Product Implementation Survey

Sponsored by the Marketing and Distribution Section
of the Society of Actuaries

Executive Summary

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Introduction

There is an increased focus among today's insurers on creating top-line, organic growth. A key part of achieving this goal is creating new products. To better understand the product development process and practices currently used at insurance companies, the Society of Actuaries (SOA) Marketing and Distribution Section Council (MAD) initiated a Product Development Survey in the summer of 2006.

The goal of the survey was to identify company practices for product development by asking individuals with product implementation responsibilities about the process followed at their companies. For this survey, the "product development process" was viewed holistically – encompassing everything from how ideas are generated through to how products are monitored post-launch. Also, all aspects of the product development process were considered – marketing, actuarial, underwriting, finance, customer service, IT, legal/compliance, etc.

The surveys were conducted verbally by a team of seven volunteers based on a series of open-ended interview questions that served as a guideline to the discussions. The surveys were conducted as free-flowing conversations to allow exploration into aspects of the company processes that might not get discovered with a traditional "multiple choice" format. By using this method, an impressive number of unique, insightful responses were captured while still allowing for rough aggregate analysis (e.g., "based on survey results 20 out of 24 companies use professional project managers") of the more common aspects of the product development process.

Over half of the top 20 life writers and over half of the top 20 annuity writers participated in the survey. Mid-size and small insurers were also represented in the survey results. There were 24 companies included in the implementation process summary, while 28 contributed to the best practices, areas for improvement, and emerging issues. There were 26 distinct parent companies (i.e., there were 2 parent companies that had 2 subsidiaries that contributed individually to the results).

The interviewees were all senior professionals with high-level responsibilities for product development. It was not necessary for the participant to be an actuary, however, many were. The companies surveyed were intentionally diverse, so the survey is not product or distribution system specific. The surveys included companies whose products are distributed through agencies, brokers, banks, direct sales, and worksite and involved life, annuity, variable, equity-indexed, long-term care, disability income, and health products.

The survey gathered information about the product development process and the specific steps and decision points involved. In addition, a key focus of the survey was the identification of what the participants felt were company best practices. Time was also spent discussing what could be done better, what the participants would like to know more about, and what they see as emerging issues affecting the process.

A compilation of the responses from all companies was provided to those who contributed to the survey. Company names were not included in the compilation. This executive summary will provide an overview of many of the "aggregate" insights gleaned from the responses.

A list of the participating companies and the volunteers who conducted the surveys can be found at the end of this summary.

Product Development Process

It is clear that there are elements of the product development process that are common across companies, however, it is equally as clear that every company has a unique approach. For example, there are widely varying levels of rigor applied to the process. The product development process ranges from a very loose process at some companies to a very rigorous set of precise steps at other companies. While the degree of rigor followed by each company varies somewhat, the process generally involves six steps with varying levels of go/no-go decisions on a product before moving from one step to the next. In most cases the steps are followed linearly. There were some examples of companies working on these steps simultaneously.

The general steps involved are:
- *Create and generate product* ideas – this includes surveying the market, identifying emerging customer needs, and generating ideas for new products or product enhancements to meet these needs.
- *Determine the feasibility of the idea* – product ideas that make it to this stage then need to meet certain tests of feasibility (e.g., is there sufficient market, does the product fit within a company's risk tolerances, does it fit within existing distribution, etc.)
- *Develop initial product design* – here the product idea starts to develop. Pricing, business specifications, and high-level functional specifications begin to develop.
- *Plan for the implementation* – with business specifications in hand, functional specifications and implementation plans are drawn.
- *Implement* – systems, training, operations, etc. are all put in place to support the new product.
- *Launch/Post-launch* – the product is rolled out and the emerging book of business is monitored. This information creates the foundation for new ideas and the process begins again.

Ideas are generated from a multitude of areas which can range from the field force to actuaries to senior management. The majority of the respondents mentioned the primary source as the field or marketing area.

