

## DIGITAL BASED CAPABILITIES IN LIFE INSURANCE COMPANIES: AN EXPLORATORY STUDY IN INDONESIA

Agustinus Nicholas Tobing<sup>1</sup>, John Tampil Purba<sup>2\*</sup>, Evo Hariandja<sup>3</sup>, Rizaldi Parani<sup>4</sup>

<sup>1</sup> Executive Education Centre, Universitas Pelita Harapan, Jakarta  
Email: [augie.nicholas@gmail.com](mailto:augie.nicholas@gmail.com)

<sup>2</sup> Executive Education Centre, Universitas Pelita Harapan, Jakarta  
Email: [john.purba@uph.edu](mailto:john.purba@uph.edu)

<sup>3</sup> Executive Education Centre, Universitas Pelita Harapan, Jakarta  
Email: [evo.hariandja@uph.edu](mailto:evo.hariandja@uph.edu)

<sup>4</sup> Executive Education Centre, Universitas Pelita Harapan, Jakarta  
Email: [rizaldi.parani@uph.edu](mailto:rizaldi.parani@uph.edu)

\*penulis korespondensi

Masuk : 15-11-2021, revisi: 28-12-2021, diterima untuk diterbitkan : 05-01-2022

### ABSTRAK

Asuransi jiwa penting karena menawarkan perlindungan untuk mengurangi risiko bagi pemegang polis. Industri asuransi jiwa di Indonesia memiliki kontribusi yang signifikan dalam industri keuangan Indonesia meskipun mengalami fenomena tingkat penetrasi yang rendah, literasi yang buruk, perlindungan konsumen dan praktik misselling. Kajian ini menggunakan pendekatan studi kasus melalui serangkaian wawancara mendalam pada beberapa perusahaan asuransi jiwa dengan mengeksplorasi pengalamannya transformasi digital mereka. Kajian ini mengeksplorasi kondisi eksisting perusahaan asuransi jiwa Indonesia dalam mengembangkan kapabilitas dinamis berbasis digital serta kapabilitas transformasional penyediaan layanan dalam menciptakan SCA digital untuk bertahan di industri asuransi jiwa Indonesia. Studi ini mengidentifikasi dan membahas tiga tema utama yang terdiri dari pengembangan perjalanan pelanggan yang tepat, mendapatkan kepercayaan, dan tantangan utama sebagai faktor kunci keberhasilan dalam mengembangkan dan menggunakan kemampuan tersebut. Penelitian ini menghasilkan tiga proposisi dan menyarankan studi eksplanatori lebih lanjut untuk mengkaji proposisi-proposisi tersebut.

**Kata Kunci:** Kapabilitas Dinamis, Digital, Transformasi, Perjalanan Pelanggan, Keunggulan Bersaing Sustain

### ABSTRACT

*Life insurance is important as it offers protection to mitigate risks for the policyholders. Life insurance industry in Indonesia has a significant contribution in Indonesia financial industry although it experiences phenomena of low penetration rate, poor literacy, consumer protection and misselling practices. This study used case study approach through series of deep dive interviews with selected life insurance companies exploring their digital transformation experiences. This study explored the existing conditions of Indonesia lifeinsurance companies in developing their digital based dynamic capabilities as well as the service provisioning transformational capability in creating the digital SCA to survive in Indonesia life insurance industry. This study identified and discussed three key themes consisted of development of the right customer journey, earn trust, and key challenges as key success factor in developing and exercising the said capabilities. The study resulted in three propositions and suggested further explanatory study to examine the propositions.*

**Keywords:** *Dynamic Capabilities, Digital, Transformation, Customer Journey, Sustainable Competitive Advantage.*

## 1. INTRODUCTION

### Background

Life insurance industry is important as it helps transfer risks away from the insured to the policy issuer. By assisting in risk transfer, insurance allows the insured to undertake projects or engage in economic activities and transactions which otherwise would not have been engaged due to the risk. Furthermore, insurance manages risk by pooling exposures such that ultimately aggregate losses are shared across the economy. This applies more so for long term insurance as life policy issuers remain one of the major investors with funds invested in the real economy mainly in the form of debt and equity instruments. Due to its long-term nature and considerable contribution to

the economy (OJK, 2017), life insurance is at the forefront when it comes to the right to adequate consumer protection, such as demanding disclosure of accurate and reliable information when deciding to buy or sell insurance. According to OJK Statistics in May 2020, with nearly IDR 535.16 trillion, life-policy issuers hold more than three times the financial assets of non-life policy issuers. For many families, a life insurance policy is necessary for financial continuity in the event of an unexpected death. The policyholder in seeking to buy an insurance policy is usually expected to disclose all information necessary that will enable an intermediary to provide relevant advice. In the same vein, policy issuers are also expected to conduct a proper selling process based on the needs of the consumer, which also covers sufficient explanation of products, features, charges, benefits, exclusions, and illustrations relevant to the policy.

Based on above introduction of life insurance context, there are several observed growing phenomena in Indonesia Life Insurance industry that also triggers the idea to conduct this study, such as (1) Low penetration rate, 1.21 percent of GDP, as of December 2020; (2) Low trust on insurance product due to poor implementation of consumer protection; (3) Poor financial literacy in insurance industry – The financial literacy index in insurance has deteriorated to 15.8% in 2016 compared with 17.8% in 2013 (OJK, 2017); (4) Low affordability and saturated customers in life insurance, which indicated by there are only 1.77 percent of bank customers who has more than IDR 100 mio in their deposits in the banks (Lembaga Penjamin Simpanan, 2020); and (5) The misperception of insurance product as investment (not as protection). These observations have provided a call for more rigorous research to understand what is going on in Indonesia Life Insurance industry, specifically to strongly seek to link the strategies for gaining sustainable competitive advantage amongst life insurance firms in Indonesia.

