

**TRANSACTIONS OF SOCIETY OF ACTUARIES
1962 VOL. 14 PT. 2**

PRODUCT RESEARCH

- A. In keeping with the times, "product research" is receiving a great deal of attention in the life insurance business. What types of organization have companies developed for research and to test new products? What role are actuaries expected to take in this area?
- B. To what extent has the marked expansion of company product portfolios in recent years had its negative aspects, such as increased expense rates, strain on technical personnel, retardation of the development of EDP procedures, inability of agents to acquire an effective knowledge of new products and benefits, etc.?

Philadelphia Regional Meeting

MR. FREDERICK E. RATHGEBER: In the Prudential, as I am sure is the case in all life insurance companies, ideas for new products come from many sources—the public, the field force and home office executives. As a funnel for some of these ideas we have what is called an Opinion Research Group in our Planning and Development Department. This small group of men with a social science background has a number of functions, one of which is to conduct periodic public attitude surveys.

While these surveys generally cover broad subjects, such as reaction to our advertising programs, frequently we get comments on existing products and the need for new ones. Another function of the Opinion Research Group is to conduct occasional discussions with small groups of eight or ten people from the general public. In this type of discussion our men can ask questions in depth about various insurance products. Of course, the Actuarial Department continuously reviews the new product announcements of other companies and assesses the value of adding similar products to our portfolio.

The actual development of new products is a function of our Actuarial Department. If we are dealing with a rather simple new plan of insurance this would be a part-time assignment for one of our actuaries. If the project is a major revision of a whole product line it might involve the full-time efforts of a half-dozen actuaries.

After the Actuarial Department has prepared test premium rates and illustrative dividends for a proposed new product the package is then submitted to a body called the Policy Plans and Rates Committee. This committee has representatives from the Actuarial, Sales, Planning, Law and Administrative Departments.

There is no doubt that the increased tempo of product development in

recent years has had some negative aspects as far as my Company is concerned. Ten years ago the technical aspects of product development were a part-time responsibility of one actuary. In recent years there have been times when as many as eight actuaries have been devoting all their time to new products of individual life and health insurance. This, of course, is but a small part of the cost of new products. The largest part of the expense arises from new rate book, sales promotional and training material, and the modifications to administrative systems necessary to handle these products long into the future.

Reactions from field people to the steady flow of new products have been mixed. One group feels that money is being wasted in the process. They find it very difficult to keep up with all the new material and believe that a slower pace would be desirable. Another group feels that a heavy flow of new products is healthy and very helpful in promoting sales. They feel that the life insurance industry is in an intensified competitive position with other demands on the consumer dollar and the only way we can hope to survive is to convince the public that we are up-to-date in our products.

Personally, I believe there is a happy middle ground. It would be a mistake to sit back and tell our field forces that they have had enough new products to last them for the next five or ten years. While this would save some dollars of expense and would make some types of agent happy, I think the negative implications of such a course would be most undesirable.

On the other hand, we can't afford to glut our rate books with a profusion of products that the agents don't understand and the public doesn't really want.

We must choose our new products with care and must time their introduction with due regard to the assimilative powers of our field forces. Certainly the actuaries must play an important role in such a course of action. An equally important responsibility of the actuaries is to be sure, by applying uniform pricing objectives, that no inconsistent "bargains" are developed.

MR. ANDREW C. WEBSTER: In the Mutual of New York, we have a New Products Committee, headed by an actuary. Also represented on the Committee are the Sales, Underwriting and Law Departments and, above all, the Electronics Department. Currently it seems that the primary concern is whether a new product can be handled by the electronic machines, and such things as adequate mortality, interest and loading assumptions appear to take second place. In spite of their capacity, the machines are

limited in their application, and my personal conclusion is, surprisingly, that actuaries are much more flexible than machines.

Seriously, however, I believe our New Products Committee is quite useful because while we have not come up with any startling innovations, we thoroughly test and analyze all aspects of an idea before presenting it for management's consideration.

