



SOCIETY OF ACTUARIES

Article from:

# Product Matters!

June 2008 – Issue No. 71

# Key to Success in Life Insurance Product Development

by Andy Ferris, Alice Kroll and Charles Brinkley

**O**rganic, top-line growth is key to life insurance companies for creating shareholder value and achieving long-term success. Companies that do not position themselves for organic growth risk falling behind as competitors seize market opportunities for expansion.

Last year, in a study around organic growth in the life insurance industry, Deloitte Consulting LLP surveyed 20 C-suite executives from top life insurance companies, and, according to those executives surveyed, the top three growth strategies today are product innovation, improved distribution and service enhancements to improve retention.

While new products are critical to the growth strategies of life insurance companies, too many product launches fail, resulting in lower sales and slower growth than anticipated. Given the importance of this topic and the apparent difficulty involved in successful product development, Deloitte chose to study the topic in depth. We wanted to understand what companies are doing, where they are struggling and what makes one organization more successful than another in product development.

Similar to the way we approached the organic growth study, we worked together with a group of leading life insurance companies to understand their product development process, their supporting organizational structure, their measures of product development success and a host of related concepts. Through written questionnaires, in-depth interviews and ongoing analysis, we have identified a set of characteristics that appear to differentiate the more successful product development processes from the less successful. In this article, we hope to share some of

those characteristics and insights in hopes that you might find them useful at your own company.

## Methodology and Approach

The primary goal of the Product Initiation, Development and Effectiveness (PRIDE) Study was to gain insights into critical factors that lead to success in the life insurance product development process. For the purpose of the study, the product development process was defined broadly to include:

- The sourcing and generation of new product ideas
- The evaluation, selection and prioritization of those new ideas
- The translation of the selected ideas into potential product offerings
- The design and pricing of those products
- The product implementation and rollout process
- The post-launch review and evaluation process

The approach for thoroughly understanding the product development process at the participating companies included two primary components: a written questionnaire and a set of face-to-face interviews. The written questionnaire collected information from all departments involved in the product development process with a comprehensive set of quantitative and qualitative questions around topics summarized in Exhibit A. After the completed questionnaires were collected and analyzed, interviews with participating companies were conducted to confirm understandings and allow for greater depth of discussion and analysis in areas identified by the participants as being of particular interest.

continued on page 22



Andy Ferris is a manager in the Chicago office of Deloitte Consulting LLP. He can be reached at [aferris@deloitte.com](mailto:aferris@deloitte.com).



Alice Kroll, FSA, MAAA, is a director in the Indianapolis office of Deloitte Consulting LLP. She can be reached at [akroll@deloitte.com](mailto:akroll@deloitte.com)



Charles Brinkley is Firm Director for Insurance Industry Strategy and Operations, Deloitte Consulting LLP. He can be contacted at [cbrinkley@deloitte.com](mailto:cbrinkley@deloitte.com)

Two important themes emerged from the review of the data collected. These themes were that there are differences in product development practices for companies whose strategic intent is to be a market leader, fast follower or “other” and that there are differences for companies whose product launches are highly successful, moderately successful or less successful. Companies self-reported both their strategic intent and the success rate for their product launches. These themes were used as the frameworks for our analysis.

The companies included in the study collectively received over half a million paid applications with \$3.8 billion in first year premium, which comprised over 30 percent of the industry’s new life insurance premium for the year. Collectively, survey respondents had launched a total of 149 products in the three-year study period.

With two exceptions, the companies had more than one channel distributing their products. Channels included career, independent, wholesale, joint venture partners, brokerages, banks, wirehouses and Personal Producing General Agents (PPGAs). The companies sold in all the major market segments, including middle market, mass affluent and high net worth. One of the challenges in analyzing the survey results was that the different markets, different distribution channels and different strategic intents regarding product positioning could all impact a company’s product development.

### Selected Key Findings

Several detailed reports and presentations were prepared around the study’s analysis and findings. The following is a set of selected high level findings extracted from the more detailed analysis.

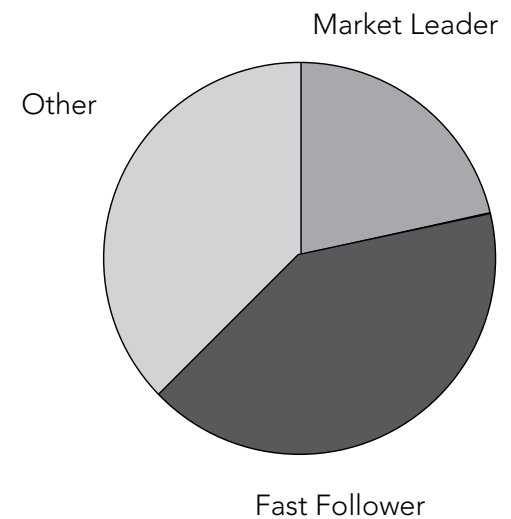
**1) The companies with the most product development success had a clearly articulated and broadly understood strategic intent in terms of product development. For these companies, the strategic intent served as the fundamental component upon which the product development process was designed.**