### **Problem Statements**

The life insurance companies must adapt by innovating their services and products to customers to deal with the market changes. They offer innovative ways to sell the life insurance products to customers through digital tools to comply with COVID19 protocols. They provide self-services to customers to proceed the claim process, investments, withdrawals, policy inquiries, buy new policies as well as premium health or hospital services by third party to the high-net-worth customers. The ability to offer innovative services and products to customers and the ability to transform them to fit with customers' needs or expectations is an important point of the life insurance industry in Indonesia. These abilities require continuous learning from the life insurance company to continuously improve their products, services, and execution to fit with their customer's needs and expectations.

From the above conditions and growing phenomena, raises the questions of **how life insurance companies create their sustainable competitive advantages through digital and service provisioning transformation capabilities and what can be learned from these capabilities to adapt with Indonesia's condition.** The life insurance industry in Indonesia must develop these capabilities to create and to deliver new value to customers through the digital based dynamic capabilities and service provisioning transformational capabilities. The problem statement promotes a claim that the sustainable competitive advantage of the life insurance companies can be assessed from the digital based initiatives and the service provisioning transformational initiatives. Based upon the objectives of this study, the following research questions have been formulated to be answered:

**RQ1.** How does these digital based and service provisioning transformational capabilities create a digital sustainable competitive advantage for the insurance companies in the life insurance industry?

**RQ2.** How does the digital sustainable competitive advantage deal with the identified phenomena, key challenges, and the situation of Indonesia's life insurance market?

**RQ3.** Can the conceptual model that been developed in the case study to be corroborated in other life insurance company?

## **LITERATURE REVIEW**

### **Dynamic Capabilities**

A dynamic capability is a meta-process that orchestrates best practices or competencies to manage comprehensively and systemically, something that is strategically imperative, including the strategy development and execution process itself (Teece et al, 1997). It describes how leading firms integrate, build, and reconfigure internal and external competencies into “learned patterns of collective activity” to gain and maintain competitive advantage in rapidly changing and highly complex environments. Dynamic capabilities consist of three capabilities, which are sensing, seizing, and transforming capabilities. Incumbents require sensing capabilities to scan the external environment for unexpected trends that could disrupt the organization (Birkinshaw et al., 2016; Day and Schoemaker, 2016; Helfat and Raubitschek, 2018; Loebbecke and Picot, 2015). Seizing is an experimental capability that supports action and commitment by using techniques such as rapid prototyping and real options logic to effectively balance risk and reward (Day and Schoemaker ,2016). Firms need transforming capabilities to realize the full potential of strategic change (Bharadwaj et al., 2013; Karimi and Walter, 2015; Teece and Linden, 2017). Transforming capabilities supports incumbents with the continuous strategic renewal of assets and organizational structures to ensure responsiveness in fast-changing environments (Agarwal and Helfat, 2009; Teece, 2014).

### **Digital Based Dynamic Capabilities**

A study conducted by Warner and Wager (2019) on building dynamic capabilities on digital transformation, has developed a process model that identifies nine digitally based micro foundations (e.g., sub-capabilities) that underpin the building of digital sensing, digital seizing, and digital transforming capabilities. Digital based dynamic capability is operationalized through a digital sensing, digital seizing, and digital transforming. Digital sensing is measured as the capacity to learn the external environment with respect to trends, needs, regulations, demands, customers, and competitors appropriately, the purpose of which is to guide a firm's actions (Day, 1994). Digital seizing is measured as the activity to explore and select feasible opportunities for a change. Digital transforming is measured as the activity to implement the new services in an organization.

### **Services Provisioning Transformational Capabilities**

A study by Stoeckli (2018) on Insurtech has provided insights on how InsurTech can be characterized and what transformational capabilities are employed to reveal implications for value creation on firm and industry level. The study proves to be a powerful lens to understand insurance value creation in a digital world in the light of InsurTech. Transformational capabilities represent building blocks, which can be exploited individually or in combination resulting in either sustaining or disruptive innovations. The study by Stoeckli (2018) identifies the primary activities proposed in value network literature and then links the identified transformational capabilities to the activities ‘infrastructure operations’, ‘service provisioning’ and ‘network promotion’. As this proposed study is examining the life insurance industry, the

research will be focusing on the service provisioning activities where life insurance company can create value through digital service and service development. Services provisioning and development capabilities are measured by the ability of insurance companies to offer new services, to cover new risks, to leverage its platforms to reach the customers and to create value through digital service and service development as highlighted by Stabell and Fjeldstad (1998).

### **Sustainable Competitive Advantage**

The superior performers conceivably possess something special and hard to imitate that allows them to outperform their rivals. These unique skills and resources are referred to as sources of competitive advantage in strategy literature. Competitive advantage is the outcome of either from implementing a value-creating strategy not simultaneously being implemented by competitors (Barney, McWilliams, and Tirk 1989; Barney 1991) or through outstanding execution of the same strategy as competitors. Sustainability is achieved when the advantage resists erosion by competitor behavior (Porter, 1985). A conceptual model of SCA in service industries which builds on the works by Barney (1991), Lippman and Rumelt (1982), and Reed and Defillipi (1990), outlines that the company's distinctive organizational skills and resources are viewed as the source of a business's competitive advantages in the marketplace. A study by Bharadwaj (1993) in service industries, outlined fourteen propositions on sustainable competitive advantages. Codified knowledge is transferable and inclined to be imitated, tacit knowledge, being difficult to articulate, is difficult to transfer or copy (Teece, 1988). Life insurance industry is service sensitive in which the life insurance company must be able to innovate and to differentiate their services to competitors as well as to create value from its relationship with customers, positive customer experiences and its unique services, products, and skills.

