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Small Company Strategies for Efficient Product Development—The Recap

By Ryan Stowe

In August 2014, the Smaller Insurance Company Section (SmallCo) and the Product Development Section co-sponsored the Small Company Strategies for Efficient Product Development webcast. The purpose of this webcast was to break down the product development (PD) process from start to finish, and provide a smaller insurance company perspective regarding how to address challenges that may arise. Key takeaways from the webinar include the following.

Process Management

As smaller company actuaries, we often wear many hats (not all of them actuarial in nature). Balancing the needs of all stakeholders (actuarial, product management, business finance, information technology (IT), sales & marketing, etc.) is important to managing the PD process efficiently. Overly aggressive timelines, or exclusion of key stakeholders, can lead to mispricing of the product, dreaded "day 2" IT projects that need to be cleaned up after product launch, and/or less effective marketing materials and sales results. Continued cycles of the PD process that are not managed effectively can create internal friction between stakeholders and further extend the speed-to-market for future PD cycles.

Additional considerations should be made with regard to system constraints. This was framed from the perspective of the actuary and the IT service function (internally with policy administration systems, externally with agent or adviser sales platforms, etc.). Are there design elements in the product that are a "must have" and therefore need an IT solution to be figured out? Or can the product be designed in a different manner to reduce the IT effort and development cost without adding unnecessary risk to the product? Empathy for your fellow stakeholders will go a long way for the project at hand and likely be remembered down the road on new PD activities.

IT systems are not the only constraints that you may have to navigate through. Competitive and/or economic environment constraints can play a major role in the PD process. If the market segment you are trying to penetrate is highly competitive, profit margins may be lower, which mean the PD process needs to be as efficient as

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possible to minimize expenses without detracting benefits to the point where your product is uncompetitive in the market. Market conditions, such as historically low interest rates or high levels of volatility, can also affect the level of benefits that you can provide and drive different investment strategies. All of these factors need to be incorporated into the PD process.

Another key component to managing the PD process is obtaining appropriate market intelligence. This should not be limited to competitor product brochures. Having your ducks in a row not only includes knowing your competitors' marketing materials, but really getting to know how competitor products work so that you can design your product *the way you want it to work* (given constraints and managing other stakeholders' interests). That means reviewing competitor filings for contract language and actuarial memoranda. This can also include reading the prospectus for variable products. It seems silly to say out loud, but the more you know, the less you don't know. But beware; there will always be something that you didn't think about that emerges during PD or post-launch that you need to be ready to react to.

Great, you made it to product launch. Now you are done, right? Wrong. Managing post-launch activities is just as important as the pre-launch activities. Reviewing what went right and what went wrong is always good practice. Other activities that need to be addressed include experience study monitoring, financial reporting, and determination of nonguaranteed elements, if applicable, to the new product.

Product Development: Internal or External?

New PD efforts in smaller insurance companies often raise the question of whether the smaller company actuary has the expertise to develop the new product (or product enhancement) internally, or if external expertise should be pursued. Important factors to consider are the availability of data to set assumptions; the expertise in the product line to appropriately model, price and manage risks in the product; and appropriate expertise to provide peer review prior to launch. Failure to address any of these issues can lead to failed launches, uncompetitive products, and/or inappropriate assumptions leading to financial loss and/or compliance issues. There is no substitute for due diligence. If internal resources cannot support the PD process, external sources are available and should be considered.

Common resources include the use of consultants and/or reinsurers. Consultants bring a wide range of knowledge as they have worked with many companies—likely of all sizes, product lines and distribution channels. There is an incredible amount of experience study data that has been collected by consulting firms, from assumption setting for new business to in-force management for existing business already written. Reinsurers have traditionally been utilized for risk transfer and capital management transactions, but have found new opportunities providing advice and expertise with PD activities as well. Think about it: Why wouldn't a reinsurer be a viable option to consider when looking at external options for PD? Reinsurers have PD actuaries on their staff and routinely engage in pricing activities for potential reinsurance deals. Any knowledge gained is a win for the ceding company as expertise can be built up and retained. Additional knowledge about the product obtained by the reinsurer may lead to more competitive pricing if reinsurance is utilized on new business sales. Not only do you get the benefit of risk-sharing with the reinsurer on business written, you can tap into their knowledge bank of actuarial talent on an ongoing basis because both parties have a mutual interest in the long-term viability and profitability of the business written.

Need More Information?

Presenters Pete Hitchcock, PW Calfas and Jean-Marc Fix walked through each of these topics (and others) from a smaller insurance company perspective. Their industry knowledge and smaller insurance company experiences provided insights into effective management of the PD process, including internal and external resources for project planning, assumption setting, pricing expertise, peer review and risk management processes. The purpose of this webinar was to expose actuaries at smaller insurance companies to challenges they may face and potential options available to them when tackling new PD projects. We can't always do it alone—the good news is that there is help available! If you missed the webinar, or had the opportunity to participate but want to view it again, you can order the recording at: *https://www.soa.org/Professional-Development/Webcast-and-Virtual-Session-Recordings/Small-Company-Strategies-for-Efficient-Product-Development.aspx*.

Ryan Stowe, FSA, MAAA, is the director of Pricing and Product Management for Wealth Management at CUNA Mutual Group in Madison, Wis. He can be reached at ryan.stowe@cunamutual.com.