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# UNDERSTANDING DIGITAL TRANSFORMATION FROM A DIGITAL-BASED DYNAMIC CAPABILITIES PERSPECTIVE: A CASE STUDY FROM INDONESIA LIFE INSURANCE INDUSTRY

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**Abstract:** This qualitative study aimed to explore the current state of Indonesian life insurance companies' digital transformation experiences and their dynamic capabilities to adapt to the Indonesian life insurance industry via digital technology. The study specifically examined the digital transformation experiences of the leadership team in life insurance Indonesia. The unit of analysis was at the life insurance company level, with CEOs and Board of Directors (BOD) as target informants. This study identified three critical themes associated with the relevant capabilities: developing the optimal customer journey, earning trust, and critical challenges as essential success factors for developing and exercising the capabilities mentioned above. The study identified a debate between two large senior management groups regarding the advantages and disadvantages of using a lifestyle approach as an engagement strategy to improve the transactional relationship between customers and insurance companies. This study has contributed to the field by providing researchers with helpful information. Not only is digital transformation a must to have in the Indonesian life insurance industry but it also demonstrates the importance of promoting life insurance, not as a product, but by treating insurance as a concept of life and protection. The study demonstrates the importance of earning trust contributed by the professionalism of the sales forces, the security of the digital process, and the positive customer journey. This study highlighted the need for regulators to collaborate with the industry regarding literacy, oversight, and key challenges. Finally, this study identified further research opportunities on the right lifestyle strategy and replication of this concept in other industries

**Keywords:** Dynamic Capabilities, Digital Transformation, Life Insurance, Lifestyle, Financial Literacy.

**Resumen:** Este estudio cualitativo tuvo como objetivo explorar el estado actual de las experiencias de transformación digital de las compañías de seguros de vida de Indonesia y sus capacidades dinámicas para adaptarse a la industria de seguros de vida de Indonesia a través de la tecnología digital. El estudio examinó específicamente las experiencias de transformación digital del equipo de liderazgo en seguros de vida de Indonesia. La unidad de análisis fue a nivel de las compañías de seguros de vida, teniendo como informantes objetivo a los directores generales y al directorio (BOD). Este estudio identificó tres temas críticos asociados con las capacidades relevantes: desarrollar el viaje óptimo del cliente, ganarse la confianza y los desafíos críticos como factores de éxito esenciales para desarrollar y ejercer las capacidades mencionadas anteriormente. El estudio identificó un debate entre dos grandes grupos de alta gerencia con respecto a las ventajas y desventajas de utilizar un enfoque de estilo de vida como estrategia de participación para mejorar la relación transaccional entre los clientes y las compañías de seguros. Este estudio ha contribuido al campo proporcionando a los investigadores información útil. La transformación digital no solo es imprescindible en la industria de seguros de vida de Indonesia, sino que también demuestra la importancia de promover los seguros de vida, no como un producto, sino tratando los seguros como un concepto de vida y protección. El estudio demuestra la importancia de ganarse la confianza que aporta la profesionalidad de las fuerzas de venta, la seguridad del proceso digital y el customer journey positivo. Este estudio destacó la necesidad de que el regulador colabore con la industria con respecto a la alfabetización, la supervisión y los desafíos clave. Finalmente, este estudio identificó más oportunidades de investigación sobre la estrategia de estilo de vida correcta y la replicación de este concepto en otras industrias.

**Palabras clave:** Capacidades Dinámicas, Transformación Digital, Seguros de Vida, Estilo de Vida, Educación Financiera.

# INTRODUCTION

Background

In Indonesia, the insurance industry is thriving. Since 2012, the Indonesian Financial Services Authority ("Otoritas Jasa Keuangan, OJK") has noted significant growth in asset size. OJK was established by Law No. 21 of 2011 as an autonomous and integrated financial authority. It is responsible for regulating, supervising, inspecting, and conducting investigations into Indonesia's financial activities and institutions. The government is tasked with implementing and integrating regulation and supervision of all financial services activities, including insurance. Based on OJK Statistics in December 2021, the insurance industry's total assets reached IDR 1,002.83 trillion in 2016 and increased to IDR 1,450.32 trillion by 2020. Subsequently, its assets increased nearly 50% to IDR 1,590.72 trillion. Insurance penetration and density are also higher. Insurance penetration is a term that refers to the growth of insurance in comparison to the growth of Gross Domestic Product (GDP). In contrast, insurance density refers to the average annual insurance expenditure of the Indonesian populace. As of December 2020, the insurance industry contributed 1.6 percent to GDP, while the average annual insurance expenditure of the Indonesian population was IDR 942 thousand. However, this penetration rate remains lower than in regional countries such as Singapore (10.9%) and Malaysia (5%). According to OJK statistics, Indonesia has 148 insurance companies, including 77 general insurance companies, 59 life insurance companies, seven reinsurance companies, three mandatory insurance companies, and two social insurance companies.

