CHALLENGES OF CONSUMER PROTECTION IN THE LIFE INSURANCE INDUSTRY: A QUALITATIVE STUDY

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Abstract

In the financial sector, trust is essential. The economic crisis of 1998 was one of the financial scandals affecting Indonesia. This phenomenon prompted the regulator to ensure that Indonesians received adequate consumer protection, directly impacting the Indonesian financial sector, especially the life insurance sector, where penetration has remained low over the past decade. Due to its long-term nature and significant economic contribution (OJK [Otoritas Jasa Keuangan], 2017), life insurance is at the forefront of the right to adequate consumer protection, which includes the disclosure of accurate and reliable information when purchasing or selling insurance. This study examined the current state of consumer protection experiences in Indonesia's life insurance industry based on empirical research. This study investigated how these requirements are viewed regarding the benefits and difficulties associated with their implementation. A qualitative study employing the case study research methodology was conducted to examine the life insurer experiences of the sampled life insurance companies. Despite the numerous benefits and risks, the study found that consumer protection is still being implemented in the workplace, albeit inconsistently and not optimally. The study demonstrates the significance of enhancing need-based selling, consistent consumer protection, and trust-building efforts by life insurers. This study provides regulators with valuable feedback on the need to enhance their oversight, financial literacy, and regulatory challenges. Finally, this study identified opportunities for further research into the optimal customer engagement strategy to address industry issues.

Keywords: Consumer Protection, Life Insurance, Regulation, Customer Experiences, Qualitative Research

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1. INTRODUCTION

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 (OJK, 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. The insurance industry's total assets reached IDR 1,002.83 trillion in 2016 and increased to IDR 1,450.32 trillion by 2020 (OJK, 2021). Subsequently, according to OJK data from December 2021, 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. Based on OECD statistics in December 2020 (OECD, 2022), this penetration rate remains lower than in regional countries such as Singapore (10.9%) and Malaysia (5%). According to OJK statistics from December 2021 (OJK, 2021), Indonesia now has 148 insurance companies, including 77 public insurance companies, 59 life insurance companies, 7 reinsurance companies, 3 mandatory insurance companies, and 2 social insurance companies.

This observation, supported by the phenomena mentioned above, has prompted a call for more in-depth research into the Indonesia life insurance industry to determine what is occurring. In light of the identified phenomenon, this empirical research qualitative study will investigate the implementation of consumer protection in Indonesian life insurers. In light of this, this paper will attempt to address several issues:

RQ1: What are the current conditions in Indonesia for the implementation of consumer protection?

RQ2: How can proper implementation of adequate consumer protection provide benefits and mitigate risks?

RQ3: What are the obstacles to implementing consumer protection in Indonesia?

The main finding of this study will address the experience of life insurance companies on their consumer protection journeys in Indonesia.

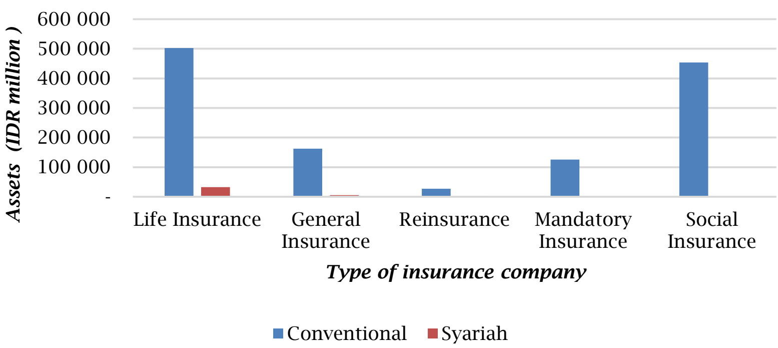
The structure of this paper is as follows. Section 2 reviews the relevant literature on the insurance industry. Section 3 provides the research method used in this study, including the criteria of the informant. Section 4 presents facts and insights from consumer protection-related employees at life insurance companies. Section 5 discusses the main findings and analyzed the findings along with the theoretical and practical implications. Finally, Section 6 summarizes the lesson learned from this study and proposed further research based on the findings of this study.

