, underscore the need for more substantial and adaptive financial mechanisms to address the growing demands for catastrophe funding.Funding mechanisms must extend beyond immediate needs such as emergency response and recovery. They should also encompass disaster risk transfer and mitigation initiatives, which include preventive measures, community preparedness, and investments in rehabilitation and reconstruction. Such an integrated approach not only addresses the consequences of disasters but also reduces risks and vulnerabilities over time.Individual risk insurers play a pivotal role in this framework by providing insurance solutions to help manage potential losses. In this context, the agreement between the insured and the insurer is formalized through a policy. This policy defines the insurer's obligation to cover specific risks that the insured may face in the future, in exchange for regular payments known as premiums. This system of risk transfer is a vital component of a comprehensive disaster risk management strategy, enabling both individuals and institutions to recover more swiftly from the financial impacts of disasters.

Keywords: Insurance; Natural Disasters; Literacy.

Introduction

The occurrence of natural disasters is a significant concern in Indonesia, an archipelago situated on the equator. This geographical positioning results in a tropical climate that features two primary seasons: the rainy and dry seasons.

The interplay of these seasonal variations and the effects of climate change contribute to Indonesia's heightened vulnerability to hydrometeorological disasters, including floods, landslides, droughts, and hurricanes.

There has been a significant annual escalation in natural disasters in Indonesia. Data from the National Disaster Management Agency (BNPB) reveals that over 19,000 natural disaster events occurred in the country between 2010 and 2020. In 2019, the total number of disaster incidents reached 3,814, with cyclones making up 1,387 of these occurrences. Floods, fires, forest fires, and landslides were also prevalent. According to BNPB, flooding was the most frequently occurring natural disaster, with 510 cases documented as of May 2020.

The establishment of the BNPB in Indonesia was a response to efforts aimed at reducing the impact of disasters in the region. Formally instituted in 2008, the BNPB operates as a non-ministerial government entity, undertaking two primary functions: the formulation and establishment of disaster management policies, as well as the coordination of disaster management activities in a systematic, integrated, and comprehensive manner.

Published every five years by the National Agency for Disaster Management (BPNB), the National Disaster Management Plan (Renas PB) outlines strategies for disaster response in Indonesia. The 2015-2019 plan highlights East Java, West Java, and Central Java as key provinces vulnerable to natural disasters, including floods, landslides, and droughts, which are significant due to their contributions to the nation’s agricultural sector.

At a disaster management coordination meeting in February, President Joko Widodo once again highlighted the significance of cooperation among all stakeholders in strengthening Indonesia's disaster management initiatives. The three phases of disaster management in Indonesia are specified in Regulation of the Head of BNPB No. 4 of 2008, which forms the basis of BNPB's approach. The first phase, referred to as the pre-disaster stage, includes preparation, mitigation, and prevention. In this stage, a mitigation strategy is developed proactively, and preparedness activities are carried out through contingency plans that utilize early warning information in the event of a potential disaster.

In the event of a crisis, the subsequent phase is characterized by emergency response activities. This phase necessitates an operational plan focused on rescue operations and the evacuation of victims. Following this, the post-disaster phase represents the concluding step, which involves a recovery strategy aimed at restoring infrastructure and facilities that have been damaged. When considering agricultural productivity in regions susceptible to disasters, it becomes evident that the pre-disaster phase, often referred to as the mitigation stage, is paramount in safeguarding farmers' commercial lands from potential harm. Despite the systematic strategies that have been established, the implementation of disaster management in Indonesia remains imperfect. The National Disaster Management Plan, developed by the BNPB, exists primarily as a theoretical framework, lacking practical application by any ministry or agency during disaster responses. Each relevant ministry continues to operate under its own distinct policies and protocols for managing disasters. According to an article by Martha Carolina published in the State Budget Bulletin of the Indonesian House of Representatives Expertise Agency's Budget Study Center, funding for BNPB disaster management programs has significantly declined, from Rp. 2.83 trillion in 2015 to merely Rp. 478.1 billion in 2018. This reduction in budget will adversely affect planning, mitigation initiatives, operational capabilities, and the availability of human resources.