Kansas City Regional Meeting

MR. ANDREW C. WEBSTER: At Mutual of New York we have a New Products Committee consisting of one representative of each of the Actuarial, Law, Sales, Underwriting, and Electronics Departments. The function of the committee is to determine the practicability of suggestions received from the field and from other sources.

I believe the negative aspects of the expansion of the product line are of interest to everyone because at all times we are under pressure to produce new policies of various kinds. The negative aspects include increased expenses, strain on technical personnel, the retardation of development of data processing procedures, and the ability of the agent to acquire an effective knowledge of new products and benefits.

MR. ROBERT N. HOUSER: I believe, to put things in proper perspective, that what we call "product research" would, in other industries, be called "packaging research." We are actually selling future dollars and these things we tend to call "product" are nothing more than the wrapping on the package.

Work on new products or new packaging is extremely important. No company can afford to be too far behind the times. It doesn't matter particularly whether you favor a thing or not. If it is widely used and widely successful, then it is hard to stay away from it.

Our company felt we should not proceed on a hit-or-miss basis. At Bankers Life we have a development Committee. Its makeup is similar to that described by Mr. Webster except that we also have an investment man on our committee. Ours, however, is headed by a Vice President and has a very small full-time staff. The function of the committee is not primarily to do development work but rather to see that development work is done.

The committee is made up mostly of younger people with the idea that they may be a little more willing to make changes than some of the old-timers. The committee has not been in standing long enough to determine how well it has worked or may work.

We have, of course, the usual type of pretesting arrangements for new

products. We try out proposed new products on various people around our shop. We certainly consult with the sales people and value their opinions, but this is not entirely adequate. I think we must realize that our home office sales people are not an impartial group. They come to the home office with a fresh field viewpoint, but this viewpoint seems to have the habit of getting away from them a little bit. Moreover, as you get advice from those currently in the field, you must realize that you are probably getting advice from only your better agents. We must be careful as to the weight to put on such advice, since it does not necessarily represent a cross section of field opinion.

In this matter of pretesting new products, one group which has not been represented to date in our company is the buyer. In other industries much effort is spent to find out public reaction to products before they are brought out. Something has to be done in this area better than trial and error.

Some companies have attempted putting a product on the market in a limited area. I don't believe this is the best answer, although I am unable to suggest a better one. If only a small volume is sold, it becomes a real administrative headache, particularly in connection with electronic data processing systems. While we can't expect the public to design a product, I do think there are areas where choices exist and where being able to anticipate buyer reaction would be extremely valuable. The fact that a new product is a success does not necessarily mean we have done the best job. It may have been a success in spite of some of its features. Moreover, it might have been an even greater success had it had other features.

In connection with section B, I think there are some negative aspects to the complexity of product line we now carry. The rate book has become very large and complicated. Even many home office people who do not use the rate book daily have trouble finding things in it.

Another problem is that a new product not too infrequently simply replaces an existing product insofar as sales are concerned. The new product usually sells pretty well at first because people are interested in it, the salesmen are interested in it, and the advertising people have been promoting it. Total sales may increase even though sales of one or more existing products may decrease. This sales increase may be temporary, however, and it is not uncommon for sales of a new product to reach an early peak and then drop back.

The growing use of electronic data processing equipment poses real problems. Recently, on a small segment of our business, we reached a point where we felt dividends should be eliminated because this business was unprofitable. The electronics people told me it would cost us more not

to pay dividends than it would to pay dividends. Therefore, we are going to continue paying dividends on this business and in this way continue saving money while we are losing it.

Because the field force seems to like new products, we tend to feel that all field force reaction to new products is positive. However, several agency members of our company were recently quite outspoken in expressing their viewpoint that the complexity of the rate book can be a real handicap to a new agent. We all have a substantial portion of new men in our field force. That the enormous amount of work we have been putting in on new products may not be helping some of the people we are attempting to help is disturbing to say the least.

MR. KARL M. DAVIES: The extent of recent activity in expanding company products, changing rate bases, etc., was driven home rather forcibly the other day when one of our actuaries commented that prior to 1947 the Equitable Society operated for fifty years with the same scale of rates and only a few minor changes in plans. However, since 1947 we have had three changes and we are now working on a fourth major change in rates. In addition, each year we announce two or three new products. There is quite a difference between today's activity in the entire field and that of twenty-five or fifty years ago.