### **Conceptual Framework**

The literature review above has explored that digital based dynamic capability and service provisioning transformational capability are essential for academics and professionals and turn to assemble the conceptual framework. It indicates that there are five distinct activities for both capabilities that influence the sustainable competitive advantage. The conceptual framework being developed explains three conditions in attaining Indonesia Life Insurance Sustainable Competitive Advantage (ID-SCA) as follows: 1) the role of digital based dynamic capability (DBDC) in attaining sustainable competitive advantage (SCA), 2) the role of service provisioning transformational capability (SPTC) in attaining sustainable competitive advantage (SCA), and 3) the synergy between digital based capability and transformational capability in attaining sustainability competitive advantage. The condition no. 1 and 2 are denoted with solid lines. The synergy between digital based capability and transformational capability is denoted with dashed lines. The solid lines for each capability to the interaction between digital based capability and service provisioning transformational capability shows the contribution. The conceptual framework will talk about focused around the three conditions underneath. This research proposes a conceptual framework that involving both capabilities and their synergies in achieving sustainable competitive advantage as shown in Figure 1 below.

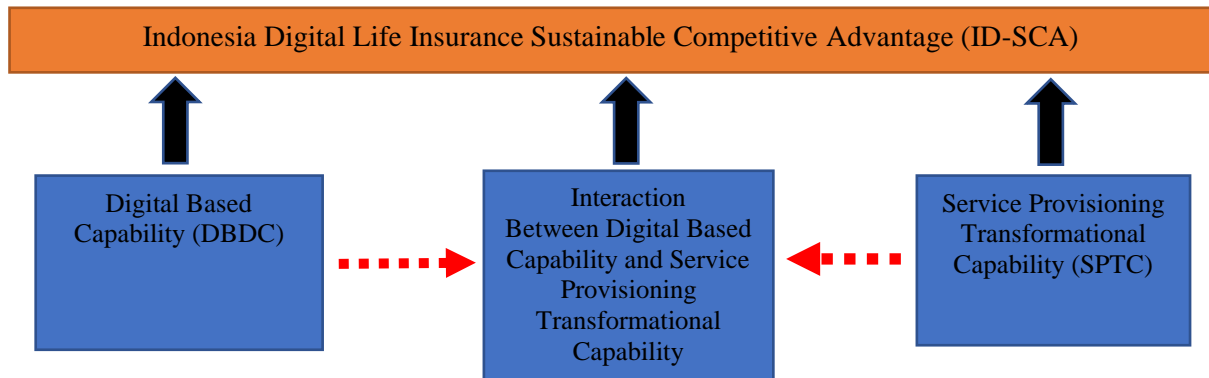


Figure 1. Conceptual Framework

## 2. RESEARCH METHOD

A case study would be applied to answer the research questions. A research design process has been developed to provide a better understanding on the proposed research study. Mitchell (1983) defined a case study as a “*detailed examination of an event (or series of related events) which the analyst believes exhibits (or exhibit) the operation of some identified general theoretical principles*” (p. 192). Yin (1994) defined a case study as “*an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident...[and] relies on multiple sources of evidence*” (p. 13). Case studies have an advantage over other comparative methods as they present an opportunity to collect rich, in-depth data and to test holistic explanations during the data collection (Hutzschenreuter and Kleindienst 2006).

According to Yin (2006), case study research is good for describing a situation or phenomenon occurring in the present, where in-depth description is useful and where the researcher does not need to manipulate events. This study will explore cause-effect relationship and/or how the said phenomenon happens. Case study approach is "real" in which it offers a chance to get a snapshot of real life in Indonesia Life Insurance industry including dealing with a subject that is context dependent, complex, unusual, or where there is some ambiguity. Through the specific unit of analysis, this study seeks the view life insurance from the perspective of senior management of life insurance companies that underlie the identified phenomena.

### Research Technique

Based on qualitative research method used, the research techniques applied in this study are: (1) review of literature; and (2) in-depth interview. In term of literature review, this study looked at an extensive literature reviews on dynamic based capabilities. The objective is to get a sound foundation and background on the respective area of interest to be integrated in the study. The in-depth interview used in this study is a technique often applied in the qualitative research to get a clear picture of the participant’s perspective in the research topic. For this study, its objectivity, and considering the COVID-19 pandemic situation, a virtual face to face in depth interview applied to different group of people, were conducted accordingly to the unit of analysis. In depth interviews are very useful technique in case study method for qualitative research to learn and to understand the perspective of participants based on their personal feelings, opinions, and experiences. In depth interviews offer the sufficiency of the details on phenomena being examined in such a way that one can evaluate that such conclusion drawn are transferable to other timelines, setting, situations, and people.

### **Unit of Analysis**

The unit of analysis are considered as multiple units in which one case with several unit of analyses. The sampling method of selection used purposive sampling as part of the author's network within the life insurance industry. Seawright and Gerring (2008) claim that the selection of cases has the same objectives as random sampling in that what is desired is a representative sample and useful variation on the dimensions of theoretical interest. The unit analysis of this study was at life insurance company level with target informants of top management covering CEOs and Board of Director (BOD) level. Life insurance companies was selected based on their respective size in terms of ownership, asset size, new business revenue, and type of products. The study conducted a cross confirmation interview with the sampled informants to get feedback on the results of the research to ensure the content validity. Based on the research questions, the criteria of informant, are (1) Board of Directors levels; (2) More than 20 years of experiences in life insurance company; (3) Work in Join Venture or Local life insurance company; and (4) domiciles in Indonesia.

