Article from:

Product Matters

February 2015 – Issue 91

Co-Editor Commentary On the Vintage Article, "Better, Stronger, Faster—Life Insurers Confront Product Development"

by Kurt A. Guske

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The following article was first published in the February 2009 edition (Issue 73) of Product Matters! Elaine shares data and insights with respect to various products' life product development cycle time that are yet important and relevant five years later. Whether your company's venturing in new territory such as indexed interest UL with various differentiating features and index options, or re-pricing products such as level term premiums or in-force post-level term, I hope this informative article will help you understand some of the considerations and potential length of your product development process.

As a side note, the Product Development Section Council is sponsoring research in the area of product development process. Part of the research will focus on industry best practices and draw comparisons with non-industry standard product development practices. Stay tuned for more process content in upcoming Product Matters!

Better, Stronger, Faster—Life Insurers Confront Product Development

by Elaine Tumicki

Elaine Tumicki is corporate vice president, Product Research, LIMRA International, Windsor, Conn. She can be contacted at etumicki@limra.com.

With new life insurance products and features coming out at a break-neck pace over the last several years, life insurers may have felt like they were on a treadmill, with the speed slowly but steadily increasing. The growing reliance on independent distribution requires companies to stay ahead of—or at least keep up with—their competitors if they want to stay on the shelf. Improving speed-to-market has become a key component of life company strategy.

What have companies been doing to address this ever-increasing challenge? LIMRA conducted a study to find out. On average, companies introduced three new products, revised three products, and changed the rates on two in the year leading up to the study. That's eight product development efforts of varying complexity underway over the course of a single year. And several companies had more than double that number. Term products on average have a shelf life of 2.2 years, with some companies reporting a shelf life as short as six months. Universal life is not that much longer, at 2.8 years. Given the ever shorter shelf life for products, it's not surprising that companies are searching for more effective ways to deliver new products to market.

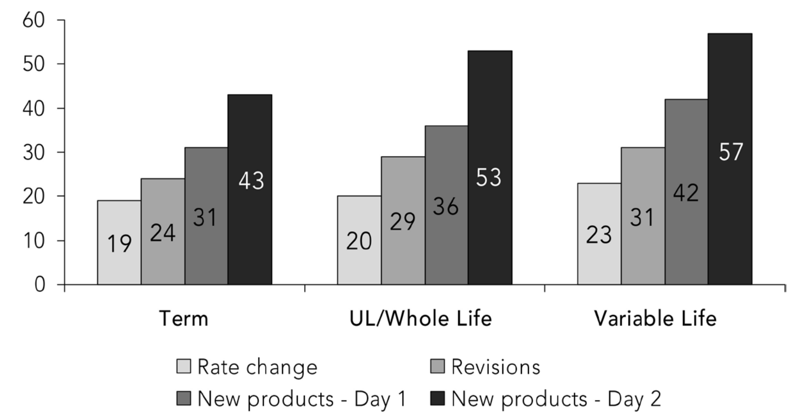
How often do companies evaluate their product portfolio? On average, it is every eight months. The most common interval is annually, with a third of participants reviewing their portfolio once a year. A quarter of participants essentially have a continuous review process, examining their portfolios monthly.

Companies consider many factors in designing new products. Some have more weight than others. What are the top factors companies consider? Profitability is at the top of the list, followed by competition and market-

Product Development Process Length

(average number of weeks)

FIGURE 1

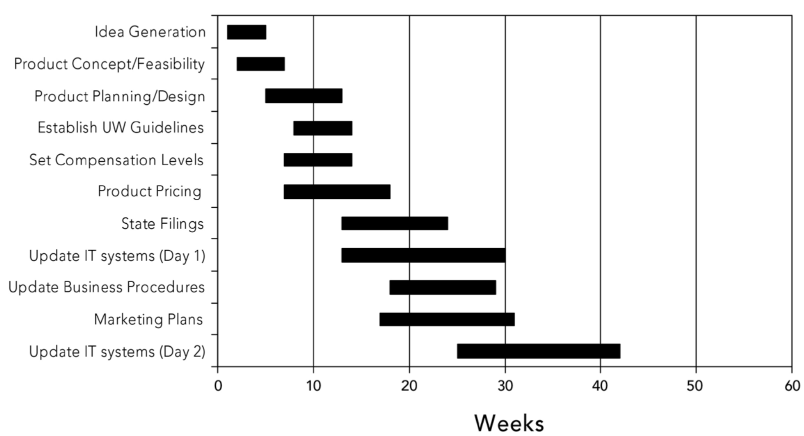


Source: LIMRA, *Individual Life Product Development Process*

Term—New Product

Average elapsed and chronological time

FIGURE 2



Source: LIMRA, *Individual Life Product Development Process*

ability. And companies turn to many sources for ideas. While the product development department itself is the primary source, following close behind are competition units and internal wholesalers/sales departments. The field also plays a role, both formally and informally, with agents considered an important source at about half of participating companies. Most companies evaluate the risks associated with new products. While this exercise is part of the product pricing process, in most companies corporate oversight also plays a role in evaluating risk.

Developing a new product takes time. The more complex the product, the more time it takes. For term insurance, a new product takes an average of seven months from idea to launch. And that just includes Day 1 systems functionality (Day 1 is what a company needs to have in place before the product is released). Add Day 2 functionality and you add another three months to the process. And that's for term insurance. A new variable life product takes nearly 10 months from idea to launch. Add Day 2 and it's more than a year. (See Figure 1.)

The study also documented all the various steps in the process, when each step typically starts and how long it lasts. Updating IT systems takes the longest, followed by developing marketing plans and materials and product pricing. (See Figure 2.)

These time frames include state filings, but not approvals. That adds still more time to the process. For companies selling in all or nearly all states, getting approval for a new product can add seven months to the process. Of course, companies don't have to wait for approvals in all states to launch a product. Companies typically will launch when they have 33 state approvals. Most companies have key states they really want to have before launch. The top three are California, Texas and Florida.

Despite all the challenges, the product development process goes according to plan half of the time. Companies reported major deviations from plan just under a quarter of the time. When there are deviations, what's the cause? The most common is design/pricing issues, cited by nine in 10 companies. IT issues and changing organizational priorities were noted by about two thirds of companies.

But going according to plan isn't enough if the plan isn't achieving desired results. Nearly all the companies in the study had implemented new approaches to the product development process within the past year. The most common change was to have a more formal process, with better planning up front including all the key stakeholders, more controls and sign-offs along the way, quicker identification of problems and ultimately fewer surprises. New technology is also playing a role—a number of companies have introduced automated testing tools to speed up the process.

It's too soon to tell whether these efforts will result in better products, delivered faster. But now that we have a baseline, we can check back in a year or two to see if these new approaches have achieved their desired results. Stay tuned. ◻