Indonesia is situated along the Ring of Fire, a region characterized by a significant number of volcanoes. It boasts the largest concentration of volcanoes globally, with a total of 130 identified. This figure represents 10% of all active volcanoes worldwide, and currently, 17 of these volcanoes are still in an active state.

The Indonesian archipelago is located at the convergence of four tectonic plates: the Indian Ocean plate, the Pacific Ocean plate, the Indian Continent plate, and the Asian Continent plate. This unique geological positioning contributes to its elevation above the Ring of Fire, rendering Indonesia particularly vulnerable to frequent seismic activity, including earthquakes and tsunamis. According to data from the United States Geological Survey (USGS), there were 161 recorded earthquakes with a moment magnitude of 7 or greater between 1916 and 2015. In addition to these significant events, numerous smaller earthquakes have also been documented. The most powerful earthquake in this timeframe occurred in Aceh in 2004.

The second factor contributing to climate change is the heightened vulnerability of tropical nations, which are increasingly at risk of catastrophic events due to this phenomenon. The agricultural sector, along with various other economic domains, has experienced significant setbacks attributed to the impacts of climate change driven by global warming. These setbacks are primarily linked to the increasing frequency of flood-related disasters.

 DOI: https://doi.org/10.29313/mimbar.v40i2.2047

The National Disaster Management Agency (BNPB) reports that there were 143 natural disasters recorded in 2002. This figure surged to over 2,342 disasters in 2016, marking a significant increase from 2015. A substantial portion of these disasters was due to hydrometeorological phenomena, which are categorized as climate-related disasters. The earthquake that struck Lombok, West Nusa Tenggara, was associated with losses of approximately Rp 8.8 trillion. Furthermore, the combined impact of the earthquake and tsunami in Palu, Donggala, and Sigi, Central Sulawesi, resulted in losses estimated at Rp 10 trillion. According to BNPB estimates, the total losses related to disasters from 2004 to 2013 are projected to be around Rp 126.7 trillion.

One of the critical issues facing Indonesia is its extremely low underinsurance rates, which place it second to last in the world, only surpassing Bangladesh. This challenge is shared with other countries such as Poland, Hong Kong, Colombia, Thailand, Brazil, Mexico, China, and Chile, all of which have similarly low insurance coverage. In contrast, nations like the Netherlands, New Zealand, the United States, Canada, and Germany are recognized for their high insurance coverage rates. This situation underscores a significant opportunity for growth in the insurance market, particularly in natural disaster insurance.

The fourth consideration involves acting as a catalyst to reduce the consequences of disaster losses. This means that for an item to qualify for protection under a disaster insurance scheme, it must at a minimum satisfy the condition of not being exposed to unintentional disaster risks. For instance, to minimize the likelihood of disasters, the construction of a building must adhere closely to the principles of spatial planning.

Established in 2000, the Turkish Catastrophe Insurance Pool (TCIP) serves as the designated insurer for earthquake-related risks affecting residential properties in Turkey. The Turkish government mandates that all types of structures, including residential, commercial, and apartment buildings, must possess earthquake insurance. Notably, the annual premium in 2000 was set at US$47, with a maximum coverage limit of US$50,000, which is relatively affordable. This requirement for insurance contributes to a more systematic approach to construction and spatial planning, aligning with contemporary regulations. Consequently, this framework aids in mitigating the risks associated with human-induced natural disasters such as landslides and flash floods.

While natural catastrophe insurance has been available in Indonesia, its prevalence is limited. An example of this is the existence of flood insurance for motorized vehicles; however, the coverage provided is still quite elementary and has not yet become a prominent feature of the insurance landscape in the country. The government allocates specific funds for disaster management, as outlined in Law No. 20 of 2007, particularly in Article 60, which provides regulatory guidance. According to the report, the financial responsibilities for disaster management are shared between the central government and local authorities. Moreover, disaster management funds are also managed at the community level, as stated in paragraph (2) of the same article, which underscores the collaborative role of both the federal and local governments in promoting community engagement in the allocation of these funds.

In 2005, the APBN began to allocate resources for disaster management in the Budget Section of the General Treasurer, before the passage of Law Number 20 of 2007 concerning Disaster Management (BA. BUN). While these funds have been set aside, they are merely adequate to cover the full extent of losses and damages resulting from disasters. The author contends that the government's proposal to develop a framework for disaster risk financing and insurance mechanisms is of great importance. It is imperative that state-owned properties, particularly those used for educational and administrative purposes, are insured. This strategy will provide substantial support to the state in restoring conditions after a disaster.