All those involved in the product development process knew that it was the company’s goal to be:

- Either a product manufacturer, a distributor or both
- Either producer-focused, customer-focused or both
- To compete on features, price, compensation, service or some combination thereof
- To be a market leader, a fast-follower or some other type of player in the marketplace

Not every company in our study desired to be a market leader. In fact, the majority of companies had a strategic intent to be a fast follower. These companies explained in the interviews that they felt that there was only a limited advantage in being first to market and that it was more important to establish a reputation with their producers for delivering quality, error-free products on the announced schedule.

### Market Strategy



When viewing the product launch success rate by strategic intent, we saw that on average those who aspired to be market leaders reported higher success rates than those who aspired to be fast followers. However, two of the fast followers and two of the others reported success rates approaching those of market leaders.

**Key to Success in Life Insurance Product ...**

Strategic Intent	Self-Reported Product Launch Success Rate (%)
Market Leader	90
Fast Follower	49
Other	67
Overall	64

Companies defined a successful launch as one that met sales goals, met profit goals and was perceived by producers as timely and competitive.

**2) The companies with the most product development success had a well documented, predictable and repeatable product development process. The companies reporting the greatest success were those whose product development process was both clearly defined and directed by their strategic intent.**

The most successful companies had a clearly defined and recognized organization and process in place to ensure that product development decisions at every stage of the process were guided by the company’s strategic intent. Although it was not observed at any of the companies in the study, a way to enhance this concept would be to tie performance measurement for the product development area directly to success of the products developed in support of the company’s strategic intent in terms of product development. Ideally companies would have the organization and process in place to periodically reassess the strategic intent in light of changing economic, market and competitive conditions.

**3) Companies that introduced products on a regular cycle were more successful than those that introduced products on an ad-hoc basis.**

Only one-third of the companies in the study introduced products on a regular schedule. At these companies, product introduction schedules were planned in advance

and consistently communicated to all those involved in the product development process including the producers. Companies that introduced products on an ad-hoc basis rather than during scheduled system releases not only reported a lower product launch success rate but they were also less satisfied with their speed to market.

Product Release Schedule	Distribution of Companies	Self-Reported Product Launch Success Rate (%)	Satisfaction with Speed to Market (On Scale of 1-5)
Defined Cycle	33%	89%	3
Ad-hoc	67%	52%	2

In addition, the most successful companies tracked and reported success rates in introducing products on the published schedule. Even the most successful companies can improve in this respect by periodically reexamining with the producers the continued appropriateness of the company’s current product release schedule given changing market conditions and competitive landscapes.

**4) The most successful companies demonstrated the will and the capacity to manage multiple simultaneous product development streams with staggered completion dates. Often this involved significant use of project and program management personnel, techniques and tools.**

Building upon the fundamental characteristics described above in terms of predictability and repeatability of the process leading to regular product launch cycles, the next level of maturity that was observed in the product development process was to involve multiple simultaneous product development streams. To optimize this process typically meant to employ distinct product implementation work streams or teams, each led by a project management professional reporting to a project management office (PMO) organization. In these cases, professionals with project management back-

continued on page 24

grounds were highly effective in structuring and employing a proactive decision-making and monitoring process to manage the multiple product development work streams in terms of resources, communication, prioritization and escalation/appeal processes. It was even more critical that the product development manager have a strong knowledge of life insurance products, operations and systems.

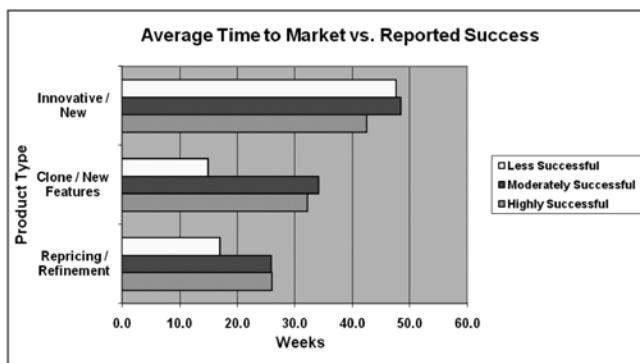
Furthermore, to achieve optimal effectiveness in the product development process, the most successful companies were structured with resources dedicated to the product development function. This included not only actuarial resources, but also those with systems, compliance and other types of backgrounds.

**5) In the majority of cases, speed to market was not a predictor of success.**

For the purpose of this study, product development initiatives were classified into three broad categories:

- Repricing or refinement of existing product
- Clone or replacement of existing product/addition of new features
- Innovative/new product

The following graph shows the average time observed to complete all the steps in the product development cycle and launch a product for each of the product development initiatives and success categories. As the graphs shows, the most successful companies were fastest to market only with innovative or new products and, even then, only by about 10 percent.