### **Data Collection**

Data Collection is conducted in a focused interview (Yin, 2003) where a participant is interviewed for a short period of time. This type of interview was in the form of semi structured open ended, but the interview was based on the set of questions derived from case study protocol which includes the following aspects, as follows: (1) General questions about the life insurance company; (2) Formation phase: about the life insurance industry, existing digital strategy, and innovation strategy; (3) Operational phase: about the activities of DBDC, SPTC, and interaction of DBDC and SPTC; and (4) Evaluation phase: about SCA compared to direct competitors.

The data were collected during June 2021 and August 2021. Overall, eleven interviews were conducted typically lasting 1 to 1.5 hours each. In the interviews, the propositions were not addressed directly to prevent leading questions. It is common in case research to use triangulation to extend and validate the data collection using multiple sources of evidence (Eisenhardt 1989; Yin 2003). In the present study, this was done through the documentation in terms of company profile, annual report, digital platforms, digital manuals, observation of and participation in some of companies studied. The interviews are coded using a predefined code list that was expanded during the analysis to capture emerging themes. Specifically, each case is examined for evidence of the capability practices captured in the propositions. To further ensure the accuracy and validity of the data, the results were written up in a report that was sent to all respondents for approval, to check that the conclusions accurately reflected their practices.

### **Data Analysis**

The overall text on the interview for each insurance company thoroughly readable using narrative analysis to get the main idea of each of the constructs contained in the case study protocol. The result of the narrative analysis is used to see whether the activity of each capability found in each life insurance company and in what form. Within-case analysis is used to explore the characteristics, uniqueness, and insights from each life insurance company. Then detailed analysis are done using the case description and the collected data. Detailed analysis is used with the help of the variables that have been operationalized in the case study protocol.

For the specific questions of each construct, the results of interviews of each informant will be given mark bold, underlined, or colored to indicate that there are those activities in the life insurance company. The results of the narrative analysis of each indicator on both the capabilities and the interaction then matched with the indicators contained in the case study

protocol, and then compared with the indicators contained in the digital SCA, evidence of internal documents such as annual report, Asosiasi Asuransi Jiwa Indonesia (AAJI) statistics, press releases, and digital platform documentation.

### Case Selection

In this study have sent invitation emails to 14 life insurance companies but only 11 companies that provided answers and are willing to be interviewed. This study does not involve consumer of life insurance directly due to the time limitation. Annual Reports, Media Releases and digital relevant manuals will be taken as a basis for data triangulation. This exploratory study of the chosen life insurance companies is provided in Figure 3.

No	Name of Company	Tier <sup>1</sup>	Key Informant Positions	Service Years	Type of Companies	Founded
#1	Panin Daichi Life	B	Chief Executive Officers	35	JV / Captive / Japan	1974
#2	FWD	B	Agency Director	20	JV /	2013
#3			Chief Operating Officers	25	Hongkong	
#4			Independent Commissioner	20		
#5	AXA Indonesia	A	Chief Operating Officer	15	JV / France	1993
#6			Chief Distribution Officer	30		
#7			Chief Strategy Officer	17		
#8	AJ Manulife	A	Chief Operating Officer	20	JV / Canada	1985
#9			Chief Agency Officer	15		
#10	AJ Generali	B	Chief Executive Officer	25	JV / Italia	2008
#11	BNI Life	B	Chief Executive Officer	10	JV / Captive / Japan	1996
#12	Wanaartha Life	D	Chief Executive Officer	25	Lokal / Captive	1974
#13	Sun Life Financial Indonesia	B	Chief Operating Officer	10	JV / Canada	1995
#14			Chief Executive Officer	20		
#15	Great Eastern Life Indonesia	B	Chief Digital Officer	17	JV / Captive / Singapore	1996
#16	MNC Life Assurance	C	Chief Distribution Officer	20	Lokal / Captive	1989
#17	Capital Life Indonesia	A	Chief Executive Officer	20	Lokal / Captive	2016

Figure 3. Case Selection

### 3. RESULT AND DISCUSSION

Analysis of interviews revealed three main themes related to the digital based capabilities in life insurance industry. The first theme is about the importance of designing the right customer journey. The second theme is the trust aspects on the successful digital implementation. Finally, the third theme is the challenges that life insurance companies have in their roles such as regulatory requirements, the poor literacy, and transactional relationships.

#### 3.1 The Right Customer Journey

Designing the right customer journey involves many key success factors, as revealed by the informants, such as identification of the right customer needs, development of the right customer

segmentation, reach the right customer touch points, development of unique content, choose the right platform, dedicated digital unit, and drive the right leadership.

### Customer Needs

All informants were in the agreement that customer needs are the primary base to define the right customer engagement on products and services that can be offered digitally. All informants use Focus Group Discussion (FGD) involving selected customers and sales forces to obtain trends, feedbacks, and ideas for improvement. This sensing activity is generally supported by the networking with vendors, internal and external research activity including the research on Net Promotional Score (NPS) to see how the life insurance companies are perceived by their customers in term of services. This study identified several foreign and local companies do not conduct market survey as part of their digital sensing. This is due to the expensive research cost and the poor literacy on insurance products across the industry which potentially would provide a mislead result from survey and a potential mismatch on the wrong product or services issued by the insurance companies. Informant 10 highlighted the importance to come up with ideas instead of relying on the result of market survey from industry with a poor literacy. He noted “*We do more sensing to the way we **analyze** the market and based on our **understanding**, we **generate ideas** and **asked the customers** whether they are **comfort with our prepositions** or whether they **have feedbacks**. We can communicate this sensing during our **FGD** with them. So, the **initial sensing** should come from us, and probably it is not always working out, but it is ok. We must **try, try, and try...**”*