2. LITERATURE REVIEW

2.1. Life insurance

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. This is especially true for long-term insurance, as life policy issuers remain significant investors, with funds invested primarily in debt and equity instruments. Along with its significant contribution to financial assets, both the policy issuer and the insured value consumer protection (refer to Figure 1).

Figure 1. Assets of insurance industry (May 2020)



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.

2.2. Consumer protection

Because Indonesia is an attractive market for the life insurance industry, and there is still room to grow its penetration and density, the regulator (OJK) has made consumer protection a top priority of its oversight responsibilities. This follows Article 31 of the Financial Services Authority Law No. 21 of 2011 (OJK, 2011), which states that the OJK will issue additional consumer protection provisions in the financial services sector (OJK, 2013). In August 2013, the OJK issued a Consumer Protection Act for the financial industry, known as OJK Regulation No. 1/POJK.07/2013 (OJK, 2013), which emphasized product transparency, a proper need-based selling process, and a mechanism for reporting and resolving consumer complaints.

2.3. Agency theory

Agency theory is a subset of a firm theory that examines potential conflicts between principals and agents. In this paper, the term "principals" refers to investors or shareholders. In contrast, agents are management, insurance intermediaries (sales forces), brokers, or bancassurance consultants. Because the insurance industry is so complex, the principal-agent relationship may also apply to the relationship between the regulator and the insurer and the insurer's relationship with policyholders. For so long, economists have focused their attention on the incentive issues that arise when decision-making authority in a business is delegated to managers who are not the owners. This problem arises due to the separation of ownership and control in modern business due to information asymmetry between managers and owners. The other issue is that managers acting as agents may not always act in the best interests of shareholders acting in their capacity as principals (Jensen & Meckling, 1976). This concern led to the development of the behavioral theory of the firm and the management theory of the firm, both of which reject the neoclassical model of the business owner operating independently to maximize profits. Both theories suggest that managers strive to achieve a minimum profit limit rather than profit maximization, as the neoclassical theory suggests (Baumol, 1967).

2.4. Structure, conduct and performance (SCP) paradigm

The SCP paradigm is an industrial organization (IO) model that provides a causal theoretical explanation for firm performance resulting from economic behaviour in imperfectly competitive markets (Faccarello & Kurz, 2016). According to SCP, the market structure affects the behaviour of the firms that operate in it, which affects their performance. This paper examines life insurance in terms of its relationship to financial industries, distribution channels, products, risks, asset allocation, connectivity with banks, and performance.

The insurance industry dominates non-bank financial institutions, particularly life insurers (IMF [International Monetary Fund], 2018). In terms of product, the unit-linked product dominates the life insurance industry, which is consistent with the substantial asset allocation to stocks and mutual funds (IMF, 2018). The majority of products are distributed via the agency and bancassurance channels. There is a high degree of interconnectedness with banks, as banks own many insurance companies. The insurance industry is following the lead of the banking industry, where regulators have begun to tighten regulations. The top ten life insurers' assets account for nearly 70% of all life insurance companies' assets (Imung, 2019).

3. RESEARCH METHODOLOGY

This study employed qualitative methods, including a desk review of the literature and other pertinent data about implementing consumer protection regulations and in-depth semi-structured interviews with key life insurance company representatives. The study used in-depth interviews with 13 informants to ascertain their attitudes toward consumer protection implementation in the life insurance industry.

3.1. Informants

Life insurance professionals involved in consumer protection matters such as misconduct cases, litigation, disputes, complaints, and regulations comprised a convenient sample of study informants. All informants are employees of Indonesia's six largest life insurance companies and regulators. Among the informants were three heads of compliance, two heads of management, two heads of consumer services, two heads of legal, two heads of internal audit, and two regulators.

3.2. Procedures

A convenience sample of study informants was drawn from Indonesia's top six life insurance companies. The primary reason for selecting these six life insurance companies is that their combined assets exceed 60% of all life insurance assets in Indonesia. Additionally, the authors' professional relationships with those involved in risk management and compliance enable them to gain access to informants from the life mentioned above insurance companies.

The authors contacted the informants directly via phone call conversations to conduct the interview. The background information and purpose of the study were previously communicated to prospective informants. The semi-structured interview was conducted in a quiet private area with appropriate recording devices.

