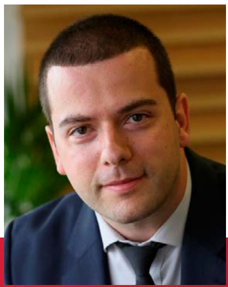
Life Insurance and Its Product Development Trends and Key Findings from an RGA Global Survey



By **Zoran Tsangidis**

Account Manager
RGA Reinsurance Company of Australia Limited

ztsangidis@rgare.com

Adriano De Matteis

Head of Business Development EMEA

RGA International Reinsurance Company Limited

adematteis@rgare.com

A brief history

The history of life insurance is almost too long to fit on one timeline, whereas various life insurance products have entered the fray in far more recent times.

Insurance originally began as a way for traders to reduce their risk, reportedly as early as 1750 B.C. in Babylon and 2000 B.C. in China. Life insurance dates back to circa 600 B.C., when ancient Greeks and Romans created groups called “benevolent societies,” which cared for the families of deceased members, and paid the members’ funeral expenses.

It wasn’t until the 1750s that the necessary mathematical and statistical tools were in place for the development of modern life insurance. The world’s first life insurance company was the Amicable Society for a Perpetual Assurance Office (aka the Amicable Society), which was founded in London in 1706 by William Talbot and Sir Thomas Allen.

This company’s first life insurance product was structured so that each member paid a fixed annual payment per share on one to three shares, with the eligible age range of the membership being 12 to 55. At the end of the year, a portion of the “amicable contribution” was divided among the wives and children of deceased members, in proportion to the amount of shares the heirs owned. This first product had many imperfections by today’s standards, but it served as the basis of the life insurance products and policies that exist today.

Towards the end of the 17th century, modern life insurance really started to take off, with more than two dozen life insurance companies starting up between 1787 and 1837 in the U.S. alone. As part of this expansion, life insurance products also developed in terms of their features, a reflection of the increasingly competitive environment and the emergence of the life insurance market.

Life insurance today

The current market drives insurers to work harder than ever before to remain competitive and profitable. More than ever, product development is becoming a key priority for the global insurance industry. Insurers that invest in new solutions and automate and streamline their product-development processes will find themselves with greater sales volumes and more satisfied customers because of appropriate product fit.

Overall, product development in life insurance across the globe continues to be negatively impacted by two major issues: the long lead times required to generate new product ideas and subsequently bringing these ideas to market, and a widespread dissatisfaction with the quality of innovation in the current crop of new product ideas.

Greater accuracy — characterised by risk dynamics associated with selection — across underwriting and pricing processes is essential. The consequences for insurers that neglect product innovation are dire: They will fail to deliver targeted products to producers and customers quickly and efficiently, and as a result will lose business, as well as market share.

RGA recently sought to assess and quantify these issues more closely by conducting our first global survey of life insurers. We surveyed more than 100 product development leaders in 12 countries across Europe, Asia and the Americas.

RGA survey results

Overall, product development in life insurance across the globe continues to be negatively impacted by two major issues: the long lead times required to generate new product ideas and subsequently bringing these ideas to market, and a widespread dissatisfaction with the quality of innovation in the current crop of new product ideas.

The study also yielded a number of interesting insights:

- The average time needed for a company to take a new product idea from development to launch currently ranges from six to nine and in some cases 12 months.
- Life insurers in most countries do not actively solicit market input from consumer focus groups, market surveys or informed external experts such as reinsurers, actuarial consulting firms or their company's head offices. Instead, they continue to rely primarily upon competitive intelligence and existing market practices.
- The main bottlenecks in the product development cycle globally are in administration, distribution, marketing and system development (IT). Asia Pacific (APAC) insurers also rely heavily on manual processes compared to their American counterparts.
- Insurers tend to treat distributors as their clients instead of the end consumer; therefore, they are more likely to optimise new product designs based on what distributors want to sell rather than what consumers want to buy. Partnering with reinsurers can provide insurers with significant insights that can lead to more innovative product solutions.

Key lessons

The findings show that there are clear opportunities for insurers around the world to improve their product development process, enhance the innovation of their products, and shorten and strengthen the development cycle by:

- Shortening overall product development time
- Utilising external advice channels more
- Improving product support functions — IT, administration, marketing
- Focusing on what the end customer wants

How do these global results compare to the Australian market?

There are a number of notable differences in the market structure in Australia, with its heavy bank presence and the number of competing products such as those that are superannuation — and investment — based. Super Funds tend to receive the most priority and attention, which results in shorter product development times when compared to standalone life insurance.

Overall, however, the trend in the Australian life insurance market is similar to what is happening overseas — namely that new products progress at a relatively slow pace from development to release. It is clear that work is needed in product support and prioritisation, and, most of all, more focus must be placed on the end customers and what they want.

How do these global results compare to the European markets?

The survey shows that trends in the EMEA life insurance market aren't much different than the rest of the world — but for one interesting difference. As elsewhere, insurers in Europe experience slow product development and could benefit from greater product support and prioritisation. EMEA respondents, however, are on average faster in developing new products from idea to launch, yet the number of new products introduced in the market is lower when compared with the Asia Pacific region.

EMEA markets also appear to have recognized that innovation comes from customer focus, and are more likely to use market surveys to understand what customers may want or need – a strategy that is still uncommon elsewhere. This is more important than ever because, while classic customer sales points are still key in selling insurances, today's consumers have more external influencers, such as social media and comparison sites with product reviews, all of them available via mobile technology. Whether you are fast to the market or slow to the market with a new product doesn't really matter if it's the wrong product.

Should you be interested in reading more about the Global survey, or discussing any aspects of the product lifecycle further, please contact your RGA Business Development representative. ■