

ABSTRACT

This study aims to analyze the determinants of the demand function of Islamic insurance in Indonesia. The main motivation for this research is based on the phenomenon of growth and contribution of Islamic insurance in Indonesia which is still relatively low. The penetration rate of sharia insurance is used as one indicator that illustrates the demand for sharia insurance in Indonesia

The analytical method used in this study is the Autoregressive Distributed Lag - Error Correction Model (ARDL-ECM) which covers the unit root test, optimal lag selection, cointegration test, diagnostic test, and stabilization test. The data used in this study are 5-year monthly time series data, namely 2015-2019 with 60 observations obtained from the Financial Services Authority, the Central Statistics Agency, and Bank Indonesia. The independent variables used in this study are macroeconomic variables, namely gross domestic product per capita, financial sector development rate, which is a representation of the M2 size of GDP, inflation rate, and the SBIS rate. While the dependent variable in this study is the penetration of sharia insurance to gross domestic product.

Based on the optimum lag selection, the ARDL model produced is ARDL (1,0,0,0,0,0). The ARDL-ECM estimation results show that the GDP per capita variable, financial sector growth, and the SBIS rate affect insurance demand in the short and long term. Meanwhile, inflation and conventional insurance premiums do not affect the demand for Islamic insurance. The speed of short-term dynamics towards long-term dynamics will be corrected by 69% each period.

Keywords: Penetration of Sharia Insurance, GDP per capita, Financial Sector Development, Inflation, SBIS rate