3.3. Data collection and analysis

The primary data collection instrument was an in-depth semi-structured interview guide. The interview results were validated using secondary data from the regulator's statistics. The semi-structured instrument included open-ended questions and was administered to selected informants who worked on consumer protection issues such as dispute resolution, misrepresentation, fraud, and complaints. Validation of information and probing issues were conducted in the field to ensure the accuracy of the data.

Informants were surveyed regarding their perceptions of issues, concerns, and challenges in implementing consumer protection in life insurance. The interviews were recorded and lasted 45 to 90 minutes. The qualitative content analysis that the authors did was used as the basis for the interview analysis. To make data collection easier, all interviews were done in Bahasa Indonesia.

3.4. Alternate method

The alternate method to deeply dive into the above research questions can be the grounded theory research when there is no existing theory that offers an explanation for the above-mentioned phenomenon. It can also be used if there is an existing theory, but it is potentially incomplete as the data used to derive that theory was not collected from the group of participants that we plan on researching. The use of grounded theory as an alternative to the study will provide benefits, as follows:

1. The main findings accurately represent real-world settings as they are derived directly from real-world participants in real-world settings using methods like in-depth interviews and observation. This is in contrast to other research approaches that occur in less natural settings.
2. The findings are tightly connected to the data because grounded theory primarily relies on collected data to determine the final outcome, and the findings are tightly connected to that data. This is in contrast to other research approaches that rely more heavily on external research frameworks or theories that are further removed from the data.
3. The grounded theory is great for discoveries as the theory is a strong, inductive research method for discovering new theories.
4. The grounded theory describes specific strategies for analysis that can be incredibly helpful. While the grounded theory is a very open-ended methodology, the analysis strategies enable a researcher to stay structured and analytical in the discovery process.

Despite the above benefits obtained from the use of grounded theory as an alternative research method, there are some limitations to the said method, namely:

1. It is time-consuming to collect data where there is no way to know ahead of time how much data will be needed to collect, which requires time flexibility of the researcher. With grounded theory, researchers continuously collect and analyze data until the theoretical saturation is reached, which is the point at which new data does not contribute new insight to the evolving theory. This means that the researcher is likely to conduct many rounds of data collection before the theory is complete.
2. Challenges in analysis occur on a rolling basis and involve making constant comparisons between different excerpts of data. It can be challenging to keep track of the comparisons and findings. It can be helpful to use qualitative data analysis software to help the research stay organized during the analysis.

4. RESULTS

Three main themes came out from the analysis of the interviews about how the consumer protection regulation is being used now. The first theme is how well the regulatory oversight process is implemented. The second theme is what people think of the pros and cons of strict consumer protection. Finally, the third theme is the challenges they face in their roles, including regulatory quality, consistency, and clarity, insurance company need-based selling, and awareness and effective communication for the appointed dispute resolution body.

4.1. Theme 1: The implementation issues

Based on in-depth interviews with three heads of compliance, they concluded that consumer protection in the life insurance industry is still not operating effectively or to the standards outlined in consumer protection regulations. All compliance officers emphasized the regulator's ignorance of consumer protection requirements, such as the requirement for life insurance companies to respond to consumer complaints within 20 business days. "*We believe the regulator should conduct quality assurance on the requirements they create. It is always desirable to have a good design but a poor implementation. It's a nice feature to have*", one compliance head responded.

Two heads of legal also emphasized the regulator's impartiality in light of recent instances of organized crime syndicates filing fraudulent claims using hospital income insurance products. One of them noted, "*The regulator must strike a balance when a dispute arises between a customer and an insurance company. We will always become the punch box of misrepresentation cases, even though we explained the products to the customers and obtained their signature on all necessary documents. Not all customers are trustworthy, even more so when the syndicate is involved*".

From a consumer service perspective, one head of customer services suggested that the regulation be more specific to the type of insurance product, such as Unit Link or TeleMarketing. The reason for these two products is that they are the primary source of consumer complaints. "*We have no control over what the sales forces, particularly the agents, say during the sales process. They constantly claim that the Unit Link is a guaranteed product to earn a commission. We pay agents an excessive commission when they sell Unit Link products. This product's clear outcome is low persistency, complaint, and more complaint*", he added. Both heads of customer service also emphasized that the life insurance industry accounted for a sizable portion of all consumer complaints filed with the regulator in the financial industry.