I think that some of us superficially rue the pressure of competition which forces all this redesigning of our product. At the same time, however, I believe it is healthy that we are making these changes, despite the extra work and expense. There is a real strain on our technical personnel as we come up with these new programs of insurance. There is likewise some slowing down in our development of data processing procedures.

Incidentally, here I am a little puzzled by a side effect of data processing. We are not as flexible as we used to be. Right now, if we have an idea for a new plan, something we consider to be real "hot" and one to get on the market in a hurry, we may encounter delays in adapting machine procedures to handle the new plan.

Further, we have met some opposition from our field force to this continuous change. Another company out East is likewise experiencing some of this same trouble. The conscientious agent has difficulty in keeping up with all these new developments.

The only other comment that I want to make relates to the agent's difficulty in acquiring an effective knowledge of new products. We have found that it is essential to do a real selling job on agents—to sell them on any new products. In one case a fine product was not properly promoted

initially and, as a result, hasn't turned out as well as we had hoped. In another case, because of proper promotion, a new product has gone over very well. This program included film strips, one-day agency sessions promoting the new plan of insurance, as well as a lot of publicity.

MR. WILLIAM W. KEFFER: We have a Product Development Committee in the Connecticut General similar to the committees mentioned. My interest is in the group end of the business where we have had our problems coordinating the cost factor with development needs. Therefore our direction and emphasis may interest you.

We have an annual reporting date at which time those responsible for product development must come in with their plans for the coming year. Plans are geared to the capabilities of the organization. Further, we have a rather rigid limitation through our cost control currently on the extent of such activity.

Of course, you must have your product development committee shaping the general company policy as to the extent to which you are going to get into new areas and the extent to which you are going to provide new products and the opportunity for the field staff to grow. Limitations in the form of a budget and a specified size for the development staff are, however, necessary to prevent new product development from getting out of control.

I have one other comment which is a negative reaction to what my company has been doing. We make an annual field survey in the group area. We find that the emphasis is on what our field people report to be the demands in the market place and what they report to be the activities of our competitors and the success of our competitors with new products. This leads us, I believe, to too much emphasis on "market demand" and on "meeting the competition." My personal opinion is that the really big steps forward relative to new products have not always come from that direction—that we do need proper participation by our technical people and by our deep thinkers in order to come up with new ideas.

I think that major medical insurance in the group area is a prime example. If we were relying solely on what our customers thought they needed or solely on what our field people thought they ought to sell, then we probably would not have developed this product which has become so important.

MR. E. FORREST ESTES: "Product research," or product development, represents a constant challenge to the actuary—the challenge of "re-packaging" whole life, endowment, and term insurance so that our

salesmen see something new and different and exciting, something that taps a new market or revitalizes an established market.

It might be added that we have an extremely effective tool for promoting the sale of a particular plan: commission! Top commission encourages sales; anything less discourages.

MR. ROBERT C. TOOKEY: The purpose of a planning and development department is to investigate new products, new merchandising techniques and the like to determine their impact on the company's internal operation as well as on its new business production. Formal and informal suggestions are processed and polls are sometimes taken among policyholders and nonpolicyholders alike to measure the public reaction to a new idea. Careful attention is given to all details, including the name of the new policy. The emotional appeal of the word "family" was probably a strong factor in the early success of the family plan.

The appeal of the new product to the agent is quite important since it is often the agent's enthusiasm and belief in what he has to offer that is imparted to the prospect and results in a signed application. It is better to have one or two special policies that the agent can romance and concentrate on than a hodgepodge of merchandise that might divert his attention from making the sale.

There is a very definite place for the actuary in the planning and development department. His judgment is needed to appraise each idea in terms of its effect on home office administration, its compatibility to the company's electronic data processing system, its profitability, and so on. If the idea is "way out" from an administration standpoint, the actuary should consider suggesting changes that might make it administratively feasible without destroying its fundamental merits. The importance of the actuary's role in this area is very much in evidence and the planning and development department of one large company is actually headed by an F.S.A.