The majority of companies utilize committees in their product development process. Some companies have multiple committees with different roles. The committee(s) generally start small and grow to include more members as the product progresses through the process. The committees generally involve multiple functional areas and usually include someone from senior management.

Ownership of the process varied widely among the surveyed companies. In some cases there was a single product sponsor who had profit/loss responsibility for the product. In other cases ownership was by committee. In addition to ownership, there are varying levels of project management. For some, project management was handled by actuaries or by IT. For the majority of companies surveyed, however, a dedicated project manager was involved in managing the process.

The sophistication of the process varies from company to company. Larger companies were more likely to have dedicated product development teams, but examples could be found where dedicated product development teams were in place at smaller companies as well. Smaller companies actually have some advantages in this regard as co-location was more feasible. Some larger companies leveraged their multiple product development teams and processes by rigorously documenting and sharing best-practices.

Transparency was another aspect of the process that was highlighted by some companies. Multiple respondents mentioned that documents or reports are generated during different steps in the process. All agreed this was an important contributor to an efficient process.

Best Practices

While best practices varied among the companies there were several common themes.

Numerous respondents pointed to their use of product development teams and committees as a best practice. These teams are usually multi-disciplinary and may involve only a few individuals initially and then evolve into a larger group as the product moves through the process. Most of the companies using this approach involve individuals from the following areas: senior management, actuarial (pricing), underwriting, systems, claims, policy issue and administration, compliance, legal, and marketing. Although participation is important, optimizing the process to get the right people involved at the right time created real benefits. Several respondents indicated the use of "professional" project managers at their company was beneficial and directly contributed to decreases in time-to-market.

Another common theme was communication and documentation. Several respondents mentioned their use of a disciplined, structured, and documented step-by-step process often with a common product development document and/or checklist. Transparency and reporting is also a discipline found at some of the most efficient product development companies.

While systems and the technology-related aspects of product implementation were mentioned as a common problem area, several respondents pointed to systems work as a best practice at their company. One company provides the basic product framework to their systems area early on without final rates. Another respondent mentioned their use of a common calculation engine which is coded with specifications by their actuarial department. Another mentioned their use of a structured process to ensure that Day Two items are completed.

While a common frustration is product filing, numerous respondents indicated the filing process is working well at their company. One respondent specifically mentioned they research and are aware of the state exceptions ahead of time. Two companies indicated they start by filing the harder states first with one company having thirty-five state approvals within sixty days.

While some respondents mentioned a structured, disciplined product development process as a best practice another respondent indicated that having an informal flexible process works well at their company. One respondent mentioned they work in parallel rather than in a linear fashion with another indicating they have an overlap of products in the development stage.

Generating product ideas and developing keen market awareness are areas of focus for many companies. Facilitated idea sessions was mentioned as a best practice by one respondent with another indicating that an iterative process for vetting design ideas early on was a key to efficiently utilizing resources.

A couple of respondents pointed to their work with their field force as a best practice. One respondent indicated their company gathers and leverages field input. Another respondent indicated they get commitments from distributors at the end of the year regarding which products they would like the next year with commitments to a certain level of sales.

Areas for Improvement

There were several common themes in response to questions concerning areas for improvement; resources, systems, product filings, product changes, and design decisions. Improvements in these areas would have a positive impact on a primary concern, speed-to-market.

Several respondents indicated resources are stretched very thin at their companies. One respondent indicated their product actuaries are too involved in other areas of the company and another respondent indicated their product filing resources have not kept up with his company's expansion into additional states. One person indicated there is room for improvement in experience monitoring at his company.

Information technology is clearly a bottleneck for multiple companies. Several respondents indicated their systems area should become involved earlier in the process. One respondent indicated his company wants the system to be completely functional prior to product launch with another respondent echoing this in that their products cannot be launched until there is no "day two functionality" outstanding.

Product filing is also a time-consuming challenge due to the regulatory environment and state variations in laws.

Several respondents mentioned the feasibility process as a frustration. One respondent indicated that more thought and effort should be put into the feasibility phase with another indicating there should be justification of sales initiatives. One suggestion is to have someone in marketing responsible for filtering the types and numbers of ideas. Two respondents indicated there should be a better understanding from the distribution system of what they will be able to sell.