4.2. Theme 2: Perceived risk and benefit

Informants were optimistic about the benefits of effective consumer protection. Most life insurance company informants agreed that consumer protection is expected to align the positions of life insurance companies and consumers to foster healthy and mutually beneficial market conditions. According to one head of compliance, "*If we can improve the transparency of financial products and services, it will encourage consumers and communities to become more informed about the benefits, costs, and risks associated with insurance products and services before purchasing them. Customers can browse and compare the various insurance products available*". Additionally, the head of customer services stated, "*People will feel more secure when utilizing the products and services offered by life insurance companies, resulting in increased loyalty and enrollment. Not to mention the customer experience derived from the products' benefits*".

Both regulators stated that "*it is past time for Indonesia to develop prudent financial services institutions and consumers who understand financial products and services*". Both benefits will result in a more disciplined financial industry (market discipline), eventually expanding financial access. All informants agreed that an ideal environment would also aid government programs to establish a more financially secure community.

Apart from perceived benefits, informants expose themselves to potential risks when consumer protection measures in the life insurance industry are not implemented optimally. Their points of contention are as follows:

To begin, there is a reference to "slow progress" in the consumer protection culture of both life insurance companies and the industry. This condition poses a significant risk if associated with the industry's efforts to foster market confidence. Without the appropriate level of market confidence, the insurance industry will struggle to grow at a sustainable rate. "*We need to build confidence*", informant number five. The head of customer service, added, "*Right now, the confidence in life insurance products is low. Complaints, unpaid claims, frauds, and misrepresentations by agents result in losses. Therefore, why would a customer wish to purchase life insurance based on this negative perception?*"

Second is the lack of oversight and regulation of life insurance products and services offered to consumers and the community. Consumers face an increased risk of vulnerability when product design, marketing, and dispute resolution are not appropriately handled. The risk management aspect shall view the risk of consumer protection implementation as a critical component, not merely as a supplement to the insurance industry's or companies' health. One head of compliance emphasized the recent life insurance scandals such as PT Asuransi Jiwa Jiwasraya or dissatisfied customers who brought more than six thousand dissatisfied customers to the regulator to voice their complaints on the Unit Link products. According to the head of compliance, "*take a look at Jiwasraya; the regulator has issued regulations governing investment governance, including the permissible level of individual investment. How did they manage to obviate supervision of the requirement they created? They should have detected the scandal in 2015 because the companies failed to comply with the requirements, and the failure was clearly documented in their report to regulators. How did the regulator miss it?*" On the other hand, both informants from the management provided their opinion on the regulator's competence in providing fairness of supervision. Both informants suggested that regulators hire the supervisors from professionals who are in the market and not assign supervisors based on their tenure or career path with the regulator. One of the management 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. We are confident that all referees should be able to play football, although they are not Ronaldo. However, what if they cannot play football and are not fair to the games? We would suggest that OJK strengthen their team below the politically appointed roles to ensure they know what games they supervise*".

Thirdly is the growing threat to the security of consumer data. Personal data protection is critical for safeguarding consumers' interests. It is critical to have assurances that consumer data will not be misused, including data that requires consent from the consumer if the life insurance company uses it for product and service offerings purposes. "*The fraud claims triggered by the syndicate are an eye-opener. The majority of customers are unaware that their personal information has been used to purchase insurance policies by the syndicate. Moreover, like insurance companies, we were unaware that the syndicate had registered to become one of our agents*", one of the heads of legal stated.

Fourthly, the standard provisions of insurance agreements have fallen short of what is expected in terms of fairness. Standard provisions in the life insurance industry are composed mainly of raw clauses that should not adversely affect consumers, such as transparency regarding benefits, costs, and risks. The majority of informants believed that customers did not read insurance agreements for various reasons. According to one head of compliance, "*the agreement is becoming increasingly dense... If we were the customer, we would not read the agreement. It is perplexing and unfocused on the customer*".

Finally, there is a dearth of consumer complaint mechanisms. Consumers require assurances regarding proper complaint handling and clear governance in the event of a dispute. There should be consistency in the way disputes are resolved as specified in the standard agreement between the two parties, including if an alternative dispute resolution process involving the appointed dispute resolution body is used. "*The dispute provision is already in agreement, and the customer did not read it/ When they disagree, they will immediately consult a lawyer or the police department without consulting us about the possibility of mediation. The regulator must convey a clear message or awareness regarding this item*", one of the heads of customer services added.