### Customer Segmentation

The right customer segmentation where different customer segment would bring different approach for customer engagement, such as the High Net Worth (HNW) customers who prefer to be serviced compared with millennials who want to have a fast, secure, and ease of doing business (EoDB) processes on life insurance onboarding and service process. Specific to millennials, Informant 7 highlighted the importance of positioning the benefit of the life insurance products. She noted “*People needs product that they **can enjoy** rather than being put as **legacy**. Insurance always being placed as **something you can claim after the death** of policyholders. It **does not work** out for **millennials**, the biggest life insurance market for now. They **do not like to talk** about retirement or death. They want to **enjoy the benefit of the product and services**; therefore, we **sense their needs** through **standalone or rider** on medical or health products and services.”. This is also endorsed by Informant 10 who stressed differentiation and uniqueness are important point in sensing.*

### Unique Content

Unique content is identified as the key differentiator for life insurance company to offer new engagement with its customers such as a clear Minimum Viable Product (MVP), robust prototyping, and agile approach would create value through its uniqueness, image, contribution, and positive customer experience. Informant 9 added an example of being unique in which his company has the highest NPS score in the industry where customers are happy with the agents’ services. He added “*Finally, **platform** such as WA message **will be copied** by other companies. Platforms are like the **highways we have been through to our office every day**. Products are **imitable**. Services might be **testified differently**. So, **creating a unique content** is a **differentiator**. People are already **digital minded** and **interconnected to internet** through their devices.”*



### Customer Touch Points

The right customer touch points and the choice of platform are the success factors in seizing the positive customer journey in life insurance. Insurance company needs to provide access to customer touch points that is accessible by customers on daily basis and provides ease of doing business, such as WhatsApp. Informant 9 provided examples that nowadays, customers will not pay attention to emails or Short Message Services (SMS) as they only contain promotion or marketing gimmicks.

### Digital Platform

Life insurance company should pay attention to its choices of platform in term of its cost, software applicability, accessibility, and support to sales forces. Informant 9 took example several companies invest IPAD as its sales force tools while in fact most Indonesian are using Android as their platform in their device. He also raised the challenge for a part time agent to bear high cost in the beginning of their career by investing IPAD or Tab to service the customers. He quoted *“It is very funny to see a company asked **part time agent to invest in an IPAD or Tab while they do not see being an agent as a full-time job or professional roles. Why would they apply a loan to buy that device while they are not sure being an agent for the rest of their life? I suggest the company to invest in web based and software specifically Android, which mostly Indonesian use in their mobile devices...**”*

### Digital Unit

In term of transforming capabilities, most of the life insurance companies has assigned a centralized dedicated digital unit to lead the digital implementation in term of ideation, design, implementation, testing, feedback, and continuous improvement. The digital unit is led by the Chief Level who reports directly to Chief Executive Officer. The digital unit aligns its digital strategy including ecosystem to meet the shareholder's, Group Office digital roadmap and Indonesia's digital environment. Some companies also adopt the decentralized digital unit or as part of the marketing or project management office in which they assigned agile squad or digital project team in within the business and operation unit to response faster to resolve customer's inquiry and feedbacks. There are challenges in adopting the shareholder's or the Group Office's digital roadmap where empowerment and market familiarity are crucial for Indonesia subsidiary as highlighted by Informant 10, *“The Group may have shared their **digital success story in Europe, but they cannot drive a Lamborghini in Jakarta. It is not fit with Jakarta; I prefer to drive Bajaj as it is agile and fit with the traffic in Jakarta**”*

### Leadership

This study identified numerous types of leadership in driving the digital transformation across the life insurance companies such as enforcement through digital KPIs, storytelling, collaboration, and deep dive to the field leadership. The enforcement leadership covers digital KPIs, mandatory certification to the sales forces, embedded controls and the field supervision using digital platforms. Informant 13 quoted *“We need to **differentiate between cannot or not want. Everything can be digitalized but it depends whether the customer want to do it or not. So, we assign an Insurance Advisor to help them in filling the data, but the customers still need to validate through our authentication process as the embedded controls on our digital platform.**”*

While Informant 11 provided tips that good leader must go down to the field to dig the factual facts and encourages the staff to do the same. He added *“It is not easy to **change mindset even if you have gone down to the field. We need to do step-by-step by gathering information in detail. For example, 2 years ago, the onboarding process was still manual and full of repetitive**”*

*process such as ..... We cut it by designing e-submission using host-to-host from branch to head office. Again, my banking experiences really helped me a lot. So, by myself going down directly to the field, it is already a transformation, and I addressed this experience to my GMs. If GMs cannot go detail, they cannot do transformation, but we may empower this."*

For collaboration leadership, Informant 3 stated the importance of thinking business differently through lessons learned, continually adapting to ongoing customer needs through listen and respond, the attitude to recognize the lost opportunity and to get back with sustain of innovation, and the commitment to build culture of innovation including platform, rewards, and executions.

### **3.2 Earn Trust**

The informants raised trust factor as key factor in getting the buy in from customers, sales forces, regulators, and stakeholders to have a successful digital transformation in life insurance industry. There are factors of digital as enabler to reach millennials and to offer simple products, digital as part of professional distributors, and digital to provide a secure way of transaction for customers as factors contributing to trust issue on digital in life insurance industry.