The life insurance industry, in particular, is critical because it assists in the transfer of risks from the insured to the policy issuer. By assisting in risk transfer, insurance enables the insured to embark on projects or engage in eco-economic activities and transactions that they would not have undertaken otherwise due to risk. Additionally, insurance mitigates risk by pooling exposures so that aggregate losses are ultimately shared across the economy. Due to its long-term nature and significant economic contribution, life insurance is at the forefront of the right to adequate consumer protection, including disclosing accurate and reliable information when purchasing or selling insurance. According to OJK Statistics, life insurance issuers held more than three times the financial assets of non-life insurance issuers in December 2020, totaling nearly IDR 589.81 trillion. A life insurance policy is necessary for many families to ensure financial security in an unexpected death. When an insurance policyholder seeks to purchase one, he or she is typically expected to disclose all information necessary to enable an intermediary to provide pertinent advice. Similarly, policy issuers are expected to follow a proper selling process centered on consumers' needs. They include an adequate explanation of products, features, charges, benefits, exclusions, and illustrations pertinent to the policy.

Following the initial introduction to the life insurance context, several observed growing trends in the Indonesian life insurance industry prompted the idea for this study, including the following: (1) Low penetration rate, 1.21 percent of GDP in December 2020; (2) Low trust in insurance products due to insufficient consumer protection; and (3) Low financial literacy in the insurance industry, with the financial literacy index in insurance falling to 15.8 percent (not as protection).

During the pandemic and digital age, life insurance companies offer customers novel ways to purchase life insurance products through digital tools that adhere to COVID-19 protocols. They provide self-service options for customers to manage claims, investments, withdrawals, policy inquiries, the purchase of new policies, and premium health or hospital services provided to high-net-worth individuals by a third party. It is critical for the life insurance industry in Indonesia to offer customers innovative services and products and transform them to meet their needs or expectations. These abilities require the life insurance company to continuously improve their products, services, and execution to meet their customers' needs and expectations. In conjunction with the phenomena mentioned above, this observation has prompted a call for more rigorous research to better understand Indonesia's life insurance industry.

Problem Statement

The conditions mentioned earlier and emerging phenomena raise questions about how Indonesia's life insurance companies continuously adapt their digital-based capabilities to the changing customer needs and expectations and what can be learned from their experiences from a dynamic capabilities perspective. The Indonesian life insurance industry must develop these capabilities to create and deliver new value to customers through a successful digital transformation supported by dynamic capabilities built on digital technology. The problem statement claims that their digital initiatives and experiences can measure the successful digital transformation of life insurance companies. The following research questions have been developed to be answered in light of the study's objectives:

RQ1. How do these Indonesian life insurance companies define their digital transformation using digital-based dynamic capabilities?

RQ2. How do the digital-based dynamic capabilities help the Indonesian life insurance companies to deal with the identified phenomena, key challenges, and the situation of Indonesia's life insurance market?

## LITERATURE REVIEW

### *Digital Transformation*

The term "transformation" refers to a fundamental shift in an organization's strategy, structure, or power distribution (Matt et al., 2015; Wischnevsky and Damanpour, 2006). The term "digital" can be defined in three ways: creating value at the frontiers of the business world, optimizing processes that directly impact the customer experience, and developing foundational capabilities that support the overall business initiative (Dörner and Edelman, 2015). Integrating technologies into business processes represents a relatively tiny portion of a company's digital transformation. Furthermore, digital technologies must generate value for customers, businesses, and other critical stakeholders (Schallmo and Williams, 2017). The term "digital transformation" refers to continuously adapting to a rapidly changing digital landscape to meet the digital expectations of customers, employees, and business partners. This adoption process must be actively planned, initiated, and implemented (Berghaus and Back, 2016; Kane et al., 2017).

Morakanyane et al. (2017) conducted a comparative analysis of several different definitions of digital transformation (Liu et al., 2011; Bharadwaj et al., 2013; Fitzgerald et al., 2013; Lucas et al., 2013; Mithas et al., 2013; Westerman et al., 2014; Henriette et al., 2015; Piccinini et al., 2015; Schuchmann and Seufert, 2015; Chanias and Hess, 2016; Hess et al., 2016) and defined it as "an evolutionary process that leverages digital capabilities and technologies to enable the creation of value through business models, operational processes, and customer experiences." According to Berman (2012), successful digital transformation requires reshaping customer value propositions and transforming operations through digital technologies to increase customer interaction and collaboration. Henriette et al. (2016) also stressed the importance of a holistic transformation for an organization, as digital transformation is a disruptive or incremental change process that begins with adopting and using digital technologies.

Businesses must adapt to and respond to rapid changes in competition, demand, technology, and regulations. As new types of digital technology have become more popular, businesses need to make sure their business plans align with environmental concerns. These include Social Media, Cloud Computing, Blockchain, Big Data and Analytics, Embedded Devices, 3D Printing, the Internet of Things, Application Programming Interfaces (API), and Artificial Intelligence. Organizations' strategic contexts are changing (Fichman et al., 2014), including (1) changes in the competitive landscape; (2) changes in customer behavior and expectations; (3) changes in the way business are conducted; (4) changes in how products are manufactured and services are delivered; (5) changes in the way people work; and (5) changes like entire industries.

## Dynamic Capabilities

A dynamic capability is a meta-process that orchestrates best practices or competencies to comprehensively and systemically manage something, including the strategy development and execution processes (Teece et al., 1997). Dynamic capability refers to how leading firms integrate, develop, and reconfigure internal and external competencies into "learned patterns of collective activity" to achieve and sustain a competitive advantage in rapidly changing and highly complex environments.