4.3. Theme 3: Key challenges

According to the informants' role, there are three challenges: regulator, life insurance companies, and the appointed dispute resolution body. The regulator's primary challenge is to demonstrate the regulator's seriousness and consistency in enforcing consumer protection regulations.

Regulators must send the right message to life insurance companies, consumers, and other relevant parties. They do this by punishing "non-compliant" insurance companies, setting up regular checks to ensure this rule is being followed, and raising awareness of what consumers, life insurance companies, and parties involved in resolving disputes about consumer protection regulations should expect. "*We are dealing with a lack of financial literacy in the life insurance industry. It is not easy to convey the message solely through the issuance of regulations. We need to come down a few more times. Perhaps we should also conduct mystery shopping to observe the sales process as the sales forces carry it out*", one of the regulator's staff members explained. The other staff members added, "*The regulatory oversight of non-bank financial institutions is far too broad. Not only do we need to supervise insurance companies, but also multi-finance, asset management, and brokerage firms. We require additional resources*".

The primary challenge for life insurance companies is implementing an adequate life insurance sales process, especially during this digital age that considers the consumers' needs, risk profile, and proper use of consumer data. Both heads of compliance stated, "*It is challenging to request additional time to explain an insurance product to a customer, particularly a high net worth customer. They simply lack time to hear the explanation. They are only interested in signing the documents and leaving*". While in the other hand, all informants agreed that insurers must change the way they sell the insurance products, not only to high net worth customers but also to potential future customers like millennials. The new customer segment wants a simple onboarding process, fast services, affordable prices, good reviews, and enjoying the insurance product during their lifetime. One of the customer service added, "*How can we create engagement with our customers if we always positioned our product after the death of the customers? It is totally different with banking because their transactions involve customer's fund, not customer's health or life like in insurance*".

One of the management provided an allegation to foreign insurers that there is a mismatch of insurance products supplied by the foreign insurers versus the customers' needs. He stated, "*Why would the top management in big foreign insurance companies care about the customers if they will be relocated to other countries within five years? Why bother? They keep developing products that will support their KPI. The locals are different. They will always be here, meaning they must always think about their customer. We have a serious mismatch in the industry. Insurance is for the long term, but the life insurance players who made the decisions are still short term. They do not care*".

All informants also stated the need to change the sales practices as it might become the base for customers to make buy decisions. They referred to the practices of presenting sales illustrations to customers during the sales process, specifically the Unit Link product that significantly contributes to insurance premiums and generates most complaints if the market performance is not consistent as targeted. They suggested revoking this practice or reflecting the market volatility by adding a scenario where the market crashes, such as negative growth on customer projected fund in the illustration. One of the management added, "*Sales illustration during onboarding is our stupidity. Where in this world are people selling mutual funds using illustration? Within 15 minutes, the Jakarta Stock Exchange will close. Do you know what the index would be for today? If we cannot predict something in 15 minutes, how can we predict a customer's fund in the next 30 years?*"

The other issue would be determining how to implement an effective financial literacy and financial inclusion program for consumers. Additionally, one of the heads of customer services stated, "*In Indonesia, no customer will contact an insurance agent and request purchase insurance. In Indonesia, life insurance is not yet a priority. As insurers, we need a robust program to increase financial literacy regarding our products*". The successful and quantifiable programs would benefit life insurance companies by reducing disputes, minimizing product mismatches, and ensuring a sustainable persistency rate. One of the management highlighted, "*We need to improve the transactional relationship of insurance by promoting insurance as a concept of protection, not as a product. So, there will be a need to protect rather than to have insurance for sold, not for being bought. Look at Toraja people who have a prohibitive cost for burying their parents. They believe that the children must absorb the burying cost. We should introduce insurance as protection to their children, so they can bury their parents and protect their income*".