At this point in time, Committee II of the Regional Representatives Council of the Republic of Indonesia has been instrumental in promoting the Natural Disaster Insurance Bill (RUU). It is expected that this legislative proposal will form the basis for the creation of a natural disaster insurance market within Indonesia. The bill outlines the government's role in addressing natural disasters, especially those that could lead to considerable Probable Maximum Losses, such as earthquakes. The implementation of this law is designed to provide options for all stakeholders involved in disaster response, acknowledging the increasing frequency of such occurrences faced by the Indonesian people.

Research Method

This project's data collection strategy encompasses both interviews and library research, as outlined in the identified issues. A comprehensive literature review is undertaken to gain an in-depth understanding of the topics under investigation. In this case, the author examined literature pertinent to the development of this research. The sources for the literature review include books, journals, newspapers, and other relevant articles associated with the subject matter. Nevertheless, to enhance and complement the insights derived from the literature review, conducting interviews is essential.

This study will be conducted using descriptive qualitative research techniques as employed by the author. Following a meticulous data collection process, the analysis will take place. At this juncture, the data will be organized, clarified, and critically evaluated to draw meaningful conclusions that respond to the research's open-ended questions. The outcomes will be presented in the form of descriptive analysis, which seeks to illuminate the issue and identify the anticipated solution along with its supporting rationale.

Results & Discussion

A number of derivative laws associated with the disaster management law are still pending implementation, with a significant gap being the absence of a Presidential Regulation on the Status and Levels of Disasters, as required by Articles 1, 7, and 57. The President has issued Presidential Decree Number 17 of 2018, which deals with the Implementation of Catastrophe Management in Specific Circumstances; however, the ongoing disputes regarding the status and classification of disasters have not yet been adequately addressed or codified in a Presidential Regulation.

In addition, the legislative framework concerning catastrophe risk evaluation, essential service standards, and related topics is still subject to further deliberation. At present, both the national and regional governments are responsible for providing financial support for disaster management in accordance with the relevant disaster management legislation. Additionally, Government Regulation Number 22 of 2008, Article 4, Paragraph (2) indicates that the sources of funding for disaster management include the state budget (APBN), regional budgets (APBD), and contributions from private individuals, corporate entities, non-governmental organizations, and community resources, both within the country and abroad.

The allocation of APBN resources for disaster management is provided to the National Disaster Management Agency (BNPB) and various Ministries and Institutions (K/L) in the form of routine budgets and contingency funding. Furthermore, grants to regional authorities, as well as contingency funds and on-call budgets, are specifically designated for disaster management. BNPB has been systematically reducing the financial resources allocated to disaster management programs, with a significant drop from Rp. 2.83 trillion in 2015 to just Rp. 478.1 billion in 2018. This reduction in funding for the disaster management program in 2018 is anticipated to negatively influence preparedness efforts for disaster response, logistics planning in areas vulnerable to disasters, the rehabilitation and reconstruction of the socioeconomic landscape in affected regions, emergency response operations in disaster-impacted areas, and community empowerment initiatives aimed at.

The government has introduced a Disaster Financing and Insurance Strategy aimed at mitigating the financial challenges associated with disaster management. This initiative recognizes that significant losses and damages often stem from insufficient funding. A key component of this strategy is the establishment of a pooled fund for disaster response, which is reinforced by Law No. 20 of 2019 concerning the 2020 State Budget, specifically Article 45. This legislation mandates the creation of funds dedicated to natural disaster management, with one of the funding sources being the APBD, which is managed specifically and is designed to be multi-year. In accordance with Law Number 24 of 2007, which pertains to disaster management, the Regional Government is mandated to oversee the execution of disaster management activities. This responsibility involves ensuring the rights of communities and refugees affected by disasters are upheld in line with minimum service standards, protecting the community from disaster consequences, reducing disaster risks, integrating disaster risk reduction with development efforts, and ensuring the availability of adequate financial support.