#### **Digital as Enabler**

Digital in life insurance industry in Indonesia is still perceived as enabler where digital may provide insights and data for life insurance companies to reach the other customer segment such as millennials or the traditional product offering such as protection, death coverage, or medical riders. Informant 1 assessed digital will not replace all insurance services such as the complex product which consist of investment element and embedded critical illness riders. Digital channel will become a disruptor for simple products such as traditional product, personal accident, or health riders. But for complex product such as Unit Linked Product (ULP), the role of insurance agent as financial advisory cannot be replaced by digital including the Artificial Intelligence (AI). He quoted "*Agents will not be wiped out. I don't see AI will replace business whose nature is financial advisory on complex products. So, we must educate them to be able to provide a holistic financial planning. They do not need to sell the product as the simple product might be sold by technology. They need to become a specialist doctor, not a general doctor.*"

Humanizing the digital services is important as there are still niche customer segments such as HNW customers who need human touch services instead of high-tech services including still need to meet in person with the sales forces as they are putting significant amount of money into the insurance products. Informant 9 stated that insurance company still needs "human touch" to prevent mis-selling by providing comprehensive information on the product. This is where the digital capability of services provisioning is important specifically to reach the customer segments who comforts using digital and the segments who still needs human interfered services from the company. Informant 8 emphasized that relationship is a key factor in Indonesia to earn trust. The mature customers need "human touch" as insurance products are complex and needs comprehensive explanation. While for younger customers dominated by millennials, they want instant solution where digital platform can offer a simple, fast, and secure way of engaging with insurance companies.

#### **Digital as part of Professional Distributors**

During the interview, most of informants raised by being digital in all aspects of front office and backoffice processes, is important not only to provide cost efficiency but also to show the professionalism to the customers. Informant 6 highlighted that she enforced 100% digital submission to sales forces including recruitment, onboarding, activation, and retention activities. She quoted "*This evidence that whether you want it or not, or whether you like it or not, we*

*must enforce agents to the digitalization, not only selling but more to professionalization. They can roar from recruitment, onboarding, activation, and retention in a single digital platform. They will be looked professional and earn trust from their customers.”*

On top of using digital as the daily process, Informant 6 also added that agents need to be employed full time to get their commitment to provide lifetime services to the customers which will earn trust from customers. Informant 14 highlighted the existing norm of typical family relationship within the agency channel which leads the distributors as not professional.

### **Digital as a secure way of transaction**

Informants raised security is the main feature of assessment before offering the product and services digitally. They perceived being secure will earn trust from the customer and turned into positive customer experience and customer loyalty. Several captive insurance companies conduct penetration testing every quarterly where they hire white hackers from external to hack their digital platforms. Informant 11 stated “**Security is important for us. For example, we cooperated with PERURI for digital sign because it has been accredited by KOMINFO. Being secure means we can earn trust and customer loyalty obtained. Secondly, it is about risks, there might be someone smarter than someone who develop our platforms. This guy might hack or penetrate us, and we must protect our customers. We hired ethical hackers quarterly and asked them to hack us in a week, if they can do that then we must resolve it before launch. Security is a MUST.**”

Informant 7 highlighted that her company has obtained the PCI/DSS certification by September 2020 which would provide confidence and assurance to its customer over its digital platforms. The company managed to earn trust through PCI/DSS certification by converting and subscribing more than thirteen thousand of its policyholders who used credit card as their payment mechanism in insurance premium.

However, all of them agree that if life insurance companies successful in earning customers’ trust through the digital platforms, there will be a transaction relationship where customers and the relevant stakeholders continually recognizes the benefit of full transparency, professional services, secure, ability to do self service, and cost efficient.

### **3.3 Key Challenges**

All informants raised key challenges they faced specifically in leading the digital transformation as well as in dealing with the key issues in the Indonesia life insurance industry. There were three key challenges identified by the informants such as (1) regulatory requirements not providing the ease of doing business; (2) transactional relationship; and (3) poor literacy of life insurance products across the industry.

#### **Regulatory Requirements**

Most of the informants raised the complicated requirement process from regulator as a barrier for insurance companies, specifically on the longer time on approval of submission for cloning product, redundancy of mandatory data such as Know Your Customer (KYC) data, not balanced regulatory requirements, and synergies between regulators. Informant 13 provided example of the longer time on approval as she added “**...a cloned product, it took 5 months to have OJK approval. ..How can we integrate these providers within our ecosystem if there are still barriers for EoDB?**”.

Informants also questioned the competences of regulator in supervising the industry as Informant 10 stated *“Imagine if you are the **referee** of a football match, the **spectators** and the **playing teams** expect that you know how to play football. I am **confident** that all referees should be able to **play football** although they are not Ronaldo. But what if they cannot play football and being **not fair** to the games? I would suggest the regulator to **strengthen their team** below those commissioners who were politically appointed to ensure **they know what games they are supervising.**”* The similar opinion was also endorsed by Informant 11 who said most of the existing regulator officers are not the insurance practitioners.

In term of data redundancy and EoDB, Informant 16 raised the issue of user friendly and the more requirements from regulator on mandatory provisions which caused the standard contract getting thicker and thicker which does not provide EoDB to customers. However, several informants such as Informant 8 and 9 realized that life insurance products are complex where the objects are different with banking and this complexity requires robust process and comprehensive regulatory requirements as part of supervision.