Dynamic capabilities are composed of three components: sensing, seizing, and transforming. Incumbents require sensing capabilities to monitor the external environment for destabilizing trends (Birkinshaw et al., 2016; Day and Schoemaker, 2016; Helfat and Raubitschek, 2018; Loebbecke and Picot, 2015). Teece (2007: 1322) notes that "sensing and shaping new opportunities and threats is fundamentally a scanning, creation, learning, and interpretative activity" that analyzes disparate data about the trends in the business ecosystem. As a result, sensing should occur at all levels of the organization, with lower levels assisting middle and upper management in providing information and insight into external trends (Teece and Linden, 2017). Seizing is an experimental capability that enables action and commitment through the effective management of risk and reward via techniques such as rapid prototyping and actual options logic (Day and Schoemaker,2016). Entrepreneurial businesses have capitalized on opportunities by experimenting with (1) decoupling (i.e., regulating the asset specificity of power relationships), (2) disintermediation (i.e., reducing the power of established intermediaries), and (3) generativity (i.e., unprompted innovative outputs) of existing value chains, resulting in radical business model innovations (Autio et al., 2018).

To maximize the potential for strategic change, businesses require transformational capabilities (Bharadwaj et al., 2013; Karimi and Walter, 2015; Teece and Linden, 2017). Through capability transformation, incumbents can continuously renew their assets and organizational structures to remain responsive in rapidly changing environments (Agarwal and Helfat, 2009; Teece, 2014). According to Svahn et al. (2017), incumbents have a more challenging time embracing digital innovation because they face four major competing concerns, even if they are willing to embrace it. The incumbent must strike a balance between (1) developing innovation capabilities alongside established product innovation practices; (2) process and product innovation; (3) collaborative tensions between employees and external partners; and (4) governance structures that strike a balance between flexibility and control (Svahn et al., 2017).

### *Digital-Based Dynamic Capabilities*

Warner and Wager (2019) developed a process model for leveraging digital transformation to develop dynamic capabilities. The model identifies nine digitally based micro-foundations (e.g., sub-capabilities) that facilitate the development of capabilities for digital sensing, digital seizing, and digital transforming. The study expanded our understanding of digital transformation as a catalyst for strategic change by drawing on senior executives' experiences leading digital transformation projects. Finally, the study discovered that digital transformation frequently begins with a strategic renewal of the incumbent's business model and subsequent changes in business models. They typically resulted in broader changes in the firm's collaborative approach, which eventually results in more profound changes in organizational culture if executed correctly. The findings are consistent with perspectives on strategic change that view it as a continuous process (Agarwal and Helfat, 2009; Tsoukas and Chia, 2002).

Digitally enabled dynamic capability is operationalized through digital sensing, seizing, and transforming processes. Digital sensing is the capacity to learn about the external environment appropriately, including trends, needs, regulations, demands, customers, and competitors, to guide a business's actions (Day, 1994). Identifying and evaluating feasible opportunities for change is referred to as digital seizing. Digital transformation is implementing new digital services within an organization, an ecosystem, and a digital culture by assisting leaders in shifting their mindset from a traditional to a digital one.

## RESEARCH METHOD

The research is a qualitative study using the case study method. It employed the following research techniques: (1) a literature review; and (2) an in-depth interview. This study combed a large body of work on dynamic capabilities in conducting a literature review. In terms of interviewing, an in-depth interview is a technique that is frequently used in qualitative research to elicit information about the informant's perspective on the research subject. Face-to-face in-depth interviews with a single interviewer and participant are frequently conducted. A virtual face-to-face in-depth interview was conducted following the unit of analysis for this study and in light of the COVID-19 pandemic situation.

The analysis was conducted at the life insurance company level, with target informants including CEOs and the board of directors (BOD). The life insurance companies chosen were based on their ownership, asset size, new business revenue, and product type. The study was conducted across confirmation interviews with the sampled informants to ensure the content validity of the research. Informants must meet the following criteria: (1) they must be on the Board of Directors; (2) they must have more than 20 years of experience in a life insurance company; (3) they must work in a joint venture or a local life insurance company; and (4) they must have an Indonesian domicile. The sampling method was purposeful sampling, which drew on the author's network within the life insurance industry. According to Seawright and Gerring (2008), case selection aims to achieve the same goals as random sampling to obtain a representative sample and significant variation on theoretically relevant dimensions.

Although this interview was semi-structured and open-ended, it was guided by a set of questions derived from the case study protocol, which addressed the following points: (1) Formation Phase: General questions about the life insurance company, including the life insurance industry, existing digital strategy, and innovation strategy; (2) Operational Phase: Experiences with digital transformation and digital-based dynamic capabilities activities; and (3) Evaluation Phase: comparisons of digital transformation and digital-based dynamic capabilities to direct competitors.