Limited financial capacity (financial gap) and management that has not been planned and linked with disaster risk management, particularly in the context of preparation and risk-reduction initiatives As a result, disaster financing is required to address significant, anticipated, timely, and targeted funding needs that are handled more openly. The region is affected by natural disasters in many ways. The Regional Apparatus Organizations or those located in disaster-prone areas deal with a number of issues that are directly related to disaster management. These issues include the requirement for huge equipment to normalize the post-disaster environment (Bego, etc.) as well as

DOI: https://doi.org/10.29313/mimbar.v40i2.2047

the need for equipment to remove victims. The next issue is that the Regional Disaster Management Agency currently finds it challenging to obtain logistics in the form of food ingredients due to the expiration date. It is planned to use funds from corporate social responsibility (CSR), one of which is for regional disaster management. An insurance company that serves as a manager and has access to these funds can be utilised when necessary.

Regularly allocated reserve funds can be utilized to manage relatively minor, frequent, and predictable disaster risks, including floods, landslides, and droughts. At the same time, it is imperative to combine the preparation of standby funds, which are systematically accrued from budget reserves and operated outside the conventional budget framework, with non-budgetary sources of disaster financing, such as insurance schemes. This strategy is crucial for minimizing the risks associated with major disasters like earthquakes and tsunamis.

Disaster risks that are minor, frequent, and foreseeable, such as floods, landslides, and droughts, can be funded through regularly allocated reserve budgets. This practice demonstrates the collaboration between federal and local governments and the private sector in transferring some of the associated risks to financial markets. In this setting, the primary goals of development and disaster management focus on establishing risk financing solutions and catastrophe risk insurance. The institutional framework for natural disaster management in Indonesia is an essential component of effective disaster management operations. The primary objectives of the institutional framework for disaster management in the region are effective communication and collaboration in the allocation of responsibilities during disaster response. In Indonesia, Law Number 24 of 2007 regarding Disaster Management outlines the legal framework governing disaster management institutions. To comply with these stipulations, the National Disaster Management Agency (BNPB) was established at the national level, replacing Bakornas PB, as mandated by Presidential Decree No. 8 of 2008

It should be noted that the proposed Bill on Natural Disaster Management Institutions in Indonesia is significantly detailed and complex. Moreover, there is a pressing need for additional laws that would enable and support the inclusion of catastrophe insurance in the disaster management funding model. In relation to the funding and administration of disaster relief, the government has established Government Regulation No. 22 of 2008. This regulation is rooted in Article 63 of Law No. 20 of 2007 concerning Disaster Management, which outlines the governance of disaster management funds. As indicated in paragraph 1 of Article 4 of PP No. 22 of 2008, the responsibility for disaster management funding is a shared obligation between local municipalities and the federal government, with funding sourced from the APBN, APBD, or community contributions (paragraph 2).

The article indicates that the sole financial resources allocated for disaster management stem from the APBN, APBD, and community contributions. The author posits that there is a necessity for supplementary insurance funds. The incorporation of an insurance fund provision in the PP will have significant implications for Indonesia's rapidly expanding insurance sector. Furthermore, this provision is expected to foster the development of the construction services industry and encourage building practices that prioritize disaster preparedness, similar to those implemented in Japan. Both sectors can thrive concurrently without imposing additional burdens on each other.

The causes of the catastrophe have yet to be fully comprehended by society. This situation has arisen due to a failure in disaster mitigation practices. Additionally, the early warning systems associated with the mitigation culture have not been effectively integrated into the governmental framework, leaving many community members uninformed. The government's commitment to physical development and the promotion of public awareness regarding disasters through ongoing socialization has been inadequate, which has hind

ered the establishment of disaster information within the community. Given Indonesia's high susceptibility to various natural disasters that can lead to loss of life, the lack of proactive disaster mitigation efforts is a significant issue. Regulation is a key component of the endeavor to increase socialization of disaster management and mitigation efforts. K/L has not made any mention of the poor speed of mitigation measures and readiness for disaster emergency response to deal with the negative consequences of disasters produced by RENAS PB as a fundamental planning regulation in disaster management since it is still Perka BNPB (National Disaster Management Plan 2015-2019).