On the other hand, numerous issues have been identified on the appointed dispute resolution body's side. The challenges are a lack of consumer awareness of the dispute resolution body's role, a lack of dispute resolution body representatives in various cities throughout Indonesia, a lack of capability in resolving disputes involving Unit Link products, and a lack of competence on the part of the arbitrator or mediator in the field of life insurance. On this issue, all informants agreed that a systematic awareness program about the resolution body's role and proper training for arbitrators and mediators over insurance products and their processes should be implemented. "*We must collaborate with the regulator in waging a campaign against these bodies' existence by establishing representative offices in cities outside of Indonesia's major cities*", one of the heads of legal responded. Additionally, the regulator's staff stated, "*We must maintain open communication with the police department if uninformed or uneducated consumers file complaints directly with the police authorities. If the police department becomes aware of such incidents, it should escalate the cases to the companies*".

5. DISCUSSION

All informants expressed universally objective views on the issues, perceived risk and benefit, as well as the challenges confronting the industry's current consumer protection implementation.

The implementation issue on disputes is consistent with a statement from the Badan Mediasi Asuransi Indonesia (BMAI), one of the external dispute resolution bodies appointed by the government, which stated that the consumer claims handler did not satisfy some policyholders. Both parties disagree on how much information the insured and policyholder must share during the policy sale. The other issue, which relates to the regulator's neutrality in the syndicate fraud claim, has resulted in the arrest of one chief executive officer (CEO) of a joint venture life insurance company and a head of claim in connection with a consumer complaint filed with the police. The industry players have responded to this case by filing police reports and seeking advice from regulators on responding to these frauds. The regulator was indecisive in enforcing protection, which included protecting life insurance companies that became victims in these cases. The CEO and head of claim became suspects due to the Consumer Protection Act (Amelia R, 2017). This shocking incident prompted the government to re-examine and revise the Act. The Act's revision is scheduled to enter the National Legislation Program (Prolegnas) by 2020 and will be debated in the House of Representatives in 2020. In addition, OJK and the House of Representatives conducted a hearing with dissatisfied customers related to Unit Link fund performance involving three large insurers, namely AIA Financial, Prudential Life and AXA Mandiri (Mayasari, 2021). These are the shreds of evidence of the regulator's neutrality in implementing consumer protection. On the other hand, a study found that the insurance industry accounted for 24% of all consumer complaints directed to the regulator in the financial industry (Tobing, 2016).

In terms of perceived benefits of consumer protection, a 2017 World Bank study of developed and developing countries found that effective implementation of consumer protection results in increased transparency, improved governance efficiency, and improved retail financial markets (The World Bank, 2017). Additionally, the study noted numerous instances where it has failed to improve, resulting in negative consequences for consumers and market development. On the other hand, if the insurance sector's consumer protection regulations are lax, inappropriate market conduct practices such as pooling, premium lapping, and misrepresentation by sales forces will exist. The regulator will respond by enacting specific consumer protection laws and systems to address the issues, but only after confidence in the sector has eroded, and the sector's growth potential has been severely harmed. This study corroborates the concerns expressed by informants regarding the implementation issue.

Based on perceived risks raised by informants regarding regulatory oversight and governance, the recent insurance industry scandals and cases have become the focus, most notably the case of PT Asuransi Jiwa Jiwasraya. The Ministry of Finance has tasked the Republic of Indonesia's Audit Board with investigating the life insurance companies in this case. The outcome was announced, and OJK's role as the regulator was highlighted. The Attorney General's Office continues to investigate the perpetrators, having previously named OJK as a suspect (Rahmah, 2020).

While the informants' primary challenges, low financial literacy and low financial inclusion, are consistent with an OJK survey conducted in 2016, which found that insurance financial literacy was lower (15.8 percent) than in the banking sector (66 percent). In insurance, the financial literacy index decreased to 15.8 percent in 2016 from 17.8 percent in 2013 (OJK, 2016). The financial literacy index survey results in insurance contrasted with the financial inclusion index survey result in insurance, which indicated an increase from 11.8 percent in 2013 to 12.1 percent in 2014. The authors conclude that the increase in access to financial products has not been accompanied by increased financial literacy throughout Indonesia (OJK, 2016).