The researcher emailed invitations to 20 life insurance companies, but only 16 responded and agreed to participate in the interview. Due to time constraints, this study does not include direct consumer participation in life insurance. The study of selected life insurance companies is depicted in Figure 1. Interviews with key people at the life insurance companies studied were used to get first-hand information. From June to October of 2021, data was collected. There were 30 interviews, and each one lasted between 1 and 2 hours and 15 minutes. The informants held various positions within the organizations, including executive positions in operations, marketing, strategy, risk management, business development, and President Director. Triangulation is frequently used in case studies to supplement and validate data collection by utilizing multiple sources of evidence (Eisenhardt 1989; Yin 2003). The current study accomplished this through documentation in a company profile, an annual report, digital platforms, digital manuals, and observation and participation in several companies studied. The interviews were examined to learn more about how the designs were created and to find additional evidence that supported or contradicted what had already been discovered. The interviews are coded using a pre-existing list of codes. During analysis, the list of codes is expanded to include new themes. Each case is thoroughly examined to determine evidence of experience and capability. To ensure the data's accuracy and validity, the findings were summarized in a report and distributed for approval to all respondents, ensuring that the conclusions accurately reflected their practices.

Figure 1.

| Informant | Company Code | Tier* | Management Role | Service Years | Country Origin | Founded |
|---|---|---|---|---|---|---|
| #1 | PDLI | B | Chief Executive Officers | 35 | Japan | 1974 |
| #2 #3 #4 | FWD | B | Agency Director Chief Operating Officers Independent Commissioner | 20 25 20 | Hongkong | 2013 |
| #5 #6 #7 | AXI | A | Chief Operating Officer Chief Distribution Officer Chief Strategy Officer | 15 30 17 | France | 1993 |
| #8 #9 | AJMI | A | Chief Operating Officer Chief Agency Officer | 20 15 | Canada | 1985 |
| #10 | GNRL | B | Chief Executive Officer | 25 | Italy | 2008 |
| #11 | BNLI | B | Chief Executive Officer | 10 | Japan | 1996 |
| #12 | WNLI | D | Chief Executive Officer | 25 | Indonesia | 1974 |
| #13 #14 | SLFI | B | Chief Operating Officer Chief Executive Officer | 10 20 | Canada | 1995 |
| #15 | GELI | B | Chief Digital Officer | 17 | Singapore | 1996 |
| #16 | MNCL | C | Chief Distribution Officer | 20 | Indonesia | 1989 |
| #17 | CALI | A | Chief Executive Officer | 20 | Indonesia | 2016 |
| #18 #19 #20 #21 | PRLA | A | Chief Executive Officers Chief Strategy Officer Chief Risk Officer Senior Agency Director | 35 25 30 25 | United Kingdom | 1995 |
| #22 #23 | AALI | A | Chief Executive Officer Chief Digital Officer | 25 20 | Germany | 1981 |
| #24 #25 #26 #27 | AIAF | A | Chief Executive Officers Chief Agency Director Senior Agency Director Chief Distribution Officers | 25 25 20 25 | Hongkong | 1996 |
| #28 #29 | CLFI | C | Chief Operating Officer Chief Strategy Officer | 20 15 | USA | 1986 |
| #30 | MSIG | B | Chief Executive Officer | 20 | Japan | 1989 |

Case Selection

*) Note: The tier is based on gross premium divided into four layers, which are A (More than IDR 5 Trillion), B (IDR 1 to IDR 5 Trillion), C (IDR 250 Mio to IDR 1 Trillion), and D (less than IDR 250 Mio).

# RESULT AND DISCUSSION

Three major themes emerged from the interviews concerning the digital transformation of the Indonesian life insurance industry and the dynamic capabilities enabled by digital technology. The first theme is the critical importance of optimizing the customer journey throughout their digital experiences. The second theme is the critical nature of trust in ensuring that digital transformation is implemented successfully. Finally, the third theme discusses life insurance companies' challenges as they embark on their digital transformation journey, including regulatory requirements, low literacy, and transactional relationships.

*The Right Customer Journey*

According to informants, designing the right customer journey entails several critical success factors, including identifying the appropriate customer needs, segmenting the appropriate customer base, reaching the appropriate customer touchpoints, creating unique content, selecting the right platform, establishing a dedicated digital unit, and motivating exemplary leadership. Informants shared their experiences in mapping these critical success factors to the digital-based dynamic capabilities required to deliver the digital transformation, including (1) digital sensing to identify customer needs and segmentation; (2) digital seizing to create differentiation through unique content development, customer touchpoints, and platforms; and (3) digital transforming to lead the transformation through leadership and dedicated resources.

### *Customer Needs*

All respondents agreed that the primary criterion for defining an appropriate customer engagement strategy for products and services delivered digitally is the customer's needs. All informants conduct Focus Group Discussions (FGDs) with selected customers and sales representatives to elicit trends, feedback, and suggestions for improvement. This sensing activity is typically aided by collaboration with vendors, internal and external research, and research on Net Promotional Score (NPS) to ascertain how customers perceive life insurance companies in terms of service. However, some multinational and domestic companies omit market research from their digital sensing efforts. According to Informant #19, insurance companies are not required to conduct specific research to determine digital trends, products, or services. Such information is readily available, for example, new employees sharing their digital experiences, lessons learned, initiative, and even competitors' weaknesses. It is due to the high cost of research and a lack of industry literacy regarding insurance products, resulting in a skewed survey result and a possible mismatch on the wrong product or service issued by insurance companies. Informant #10 emphasized the importance of developing original ideas rather than relying on a market survey conducted by a low-literacy industry. Other than that, informants said that the sensing activity, in which insurance companies must look at data, habits, patterns, and customer pain points to figure out what customers want and need to come up with new products or service propositions for them, was important.