The National Disaster Management Agency (BNPB) created a disaster insurance initiation program that costs premiums of roughly Rp. 300–500 billion annually to finance all types of disasters, specifically for house stimulants that are provided to all disaster victims with the following program (dibi.bnpb.go. id., 2017):

1. Insured value for severely damaged homes is approximately Rp. 30 million per Head of Family (KK);
2. For moderately damaged homes, an insured value of Rp. 20 million per household,

3. Damaged dwellings with light have an insured value of Rp. 10 million per KK.

The disaster management reserve fund, which is roughly Rp 4 trillion each year, provides the financial foundation for this program. However, a critical issue is the absence of legal provisions that would enable the use of public funds for disaster insurance premiums. Furthermore, the operational aspects of the insurance program are still unclear, particularly in relation to the financial consequences of various disasters, including landslides, typhoons, floods, and volcanic eruptions. The creation of a financing mechanism for insurance premiums remains an unresolved challenge, particularly in determining whether the government will assume full responsibility, whether it will depend on the level of governmental authority, or if there will be potential contributions from corporate social responsibility (CSR) initiatives and other donations. When selecting regions for insurance coverage, it is essential to establish criteria that prioritize considerations such as premium amounts and the necessary budget. Furthermore, attention should be directed towards the insurance providers that could be implicated, particularly in areas vulnerable to disasters. The heightened risk characteristic of these regions contributes to greater business challenges, which may culminate in reduced profit margins or, in some cases, losses.

Another challenge arises from the types and values of events that necessitate insurance coverage. The insurance scheme will address items that are insured exclusively for physical damage to buildings, health concerns, monetary assets, life insurance, or a combination of these. To gather accurate information and provide sound recommendations, the previously mentioned challenges and issues still constitute a considerable puzzle. It is noteworthy that, up to this point, the management of disaster impacts has largely been the responsibility of government agencies. Given the extensive damage that requires attention, it is essential to develop a comprehensive framework for managing the risks associated with losses from disasters. This framework should incorporate risk-sharing arrangements with the private sector to reduce the financial strain on governmental resources. The assessment of risk-sharing, as detailed below, will provide a foundation for evaluating the incorporation of disaster insurance into the state budget. It is crucial to recognize, however, that commercial insurance does not practice cross-subsidization for losses faced by individuals who cannot afford premiums, which results in significant challenges related to premium inflation and over-funding. As a result, the insurance industry often takes on a portion of the financial obligations that were previously the sole responsibility of the government, thereby increasing the overall capacity of the sector.

As a result of the significant earthquake that struck the city of Nigata on June 16, 1964, Japan's catastrophe insurance system was created. In order to determine what contribution insurance can make to lowering the risk of loss in the event of an emergency or force majeure that has occurred, the Japanese Finance Minister at the time met with insurance associations throughout Japan after observing the earthquake's quite significant and massive losses (Sunarsip M Iqbal and Viverita, 2007). Bangladesh's experience diverges significantly from that of Japan, particularly in its reliance on microfinance institutions rather than insurance companies, a trend that has emerged alongside the rapid growth of the microfinance sector. The Bangladeshi government has strategically employed these financial institutions to devise a framework for natural disaster management. This framework includes the use of savings and credit products that target critical areas of disaster response. In particular, savings products that enable easy access to funds have been vital in helping the country address the economic losses incurred from flooding.

As outlined earlier, numerous developed nations, along with certain developing countries, have initiated policies regarding disaster insurance to facilitate risk transfer and alleviate the financial strain on government budgets associated with disaster management. In Indonesia, the implementation of disaster management activities has become more integrated and coordinated since the enactment of Law Number 24 of 2007, which provides a detailed framework for comprehensive disaster management. Nevertheless, it is important to note that this legislation does not address the issue of risk transfer in relation to financing the consequences of disasters within the framework of disaster insurance (Syamsul Maarif, 2012). Considering the extensive geographical expanse of Indonesia, which encompasses over 13,000 islands, it is crucial to acknowledge this context. Historical evidence indicates that the government is required to allocate a substantial budget and considerable financial resources in response to disasters.

Although numerous stakeholders have emphasized the pressing necessity for the establishment and implementation of a disaster insurance policy, the ongoing debate surrounding disaster insurance practices in Indonesia persists, and a conclusive decision remains pending due to the significant potential for catastrophic risk.