According to additional statistics from the Indonesia Life Insurance Association (Asosiasi Asuransi Jiwa Indonesia, AAJI), the Unit Link product accounted for 63% of the total premium generated in 2019 (AAJI, 2020). This information shows that people see life insurance more as an investment than as a way to protect themselves. This also contradicts the phenomenon above, in which financial literacy in the insurance industry remains abnormally low (15.8 percent). This may also support the other phenomenon, according to which only a tiny proportion of saturated customers (1.77 percent) have the financial means to purchase Unit Link products (LPS [Lembaga Penjamin Simpanan], 2020). On the other hand, there is a high expectation for life insurance, which OJK forecasts in its official life insurance industry forecast to grow between 10% and 30% per year (Al Hafiz, 2018).

The above discussion's findings were then applied to the strategic management literature review in Section 2 on the pertinent key theories for further validation: 1) the agency theory is applied via the principal-agent relationship and the actual governance mechanism within insurance companies to deal with transaction costs; and 2) the SCP paradigm analysis is applied to life insurance in Indonesia.

5.1. Agency theory

In Indonesia's life insurance industry, where common performance indicators such as persistence ratio, the value of a new business (VONB), the gap of expenses (GOE), case size, and active agents exist and are subject to interpretation, examples of firms satisfying the minimum profit constraint clearly exist. The insurance industry is an excellent market in which to test the implications of agency theory due to its complex ownership structure. According to the theory, ownership is one control mechanism for mitigating the agency above problems. The expected result is that the firm's behaviour varies systemically across ownership structures (Pottier & Sommer, 1997). Asymmetry of information between managers and owners is, thus, a type of market imperfection that has resulted in numerous unintentional resource allocation decisions being made by managers with more information than owners. The operation of the price mechanism determines the allocation of resources, and resources tend to flow to the location where they command the highest price (Coase, 1972). Transaction costs are critical in the insurance industry because the principal-agent relationship entails significant sunk costs in the form of training expenses for sales forces, licensing fees, continuing professional development expenses, and training expenses for key talent within the insurer. The regulator controls transaction costs through salesforce recruitment regulations, mandatory licensing of insurance sales forces, prohibition of proxy agent practices, and sanctions against insurers engaging in pooling, twisting, and churning practices.

The agency problem arises when incomplete contracts and potential uncertainty exist; this theory addresses two critical issues. The first issue is the possibility of adverse selection, which occurs when a principal cannot verify an agent's claims about his or her ability or productivity. The second issue is moral hazard, which occurs when an agent can act opportunistically in his or her private interests but against the principal's interests as specified in the contract binding the agent to the principal. As previously stated, asymmetric information results in adverse selection. In the context of health insurance, the only person who knows his or her health status better than the insurance company is the policyholder. This means that the policyholder's choices may conflict with the insurer's interests (Fields & Tirtiroglu, 1991). In practice, anyone with sufficient information about their future health problems will purchase all-inclusive coverage to cover their future health-related expenses. To compensate for this lack of knowledge, the insurer will accept customers and charge them inflated premiums (Borna & Avila, 1999). Borna and Avila (1999) concluded that due to the lack of information that resulted in increased costs, insurance companies increased premiums because customers purchased insurance based on their insurance needs.

The second issue is a moral hazard resulting from principal-agent and asymmetric information problems. The issue is defined as insured individuals' proclivity to engage in risky behaviour, knowing that their insurer will cover the claim and bear the cost of those risks (Cardon & Hendel, 2001). This issue would result in the typical insurance fraud scenario, in which policyholders file bogus and fraudulent claims that cost the insurer money. On the other hand, the temptation to achieve KPI by the management during their short tenure in Indonesia might also contribute to providing the products that are not suitable for the market needs. Moreover, there is an affordability issue of a large part of Indonesian customers that is in line with the issue of saturated customer databases, as discussed in Section 4. This issue could be avoided if insurance companies had access to the same information as agents or customers. In conclusion, the issues raised by informants, specifically on the commission scheme and the allegation of mismatched products within the life insurance industry, are consistent with and supported by research on the agency theory.