### *Customer Segmentation*

Correct customer segmentation was also a critical sensing capability, as different customer segments require a unique approach to customer engagement, such as HNW customers who prefer to be serviced versus millennials who desire fast and secure. Processes for life insurance onboarding and service that promote ease of doing business. Informant #7 emphasized the importance of millennials being educated about the benefits of life insurance products. She noted, "People need a product that they can enjoy rather than being put as a legacy. Insurance is 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. 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 a rider on medical or health products and services." It is also supported by Informant #10, who emphasized the importance of differentiation and uniqueness. He quoted, "How can we create engagement with our customers if we always positioned our product after the death of the customers? It is different from banking because their transactions involve the customer's fund, not their health or life-like insurance. Customers must enjoy their money. This is how we are being different from others."

### *Customer Touch Points*

Additionally, most informants identified the right customer touchpoints and platform selection as success factors for capturing the positive customer journey in life insurance. Insurance companies must make customer touchpoints such as WhatsApp readily available to customers daily. Informant #9 demonstrated how, in the modern era, customers would disregard emails and Short Message Services (SMS) that are solely promotional or marketing in nature. He noted, “First, we must have access to the platform they use daily, WA. Not emails or SMS as they contain spam. They use WA to communicate, and I have seen companies communicate through WA regarding the premium due date or birthday greetings. We can add the link in our WA message to the customer, a link to a piece of simple information that customers need. ...”

### *Unique Content*

Unique content is critical for a life insurance company looking to increase customer engagement. By developing a well-defined Minimum Viable Product (MVP), robust prototyping, and an agile approach, the unique content would add value through its uniqueness, image, contribution, and positive customer experience. Informant #18 emphasized the opportunity presented by digital transformation by demonstrating his or her ability to identify new markets. He cited the example of using rich data on pre-existing conditions generated by analytics to enable an insurance company to offer a more inclusive product to diabetes, heart disease, and cancer customers. He quoted, “By using our actuaries, our app, cooperation with reinsurance and the rich data of 1.6 million health customers, we offer a more inclusive preposition to customers in Q4 2021 such as the disease of diabetes, heart rings, and cancer. We can cover nearly 20 million diabetic patients in Indonesia through a better preposition, such as covering diabetic stage 1 and stage 2 using the premium loading. We also can cover the stage 3 customers if they follow the medical and food protocols. So, digital provides us this opportunity to protect more customers supported by the transparency of data collected in our digital platform. We plan to replicate a similar approach to heart rings ad cancer disease in 2022.”

### *Digital Platform*

The cost, software applicability, accessibility, and support for sales forces should be considered when selecting a life insurance company platform. Informant #9 cited several companies that invested in IPADs as sales force tools, despite most Indonesians using Android. He also pointed out that a part-time agent incurs a high initial cost in their career by purchasing an IPAD or Tab to service customers. He quoted, “It is hilarious to see a company asked a 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 for a loan to buy that device while they are unsure of being an agent for the rest of their lives? Digital is important, but life insurance companies need to pay attention to which platform they are playing."

*Digital Unit*

Regarding capability transformation, most life insurance companies have established a centralized dedicated digital unit to oversee the digital implementation process, which includes ideation, design, implementation, testing, feedback, and continuous improvement. The Chief Level oversees the digital unit and reports directly to the CEO. The digital unit aligns its digital strategy, including its ecosystem, with the shareholder's or Group Office's digital roadmap. The strategy and road map will be customized for Indonesia's unique digital ecosystem. Additionally, some businesses have established a decentralized digital unit in which an agile squad or digital project team is assigned within the business and operations unit to respond to customer inquiries and feedback more quickly. Few companies incorporate a dedicated digital taskforce into their marketing or project management departments, supplemented by a dedicated innovation lab comprised of selected users, customers, and sales forces to test initiatives prior to market launch. Informant #11 added, "We formed a temporary Digital Unit lead by a GM Digital and reports to CEO. This unit's main responsibility is to identify feedback, issues, and potential improvement on our digital platforms. However, as demand for digital is going bigger, requires a full commitment, and is important, we assign a GM digital, and this is a permanent unit. To support this unit, we also created an innovation lab for testing, ensuring user-friendly and security."

*Leadership*

The researchers conducted in-depth interviews with various leadership styles driving life insurance companies' digital transformation, including enforcement via digital KPIs, storytelling, collaboration, and a deep dive into field leadership. The enforcement leadership team is accountable for digital key performance indicators, mandatory salesforce certification, embedded controls, and field supervision via digital platforms. On the other type of leadership, Informant 10 discussed his success in generating transformation through storytelling leadership and cited, "I do not put KPI to them. You cannot put this digital KPI to frontliners. The KPI is on me. You buy Starbucks not because of the coffee but the story behind it. The story. It is the story that will inspire them. Let them start to benefit from using our platforms and inspire others…".