### **Transactional Relationship**

Informants raised the issue to engage with the customer to develop the transactional relationship similar with the one in the banks. Informant 3, 6 and 8 noted that despite the numbers of disclaimers and disclosures that affect the customer journey, life insurance company needs to create the positive experience as well as ecosystem to make the customers to engage back with the companies. Life insurance companies cannot used banking as a reference as it offers a different object of transaction and engagement. Further on the customer journey, the challenge will be on the transactional relationship between customers and the insurance products where most of customers only use the digital tools when they want to pay the premiums. Compared to banking industry where customer in banking is experiencing more frequent and transactional in their digital journey. Informant 3 added *“The **disclaimers and disclosures** are mandatory things that can make the journey a **bit bumpy and a bit tedious** where customers do need to **pause and read** certain messages. But one of the one of the real challenges that I see was **digital creating a digital experience** where customers **want to come back**. It's not just once a year to pay their premium or whatever but **creates an ecosystem** where **they can engage and come back**. When we were looking at their digital journey, we use banking as **a reference**. We could see in BCA and CIMB on their **applications** like the usage over at 12 to 18 months period and just **skyrocketed**. We sort of use that as a basis to **justify the investment** in our digital application at time, but there's a **key difference**, of course, and they're banking is much more **frequent and transactional**. “*

Several informants also provided their opinion on the initiatives of several insurance company which uses lifestyle and wellness as the customer engagement strategy. Several informants such as Informants 5, 6 and 7 agreed that insurance companies need to connect insurance as part of customers' daily activity where they can contribute directly to their wealth, health, and wellness. Informant 6 quoted *“People **don't even think** about their insurance **every day**, right? It needs to **be part of your lifestyle** and that's we need to connect it to **a good lifestyle**. You know, like being put it on your savings, all those **educations** that are **required** and to make it **a part of your daily living**. And that's the **only way** it can say all right.”*

Contrary to those opinions, some informants such as Informant 8, 11 and 14 doubted the approach of lifestyle and wellness can make the customers engaged with insurance companies. The Informant 8 highlighted that right customer touch point is more important to reach and to tap

to customer's daily engagement. While Informant 11 raised the issue of providing gimmicks instead of reducing the risks, he added *"We must avoid selling more Starbucks coffee and at the same time we still have high claim ratio. So, we proposed an engagement approach using the prevention approach, we provided free vaccination gimmicks through digital. We reduce the claim ratio as well as improve productivity on employees who are also our customers"*. Lastly, Informant 14 stressed the importance of education to improve the transactional relationship instead of using gimmicks through lifestyle.

### **Poor Literacy**

All informants agreed that education is the most important point to improve the literacy across the industry and will be beneficial in term of higher penetration rate in Indonesia. Informant 7 highlighted the importance of education specifically in influencing children at the early stage and to improve customers' understanding of insurance products. She took example of Bali where the son or daughter have the obligation to bury the parents and the cost of burial is very expensive due to local custom. There is opportunity to change this mindset by putting the role of life insurance products in this culture and as part of the lifestyle. However, there are still challenges which on top of the financial literacy or inclusion where the mindset of life insurance is "for sold" and not "for bought". She concluded *"....and I think there's a lot of effort already being done education wise, but it needs to go down. As we said, we need to change some behaviors, so we need to start influencing the children because that's the only way that it becomes a graded."*

Informant 8 highlighted the importance of education as transforming capabilities and its relationship to the life insurance penetration in Indonesia. The old generations who did not have a good education will send their children to go overseas for education. These children with good education will educate their parents back to have insurance. Informant 14 stressed the importance of education so that customer will always have a self-awareness on their policies and protection. She noted *"I am going back to educating. If you educate the customer that we need insurance, we will want to know about our policies. How important is it to pay premium on time? So, it is our self-awareness, that is how I felt."*

Finally, Informant 15 assessed that there is still a lot of room to grow, as he is aware that the insurance penetration in Indonesia up to now, still below 5% although there were series of activities from regulators as well as insurance companies on the financial literacy and inclusion. He added the Indonesia customer's perception of life insurance product as *".... we do notice that due to the current situation and simultaneous activities from regulators as well as insurance company on the financial literacy & inclusion, causing the increment of the awareness of Indonesian for the need of protection. However, we must keep in mind that here in Indonesia, insurance is still for sold not for bought"*

## **4. CONCLUSIONS AND RECOMMENDATIONS**

This study concluded that digital transformation is no longer an option for life insurance companies in Indonesia. It is a mandatory business model to compete and to survive in the life insurance industry. This study has revealed the importance of DBDC and STPC where informants revealed their experiences in sensing the customer needs, new trends, and ideas through networking, FGD, research, trial & error, as well as alignment with the direction of shareholder's strategy. These ideas and trends then were seized through a robust prototyping processes and adopted agile approach to come up with a design of an ideal customer journey. For transforming, the life insurance companies mostly have established a dedicated digital unit to provide leadership in transforming as well as to build ecosystem internally and externally. These

capabilities also provided the companies to able to provide new services through their digital platform such as automation of backoffice services, AI, chatbot, digital submission, recruitment, training, and onboarding process. The digital platforms also enabled them to cover new risks, new coverage, and reach new markets during this pandemic situation. This is the evidence to respond on RQ1 where DBDC and STPC create a digital sustainable competitive advantage for the insurance companies in the life insurance industry. Trust is revealed as an important issue to have a successful digital transformation in life insurance industry, which serves as the evidence to respond on RQ2 on how Digital SCA deals with the identified phenomenas and key challenges of regulatory requirement, transactional relationship, misselling, fraud scandals, poor literacy, low trust on insurance product, saturated databases, and affordability.

Finally, this study also responded to RQ3 where a conceptual model been developed in the case study and can be corroborated in other life insurance company. This study come up with three propositions that need to be examined in the future explanatory study. The proposed propositions are, as follows:

**Proposition #1:** Digital Based Dynamic Capability that involving digital sensing, digital seizing, and digital transforming will support in achieving Digital Sustainability Competitive Advantage.