5.2. Structure, conduct and performance (SCP)

In terms of life insurance product demand in Indonesia, investment-type life insurance products have steadily increased over the last five years. According to OJK statistics, the recent unit-linked product premium was IDR 30 trillion in Q1 2018, up from IDR 22 trillion in Q1 2017. According to a consumer's perspective study (Ostrowska-Dankiewicz, 2017), the customer's negative attitude toward certain products, such as unit-linked products, results from the product structure, the actual low return versus the illustrated return, and the insurance providers' sales policies. According to the industry, sales forces are motivated by the higher commissions associated with unit-linked products (30%) instead of the lower commissions associated with traditional insurance products (5%). This point was also made by interviewees. On the flip side, the practice of sales illustration needs to be assessed by insurer and regulator as it has been used commonly by the customer to make a buy decision and make complaints when the market is not in line with the illustration.

We can conclude from the SCP structure analysis that the life insurance market in Indonesia is oligopolistic, based on the market share of informants as measured by premium collected. Additionally, through its role as OJK, the Indonesian government is heavily involved in determining proper conduct through a series of regulations, including permissible investment mandates, approving new insurance company entrants, and conducting fit and proper tests for the company's key parties. From the perspective of life insurance companies, oligopolistic behaviour is evident in product differentiation, regulatory-allowed investment instruments, periodic financial soundness reporting, cooperation, and competition among companies in the life insurance association covering claims, legal, compliance, risk management, finance, and products. While there is a clear expectation from the regulator regarding consumer protection, capital requirements, and contribution to Indonesia's economy, there is no such expectation from a performance standpoint. Thus, Indonesia's life insurance market is an oligopoly, complex, dominated by unit-linked products, with a high proportion of assets invested in stocks and mutual funds, and cannot be characterized by colluding firms. The dominance of unit-linked products prompted regulators to question whether they should position life insurance products for risk management through traditional products or for risk-taking by retaining investment link products, which are the primary contributors to the above-mentioned problems.

6. CONCLUSION

Consumer protection is expected to align the interests of life insurance companies and consumers to foster a healthy and mutually beneficial market environment. Nonetheless, consumer protection in the life insurance industry is still in progress. The industry was not operating effectively, was inconsistent, lacked clarity, and fell short of the standards outlined in the regulations. There are several significant benefits and significant risks associated with consumer protection. Numerous issues exist, including inconsistency, a lack of assurance regarding the quality of implementation, improper selling processes, low consumer awareness, and the appointed dispute resolution body's incapacity and competence in dealing with life insurance products or processes.

To address these concerns, this study suggests the following actions:

1. *For regulator*:

a) implementing periodic regulatory quality assurance for the quality of implementation in the form of assurance review, mystery shopping, and sanctions imposed;

b) developing effective and measurable financial literacy and financial inclusion programs for consumers through a robust roadmap to be adopted by insurance companies as a mandatory requirement;

c) redefining the relevant regulation based on the complexity of the insurance products including to define the customer segment and the mandatory control process for complex product to avoid potential misseling and complaints.

2. *For arbitrator and dispute resolution body*:

a) building a life insurance product and process related competency and capability of the arbitrator and mediator from the appointed dispute resolution;

b) establishing awareness and the existence of the dispute resolution body across cities in Indonesia; and finally.

3. *For insurance companies*: strengthening the need-based selling for life insurance companies through the comprehensive research, surveys, and focus group discussions (FGD) specifically to identify the use case and deep dive of analytics on the customer's pain point.

Due to this study's exploratory and interpretive nature, several avenues for future research have been identified, both in terms of theory development and concept validation. Indeed, additional research will be required to refine and expand on the findings above. Firstly, while this study provided valuable insights into "customer experience" as a result of the implementation of consumer protection regulation, very little can be said about the experience of the six largest life insurance companies. There is a limitation to this study where the data set analyzed represents a small data subset of Indonesian life insurance industry. More life insurance companies could be studied through case studies instead of focusing on analytical generalizability.

Second, this study enables the refinement and validation of concepts developed through inductive analysis. For instance, providing transparency to customers would encourage them to select the best product that meets their needs while also mitigating the risk of a dispute arising from mis-spelling. This concept will require further refinement and development, both in terms of the customer's knowledge of life insurance products and their awareness of the insurance product's actual needs.

Finally, as discussed in the research findings, additional work is necessary to examine the regulator's supervision practices to provide reasonable assurance regarding the regulation's implementation. Instead of focusing on analytical generalizability, this study could include more life insurance companies through case studies to learn more about customer experience, pain points, challenges, and customer touchpoints to develop the best customer engagement strategy to solve industry problems.

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