While #Informant 11 recommended that a good leader goes into the field to gather data and encourage his or her staff to do the same, which involves changing the mindset and step by step on the gathering the relevant information. Informant #3 emphasized the importance of thinking differently about business through things as follows: lessons learned, continuously adapting to ongoing customer needs through listening and responding, having the mindset to recognize missed opportunities and reclaiming them through sustained innovation, and committing to building an innovation culture that includes platform, rewards, and executions for collaboration leadership.

*Earn Trust*

The informants identified trust as a vital aspect in getting buy-in from consumers, sales forces, regulators, and stakeholders for the life insurance industry's digital transformation to succeed. Numerous issues contribute to the life insurance industry's lack of faith in digital. These include digital as a bridge to other consumer segments for millennials and the offering of easy products, digital as a component of professional distributors, and digital to provide a secure mode of transaction for customers. The informant classified these factors as digital-based dynamic capabilities, including (1) Digital Sensing to identify humanizing digital services for customer segments such as millennials, high net worth customers, and lower segment customers who require traditional or simple products; (2) Digital Seizing to arm sales forces with digital tools that enhance their professionalism as agents; and (3) Digital Transforming to enhance the security posture of the organization.

*Digital as Enabler*

They emphasized the continued importance of digital in Indonesia's life insurance industry. It can provide insights and data to assist life insurance companies in reaching out to new customer segments, such as millennials, or offering traditional products like protection and death coverage or medical riders. According to Informant 1, digital will not be able to completely replace all insurance services, including complex products with an investment component and embedded critical illness riders. The digital channel will become a disruptor for simple products such as traditional products, personal accidents, or health riders. However, for complex products such as Unit Linked Products (ULPs), digital technologies, including artificial intelligence, cannot completely replace the insurance agent's role as a financial advisor (AI). He quoted, "Agents will not be wiped out. I don't see AI will replace businesses whose nature is a financial advisory on complex products. So, we must educate them to provide 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."

They emphasized the importance of humanizing digital services because certain customer segments (for example, high-net-worth individuals) still require human touch services rather than high-tech services, including meeting in person with sales representatives due to their significant investment in insurance products. According to Informant 9, insurance companies require a "human touch" to prevent mis-selling by providing comprehensive product information. This is where the digital capability of service provisioning becomes critical to reaching both digitally savvy customers and those who require human intervention from the company. He quoted, "The HNW customer still wants to have a face-to-face meeting with an agent as he will place a significant amount of money for a high sum insured. The claim process might be different as a customer wants to have a faster process in getting the claims."

Informant #8 concurred with the preceding statement, emphasizing the critical nature of relationships in establishing trust in Indonesia. Mature customers require a "human touch" due to the complexity of insurance products. In contrast, younger customers, particularly millennials, seek an instant solution through which a digital platform can facilitate simple, fast, and secure communication with insurance companies. She added, "We are Indonesian, and we need that relationship to earn trust. Insurance is not something you can find offline or online stores such as cooking oil. The older generation still needs product explanation. Millennials might not need to see the agents in person, but we also have challenges in this generation. They always want a simple and instant solution such as the traditional product or rider in health or medical."

*Digital as part of Professional Distributors Importar lista*

Most informants emphasized the importance of digitizing all front- and back-office processes throughout the interview to save money and demonstrate professionalism to customers. Informant #6 required sales teams to submit all information electronically, including recruitment, onboarding, activation, and retention activities. " If we want agents to embrace digitalization, even if we don't like it, we have to make them do it. This is proof that, even if we don't like it, we have to make them do it.," she stated. They can roar from recruitment, onboarding, activation, and retention in a single digital platform. They will be looked at professional and earn trust from their customers." Informant #6 also said that agents must be full-time employees to show that they will provide lifetime service to customers, which will earn their customers' trust.

Apart from integrating digital into daily operations, Informant 6 stated that agents must be employed full-time to ensure their commitment to providing lifetime services to customers, which will earn their trust. She added, "Most of our agents are not professional. No matter how big your company is, you will find a father, mother, children, husband, and wife to become an agent because of family relationships. Can you imagine the poor literacy on insurance products complemented by not professional agents? We must solve this whether we want to position insurance product as investment or not."

*Digital as a secure way of transaction*

According to informants, the primary concern when deciding whether to offer products and services digitally is security. They believe that establishing a sense of security will earn the customer's trust, resulting in a positive customer experience and loyalty. Many captive insurance companies do penetration tests every three months and hire "white-hat" hackers to try to break into their digital platforms. Informant #11 stated, "Security is important for us. Being secure means we can earn trust and customer loyalty obtained. Secondly, it is about risks, and there might be someone smarter than someone who develops our platforms. This guy might hack or penetrate us, and we must protect our customers. Security is a MUST."

According to Informant #7, her company intends to obtain PCI/DSS certification by September 2020, and instill confidence and assurance in customers regarding their digital platforms. By converting and subscribing to over thirteen thousand policyholders who paid insurance premiums with a credit card, the company earned trust through PCI/DSS certification. However, they agree that if life insurance companies successfully earn customers' trust through digital platforms, a transaction relationship will develop in which customers and relevant stakeholders recognize the value of complete transparency, professional services, security, self-service capability, and cost-efficiency.