 DOI: https://doi.org/10.29313/mimbar.v40i2.2047

The previously mentioned discourses indicate that the legal framework for disaster insurance in Indonesia has not been effectively established. Despite the presence of disaster legislation since 2007, the subject of disaster insurance has not been included in its provisions. Thus, it can be concluded that the practice of disaster insurance is virtually non-existent in Indonesia. The country faces considerable risks from natural disasters, attributable to its geographical positioning between two continents and two oceans, along with various climatological and geological influences. Given the size of the funding required for disaster management and the impossibility of burdening the disaster-affected population, the issue of disaster insurance must be handled by the state. In this situation, the amount of money that the government will need to set aside can be decreased by using catastrophe insurance in a different way. For instance, if the annual cost of disaster management is approximately Rp. 30 trillion and the cost of disaster insurance premiums is approximately Rp. 1%, the budget that must be provided is only Rp. 300 billion, which the state can use to pay disaster insurance premiums for those who died or for the house.The Aceh tsunami case has cost Rp 42.7 trillion since 2004 (downloaded tempo.co on September 30, 2021 at 15.30), the financial responsibilities for these initiatives are primarily shouldered by the state, although there is some assistance from foreign nations, which does not exceed Rp 10 trillion. The remainder is financed through the state budget in phases, a process that remains incomplete to date. In reality, the required funding ranges from IDR 427 billion to IDR 1,281 billion, contingent upon the utilization of catastrophe insurance, with premium rates estimated between 1% and 3%. This scenario underscores the critical role of catastrophe insurance as a key priority in Indonesia's disaster management strategies.Indonesia's geographical location makes it highly susceptible to natural disasters such as earthquakes, tsunamis, volcanic eruptions, and floods. This vulnerability highlights the critical need for disaster insurance funds to mitigate the severe economic and social impacts of such events. A disaster insurance mechanism can ensure timely financial support for recovery efforts, reduce the burden on government resources, and promote resilience among affected communities.

The establishment of disaster insurance funds is particularly urgent as the frequency and intensity of disasters increase due to climate change. It serves as a proactive measure to safeguard lives, infrastructure, and livelihoods while fostering sustainable economic development. By integrating this financial tool into national disaster management strategies, Indonesia can better prepare for, respond to, and recover from future calamities.

Disaster insurance funds provide a structured and reliable source of financing for disaster response and recovery. They reduce reliance on ad hoc government budgets and international aid, ensuring immediate access to resources when disasters strike. This financial mechanism can help protect critical infrastructure, support affected communities, and rebuild the economy more efficiently. The urgency is further amplified by the increasing frequency and intensity of natural disasters linked to climate change. A robust disaster insurance system can enhance national resilience, encourage investment in disaster risk reduction, and promote public awareness of the importance of preparedness. By establishing and managing disaster insurance funds effectively, Indonesia can strengthen its disaster management framework, reduce the socio-economic impacts of disasters, and pave the way for sustainable development even in the face of recurring natural hazards.

Conclusions

The Law on Disaster Management (UUPB) presents opportunities for the integration of insurance within disaster management strategies. Therefore, the commitment demonstrated by both federal and regional governments to incorporate insurance mechanisms should be regarded as a constructive development. A significant obstacle to the implementation of disaster insurance programs in Indonesia is the absence of a legal framework that ensures the allocation of insurance premium payments by national and regional governments through APBN and APBD funds. The regulation remains in a preliminary stage, as discussions are ongoing within the Ministry of Finance.

However, it has the potential to advance rapidly if required, thereby establishing a framework for catastrophe insurance applicable to both the national and local governments. Autonomous regional governments are encouraged to conduct comprehensive analyses of the benefits associated with providing subsidies for disaster insurance premiums, as opposed to managing post-disaster recovery independently of the insurance sector. This approach would facilitate collaboration between the government and insurance providers in addressing various pre-established matters in the event of a disaster. To realize the goals associated with regional autonomy, it is essential for towns situated in areas vulnerable to disasters to remit payments to the Regional Original (PAD) for their Disaster Insurance Premiums.

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DOI: https://doi.org/10.29313/mimbar.v40i2.2047