**Proposition #2:** Service Provisioning Transformational Capability that involving service provisioning and service development will support in achieving Digital Sustainability Competitive Advantage.

**Proposition #3:** The interaction between Digital Based Dynamic Capability and Service Provisioning Transformational Capability will support in achieving Digital Sustainability Competitive Advantage.

## REFERENCES

- Autio, E., Nambisan, S., Thomas, L.D., Wright, M. (2018). Digital affordances, spatial affordances, and the genesis of entrepreneurial ecosystems. *Strategic Entrepreneurial Journal*, 12 (1), 72-95.
- Barney J.B. (1986a). Strategic factor markets: expectations, luck, and business strategy. *Management Science*. 32(10), 1231-1241.
- Barney, J.B. (1986b). Organizational culture: can it be a source of competitive advantage? *Academy of Management Review*. 11(3), 656-665.
- Barney, J.B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99–120.
- Bharadwaj, A., El Sawy, O. A., Pavlou, P. A., & Venkatraman, N. (2013). Digital business strategy: toward a next generation of insights. *MIS quarterly*, 471-482.
- Bharadwaj, S. G., Varadarajan, P. R., & Fahy, J. (1993). Sustainable competitive advantage in service industries: a conceptual model and research propositions. *Journal of marketing*, 57(4), 83-99.
- Birkinshaw, J., Zimmermann, A., & Raisch, S. (2016). How do firms adapt to discontinuous change? Bridging the dynamic capabilities and ambidexterity perspectives. *California Management Review*, 58(4), 36-58.
- Day, G.S. (1994). The capabilities of market-driven organization. *The Journal of Marketing*, 58(4), 37-61.
- Day, G.S., & Schoemaker, P.J.H. (2016). Adapting to Fast-Changing Markets and Technologies. *California Management Review*, 58 (4), 59-77.
- Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of management review*, 14(4), 532-550.

- Helfat C.E., and Raubitschek, R.S. (2018). Dynamic and integrative capabilities for profiting from innovation in digital platform-based ecosystems, *Research Policy*, 47(8), 1391-1399.
- Hutzschenreuter, T., & Kleindienst, I. (2006). Strategy-process research: What have we learned and what is still to be explored. *Journal of management*, 32(5), 673-720.
- Karimi, J., & Walter, Z. (2015). The role of dynamic capabilities in responding to digital disruption: A factor-based study of the newspaper industry. *Journal of Management Information Systems*, 32(1), 39-81.
- Lembaga Penjamin Simpanan (2020). "Distribusi Simpanan Bank Umum Periode Desember 2020". Group Penanganan Premi Penjaminan.
- Lippman, S. A., & Rumelt, R. P. (1982). Uncertain imitability: An analysis of interfirm differences in efficiency under competition. *The bell journal of Economics*, 418-438.
- Loebbecke, C., & Picot, A. (2015). Reflections on societal and business model transformation arising from digitization and big data analytics: A research agenda. *The Journal of Strategic Information Systems*, 24(3), 149-157.
- Mitchell, J. C. (1983). Case and situation analysis. *The sociological review*, 31(2), 187-211.
- Otoritas Jasa Keuangan (2017). "Peraturan No. 12/POJK.01/2017 tentang Penerapan Program Anti Pencucian Uang dan Pencegahan Pendanaan Terorisme di Sektor Jasa Keuangan".
- Porter, M. E., & Advantage, C. (1985). Creating and sustaining superior performance. *Competitive advantage*, 167, 167-206.
- Reed, R., & DeFillippi, R. J. (1990). Causal ambiguity, barriers to imitation, and sustainable competitive advantage. *Academy of management review*, 15(1), 88-102.
- Seawright, J., & Gerring, J. (2008). Case selection techniques in case study research: A menu of qualitative and quantitative options. *Political research quarterly*, 61(2), 294-308.
- Stabell, C. B., & Fjeldstad, Ø. D. (1998). Configuring value for competitive advantage: on chains, shops, and networks. *Strategic management journal*, 19(5), 413-437.
- Stoekli, E., Dremel, C., & Uebernickel, F. (2018). Exploring characteristics and transformational capabilities of InsurTech innovations to understand insurance value creation in a digital world. *Electronic markets*, 28(3), 287-305.
- Teece D.J., Pisano G. & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*. Vol. 18, No. 7, pp. 509-535.
- Teece, D.J., (2007). Explicating dynamic capabilities: the nature and micro foundations of (sustainable) enterprise performance. *Strategic management Journal*, 28: 1319-1350.
- Teece, D. J., & Linden, G. (2017). Business models, value capture, and the digital enterprise. *Journal of organization design*, 6(1), 1-14.
- Teece, D. J. (1988). Capturing value from technological innovation: Integration, strategic partnering, and licensing decisions. *Interfaces*, 18(3), 46-61.
- Warner, K. S., & Wäger, M. (2019). Building dynamic capabilities for digital transformation: An ongoing process of strategic renewal. *Long Range Planning*, 52(3), 326-349.
- Yin, R.K. (1989), *Case Study Research Design and Methods*, Sage, Newbury Park.
- Yin, R.K. (1993), *Applications of Case Study Research*, Sage, Newbury Park.
- Yin, R. K. (2003a). *Case study research: design and methods* (3rd ed.). Thousand Oaks, California, USA: Sage Publications Inc.
- Yin, Robert K. (2003b). *Applications of case study research* (2nd ed., vol. 34). Thousand Oaks: Sage.
- Zikmund, W. (1991), *Business Research Methods*, Dryden, New York.