*Key Challenges*

All respondents identified significant obstacles, particularly in leading the digital transformation and resolving critical issues facing the Indonesian life insurance industry. Three significant challenges were identified by the informants: (1) stricter regulatory requirements that impede business, (2) low transactional relationships, and (3) low industry-wide literacy regarding life insurance products.

*Regulatory Requirements*

Most informants cited complicated regulatory requirements as a barrier for insurance companies, citing the increased time required for product cloning submissions, redundant mandatory data such as Know Your Customer (KYC) data, unbalanced regulatory requirements, and regulator synergies. Informant #13 cited how regulators take longer to approve products and how some regulations do not benefit insurance players. Additionally, informants questioned the regulator's ability to supervise 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 play football, although they are not Ronaldo. But what if they cannot play football and are not fair to the games? I would suggest the regulator strengthen their team below those politically appointed commissioners to ensure they know what games they are supervising." Informant 11 concurred, emphasizing the importance of regulators strengthening their ability to hire practitioners directly from the industry rather than appointing staff based on regulator career paths. Concerning data redundancy and EoDB, Informant #16 raised the issue of user-friendliness and the increased regulatory requirements for mandatory provisions, which resulted in the standard contract becoming increasingly lengthy. She said, "Compared with banks, no one goes to the branch anymore because Bank's digital application offers user-friendly, so customers do not have to fill redundant data as it offers auto replication with the highest security. It does not work with Insurance, our contract wording becomes thicker and thicker, so the customers lose their appetite to engage with our apps."

However, several informants, including Informants #8 and #9, acknowledged that life insurance products are more complex than banking products. As part of supervision, this complexity necessitates robust processes and regulatory requirements. They added, "…. Insurance is more complex, and it is related to risks on the physical health of the insured. While on a banking product and got the interest. So, the object in banking is your fund, while in Insurance, the object is the people you insured. An insurance company must justify why it accepts the sum insured or has a waiting period. In my opinion, what makes it slow is the regulation of insurance products itself. The insurance product is complex. We have an endowment, ULP, whole life, etc. This makes the approval process slow."

On the other hand, Informant #18 suggested that life insurance companies conduct a six-month pilot project in which they offer new digital prepositions to customers and then discuss the innovation with the regulator to gain regulatory buy-in before applying for regulatory approval. He added, "Regulators will always catch up with the industry's pace in product innovation and services. Honestly, I have not seen the usage of regulatory sandbox within our industry. So, we are constrained to innovate if we wait for the regulator to be proactive. We need to collaborate with the regulator by showing them that we will not do something bad to this industry. We can always try a pilot project and then ask the regulator to audit us after six months. If the innovation turns bad for the industry, the regulator is always welcome to say no. We have innovated our product and services by covering COVID-19 treatments, vaccination, etc..... open the TV and let them see...."

*Low Transactional Relationship*

Informants discussed the importance of engaging with customers to establish transactional relationships similar to those in banks. According to informants #3, #6, and #8, regardless of the number of disclaimers and disclosures affecting the customer journey, life insurance companies must create a positive customer experience and ecosystem that encourages customers to engage with them again. Life insurance companies cannot model themselves after banking because banking involves a different type of transaction and engagement. Further along the customer journey, the challenge will be the transactional relationship between customers and insurance products, in which the majority of customers will pay premiums exclusively through digital tools. Customers' digital journeys are more frequent and transactional than those of the banking industry.

Additionally, several informants discussed various insurance companies' efforts to engage customers through lifestyle and wellness initiatives. Numerous informants, including Informants #5, #6, #7, #22, and #24, agreed that insurance companies must incorporate insurance into their customers' daily activities to directly impact 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 is, we need to connect it to a good lifestyle. Like putting it on your savings account, all those required educations, and making it a part of your daily life." Informant #7 demonstrated how digital could enable customers to contribute to and enjoy products and services. She added, "This something we never foresee about insurance products that they can be part of the lifestyle of somebody. Insurance is not about the death claim or critical illness. This provides an opportunity how our customers can contribute to their health by their daily engagement with insurance digital platform as well as enjoy our product and services."

According to Informant #24, the insurance company takes a lifestyle approach to engage with customers, sales forces, and employees. The approach leverages data by interacting with customers to provide a consistent customer experience throughout the digital process. This is how insurance companies offer a unique way to attract customers through health tips, gimmicks, healthy lifestyles, and engagement activities with customers, so they can immediately feel the benefit of their Insurance. He added, "We provide cashback to customers for being healthier. You will likely pay your premium by lower claims and lower transaction costs, and getting cash back. You got the cashback and enjoyed the program, and you will talk about it to your friends and other people. That is the objective of digital, a seamless experience, customer loyalty, differentiation, and lower transaction costs."

In line with the preceding statement, Informant #22 emphasized the importance of insurers entering the ecosystem, developing health applications, and spreading lifestyle awareness. This is because insurance is less transactional than other financial services industries, such as banking and asset management, and is adversely affected by insurance's low penetration rate in Indonesia and the perceived pull nature of insurance products. He quoted, "Insurance needs to be more transactional, and we only can achieve that through customer-facing apps. Building an app is like a toothbrush test; it is probably something that you will not open or change to other application that provides you more engagement or convenience. We compete with banks or asset management to get customer attention. The bank customer service will forget your name, date of birth, the name of kids, or even your job. The life insurance consultant will memorize all of them because Insurance is an emotionally attached business. The more emotional and the stickier the customers are, the more transactional they are with us. This is where digital apps or lifestyle apps play an important role."