The planning phase (i.e., the handoff between design and implementation) was a commonly identified weakness. Product specification changes are a frustration since tweaking occurs after the product build has begun. This is a key reason for time delays. The planning process seems to be an area which is less defined and harder to manage and measure. Creating implementation specifications is a time-consuming, trouble-area for many companies.

Emerging Issues

Respondents mentioned advances in information technology and database management as emerging issues with one respondent indicating that use of technology to improve speed-to-market is also an emerging issue.

Several respondents mentioned regulatory activity as an emerging issue. Principle-based reserving, conversion to the 2001 CSO mortality table, and an unsettled regulatory environment were mentioned. One respondent indicated that more and more entities are becoming involved in product development; Moody's and Standard and Poor's specifically.

Another emerging issue is market aggressiveness and competition. In addition, several respondents mentioned changes in the risk management process and the involvement of a Chief Risk Officer as having the potential to significantly lengthen and complicate the product development cycle.

Areas of Ongoing Interest

Consistent with responses to other questions, systems, filing, resources, and time-to-market were mentioned as areas of ongoing interest.

Several respondents are interested in learning more about the idea generation and design phase. Areas of interest include making the design process more efficient and structuring input and feedback received from the field.

Several responses involved issues concerning staffing and responsibilities. One respondent mentioned they are interested in receiving information on the specific roles and responsibilities of a project manager with another respondent indicating they would like a better understanding of each function in the product development process. Another respondent is interested in knowing how many people companies have dedicated to each phase of the process.

Several responses involved information technology. One respondent was interested in the experience others have had in using a common calculation engine for illustrations and administration. Another respondent is interested in information about administrative platforms that will result in more rapid product development.

Respondents are also interested in gathering information about how other companies handle product filings. One respondent is interested in information on how to achieve forty plus state approvals in under ninety days. Another is interested in knowing whether some companies launch their products with only twenty-five to thirty state approvals to improve speed-to-market.

A word of caution

Part of the interest in this survey arose from companies looking for benchmarks for time-to-market. This survey does include estimates of this metric. Other organizations and surveys are also attempting to establish similar benchmarks. All these results, however, should be viewed with caution. There is a fundamental issue with this benchmark as there is little agreement or consistency in product development definitions. For example, there is not a common definition of when "time-to-market" begins and ends. Similarly, as evidenced by the responses to this survey, the steps involved in the product development process are not homogeneous across companies. Further complicating the process issue is that terminology for even the common steps varies widely across companies. All of these factors make current time-to-market "benchmarks" very subjective and often misleading.

Conclusion

There is much we can learn about the product development process by comparing company practices with the rest of the industry. There are many struggles and areas of common concern including systems, product filings, and resource issues. However, how a company addresses these issues and what makes for a "successful" process varies depending upon the culture and goals of the organization.

Although this survey was initiated by an actuarial organization, it should be very clear to the reader that the scope of this survey encompassed all aspects of the product development process. It is only with this broad view that we can understand the interactions and implications of decisions made in each of the functional areas to truly improve the process. This survey has laid a foundation and begun a dialogue that we hope will continue. As can be seen by the list of areas where interviewees would like to know more, there is more to learn and share. Staffing, the filing process, dealing with principles-based approaches, managing risk, and technology solutions are just a few of the areas that can be explored in greater detail. We look forward to continuing discussions and research on these issues.

Respectfully submitted,

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List of Participating Companies
Aegon (2)
AIG
Allianz
Allstate
Ameriprise
Amerus
Conseco
CUNA
Fort Dearborn Life
Genworth
ING USA
Jefferson-Pilot
John Hancock
Motorists Life Insurance
Mutual of Omaha
Nationwide
New York Life (2)
One America
Pacific Life
Physicians Mutual
Principal
Protective Life
Securian
State Farm
The Hartford
Thrivent
Vantis Life