The “highly successful” companies reported, on average, a speed to market with “innovative/new” products that was only slightly faster than that of the other companies. They reported, on average, a speed to market with “refinement/repricing” and “clone/new features” products that was almost the same as that of the “moderately successful” companies, and significantly slower than that of the “less successful” companies.

Interestingly, the companies that reported the fastest speed to market with “refinement/ repricing” and “cloned” products were in fact the “less successful” companies.

**6) The most successful companies focused on building and sustaining producer commitment to new product developments, from the sourcing of the ideas all the way through launch.**

These results were investigated further during the follow-up interviews and the subsequent presentation of the results to the participating companies. During those discussions, one of the differences that became clear was that the most successful companies focused more on establishing a reputation with their producers for delivering quality, error-free products on time than on speed to market. The less successful companies sometimes felt the need to accelerate a product launch because their prior launch had been unsuccessful and, in doing so, often missed the mark again.

These most successful companies stated that building and maintaining producer commitment to the new product launches was the critical ingredient to the success of the product. Some of the least successful companies indicated an inability to build and maintain producer commitment to the new product launch simply because the product development process itself was not predictable enough to allow the company to promise a product launch date and commit to a design with confidence far enough in advance. Even more fundamentally, during the initial stages of product design, these

least successful companies could not reliably state, within a reasonable range, the amount of time required to develop and implement the product. This lack of predictability and reliability in the product development process limited the company's ability to build and maintain producer commitment to the launch, which then detracted from the success of the product.

**7) The most successful companies have adopted product design and engineering concepts that are commonly seen in more consumer-oriented, product-driven manufacturing industries such as consumer products and electronics.**

Successful companies tended to adapt new approaches to product design and manufacturing that were aimed at increasing both the efficiency and the effectiveness of the process and therefore enhancing the predictability and reliability of the process.

First, some companies reported having used concepts of parallel processing to eliminate unnecessary sequential staging in the life insurance product development process. This was most successful in cases where teams had significant experience working together and had a thorough understanding of the products, processes and systems. A smaller number of the companies stated discomfort with parallel processing out of a concern for the potential cost of rework introduced by the parallel processing.

Secondly, some companies employed a concept called design for manufacturability (DFM) where they consciously looked for ways to uniquely involve their administrative operations and systems in the product development process to ensure that they were designing products that would not only sell well but that they could cost-effectively manufacture and service. When asked how they had been successful in doing so, many pointed less to formal, structured DFM methodologies and more to the deep experience of their product design staff with not only the companies' products and distribution, but also with their operations and

systems. Others pointed to the early and active involvement of their operations and systems staff in the product design process itself.



Thirdly, companies adopted the idea of reusable component-based or template-based design. They made a concerted effort to leverage the results of prior product development efforts in both design and manufacturing through the development of accelerators or reusable templates.

Lastly, the most successful companies adopted more scenario-based economic testing and planning so that products, when introduced, produced the anticipated profits with the appropriate level of risk.

## Summary

Having an excellent product development process is an important factor in achieving the consistent, organic, top-line growth that companies are seeking today. In our study of the product development process, we have identified a set of characteristics that appear to differentiate the processes of companies that have successful product launches from those that do not. In this article, we have described some of those characteristics in hopes that you might find them useful at your own company.

continued on page 26

## Exhibit A

### Brief Listing of Topics Covered in the Written Questionnaire

- A. Background
  - Company size and historical product lines sales
  - Strategic intent
  - Product mix
  - Distribution channel mix
  - Time to market
  - Capacity of product development process
- B. Product Idea Initiation and Generation
  - Process by which new product ideas are generated and evaluated
  - Organizations and individuals involved in new product idea generation
  - Sources for new product ideas
  - Market research techniques
- C. Product Design and Pricing
  - Steps in product design/pricing process
  - Software and other tools used in product design/pricing process
  - Sequencing and timing of steps in process
  - Pricing methodologies by product line
  - Development of policy form and prospectus
  - Development of pricing assumptions and experience studies
- D. Project Management/Product Implementation Process
  - Extent to which dedicated project management personnel and techniques are involved
  - Extent to program management personnel and techniques are involved
  - Process for decision making and escalation of project management issues
  - Day one vs. day two functionality
  - Timing of product launch
  - Analysis of critical path
- E. Product IT Infrastructure
  - New business systems involved
  - Administrative systems involved
  - Versions, manual workarounds required
  - Year acquired
  - Support and flexibility for new products
  - Expectations for IT systems and support in the future
  - IT costs associated with new product development
- F. Product Development Assessment
  - Post-launch review process/lessons learned
  - Definition of product launch success
  - Practices used to measure and achieve product development effectiveness
  - Strengths and weaknesses of product development process
  - Current initiative to improve effectiveness of product development process □