In contrast to those views, some informants, such as Informant #8, #11, and #14, expressed reservations about the ability of a lifestyle and wellness approach to engage insurance customers. Informant #8 emphasized the critical nature of establishing the appropriate customer touchpoints to connect and engage with customers daily. According to Informant #8, lifestyle is primarily about concepts and is subject to change, making it unscalable for businesses to engage with customers over the long term. While Informant #11 brought up the issue of providing gimmicks rather than risk reduction, he added, "We must avoid selling more Starbucks coffee, and at the same time, we still have a high claim ratio. So, we proposed an engagement approach using the prevention approach, and we provided free vaccination gimmicks through digital. We reduce the claim ratio and improve productivity on employees who are also our customers".

### *Low Literacy*

All respondents agreed that education is the most critical factor in increasing industry literacy, which benefits Indonesia's penetration rate. Informant #7 stressed the critical role of education in influencing children early and increasing customers' understanding of insurance products. She cited Bali as an example, where the son or daughter is required to bury their parents, and the cost of burial is prohibitively expensive due to local custom. By incorporating life insurance products into this culture and lifestyle, there is an opportunity to alter this mindset. Additionally to financial literacy and inclusion, there are additional barriers, such as the belief that life insurance is "for sold" rather than "for bought." She concluded, "....and I think a lot of effort is already being done education-wise, but it needs to go down. We need to change some behaviors, so we need to start influencing the children because that's the only way that it becomes graded."

Informant #19 concurred with Informant #7, stating that the issue of low literacy can be addressed by beginning to introduce insurance as a financial concept rather than a product at an early stage of education. Informant #19 added that insurance originated as a risk management concept aimed at protection. Recently, life insurance companies attempted to address this by introducing Insurance as a new value, lifestyle, and financial concept. He quoted," We should not position Insurance as a product. It should be part of the acceptable values in Indonesia. Look at the people in Bali or Toraja, they have the high cost of funeral fees, and still, they do not have insurance policies. This is due to their spiritual beliefs that such obligation lies in their children. So, we need to position Insurance as a new value to that community, the new concept of protection for the children, and the upcoming high cost of the funeral fee. It is to protect, not to invest. If we can transform this value, all parents in Bali or Toraja will be proud of their children."

Finally, Informant #15 concluded that there is still significant room for growth, noting that insurance penetration in Indonesia has remained below 5% despite a series of activities by regulators and insurance companies to promote financial literacy and inclusion. Concerning the Indonesian public's perception of life insurance products, he continued, ".... we do notice that due to the current situation and simultaneous activities from regulators as well as an 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 Insurance is still for sale here in Indonesia, not bought".

## CONCLUSIONS

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According to this study, Indonesian life insurance companies are no longer considering a digital transformation. This is a mandatory business model for life insurance companies to compete and survive. Many captive insurance companies conduct quarterly penetration tests and hire white-hat hackers to hack their digital platforms. These concepts and trends were then incorporated into robust prototyping processes and an agile approach to designing a customer journey that includes a clear minimum viable product (MVP), customer segmentation, touchpoints, unique content, and digital platforms for product and service delivery. Additionally, most life insurance companies have established a dedicated digital unit to drive transformation and foster the development of internal and external ecosystems.

These capabilities also enabled businesses to offer new services through digital platforms, such as back-office automation, artificial intelligence, chatbots, digital submissions, recruitment, training, and onboarding processes. Additionally, they could cover new risks, expand coverage, and enter new markets during this pandemic due to the digital platforms. This demonstrates how to respond to RQ1, which states that digital-based dynamic capabilities are critical to the smooth implementation of digital transformation for life insurance companies. Additionally, all informants discussed their experiences with activities to develop these capabilities and their value in digitally generating new products and services. Additionally, this study identified trust as a critical factor in ensuring the success of the life insurance industry's digital transformation. Numerous data points (for example, digital as an enabler, digital as a component of professional distributors, and digital as a secure mode of the transaction) show how digital-based dynamic capabilities address the identified phenomena and key challenges of regulatory requirements, transactional relationships, misselling, fraud scandals, low literacy, low trust in insurance products, saturated databases, and affordability as raised by RQ2. All informants expressed their frustrations with the digital transformation process. They dealt with increased product approval times, data duplication during the onboarding process, and a lack of insurance literacy within the industry.

Finally, this study identified additional research opportunities based on top management responses, including (1) the need to determine whether a lifestyle approach is the optimal engagement strategy for life insurance companies in order to improve transactional relationships, as discussed in detail in Section 4.3; (2) the need to determine the appropriate regulatory supervision that would support the life insurance industry's rapid digital transformation; and (3) the necessity of developing a national insurance literacy roadmap in order to raise awareness of insurance as a concept of protection and to foster future insurance needs; and (4) the opportunity to develop a conceptual model that can be replicated in other relevant industries such as general insurance, pension funds, or other non-banking industries.

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