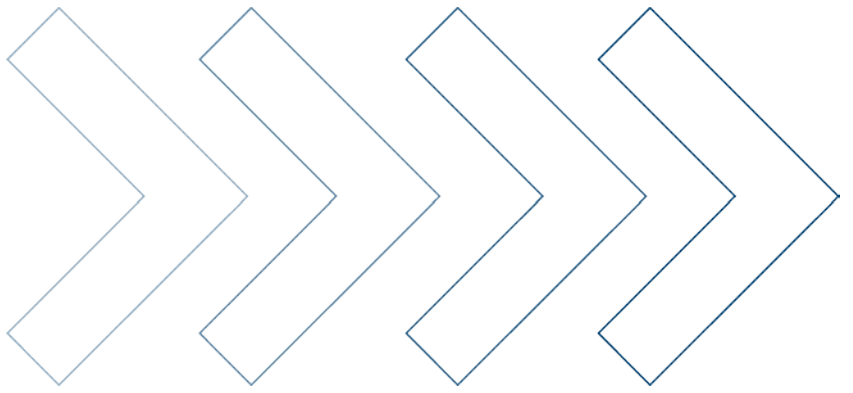




# Understanding the Product Development Process of Life Insurance and Annuity Companies Overview





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### Caveat and Disclaimer

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## Overview

### Section 1: Background and Disclaimer

The Society of Actuaries (SOA) along with the Product Development Section, International Section, Smaller Insurance Company Section, and the Committee for Life Insurance Research engaged LIMRA and RGA to survey and interview companies on their product development (PD) practices to better understand the individual life and annuity insurance market in the United States and Canada. In addition, to gain further insight into PD practices, other countries were included for comparison purposes. The results of this work can be seen in the full *Understanding the Product Development Process of Individual Life Insurance and Annuity Companies* report. This document summarizes some of the key findings from the full report.

The results provided herein come from a variety of life insurance companies with unique product structures, target markets, underwriting philosophies and distribution methods. As such, these results should not be deemed directly applicable to any particular company or representative of the life insurance industry as a whole.

The Society of Actuaries (SOA), RGA Reinsurance Company (RGA), LIMRA, and directors, officers and employees of each organization disclaim liability for any loss or damage arising or resulting from any error or omission in RGA/LIMRA's analysis and summary of the survey results or any other information contained herein.

This report contains information based on input from companies engaged in the U.S. and Canadian life insurance industry. The information published in this report was developed from actual historical information and does not include any projected information.

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### Section 2: Introduction

For insurance companies that span various sizes, regulatory environments and countries, the PD process embodies the company's strategy, value proposition and long-term competitiveness. It is a creative and interdisciplinary activity that transforms a market opportunity and technical capabilities into products that meet distribution and consumer needs while adding value to the company's bottom line. As companies strive to become more nimble and innovation accelerates to accommodate ever-changing market conditions, regulatory standards and secular growth trends, PD outcomes are becoming more crucial to the financial well-being of these organizations.

To improve the PD process, one would do well to first understand the current components of the process. This project consisted of a survey of North American life insurance and annuity companies and examined current insurer PD processes including the evolution of the current strategy; variation of the strategies by company characteristics (e.g., size, life vs. annuity) and region (e.g., United States vs. Canada companies); and identify leading PD practices globally. The results of the research can provide the life insurance industry with a resource to help enhance resource management and current processes to better serve the needs of its stakeholders.

The survey was sent to life and annuity companies in both the United States and Canada, with a request to be completed by October 2015. Interviews of U.S. and Canadian companies occurred in mid- (May-June) 2016, while interviews with international RGA offices occurred in late (November-December) 2016. Thirty-nine companies participated, representing over 25% of life premium, over 20% of annuity premium and 8% of Canadian life premium. Beyond international interviews, various international comments were added from a 2014 RGA global PD survey for comparison purposes. Information collected from the SOA survey allowed the data to be segmented by:

1. Companies that write life insurance, annuities or both
2. Small companies relative to larger companies
3. Fastest, most prolific (issuing most products) and most respected (as chosen by respondents)
4. Type of company such as stock, mutual or other

The segmentations were chosen to reveal potential difference of companies' PD processes to allow companies to benchmark its results relative to those types of companies.

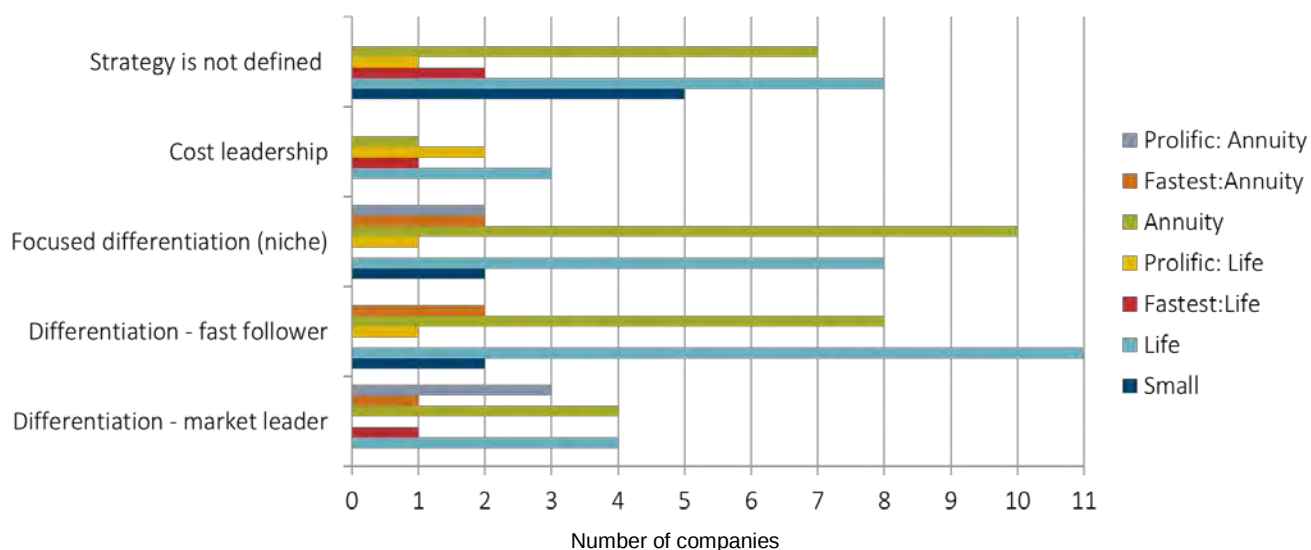
## Section 3: Key Findings

### 3.1 Strategies and Process

Figure 1 shows the number of companies that indicated a specific organizational PD strategy from wanting to be a low-cost leader in the marketplace, a niche market leader, a broad market leader or reacting quickly to market changes. Not having a clearly defined strategy for the life insurance or annuity product lines may not impede the overall PD process. Note that the most prolific companies were the companies that completed the most PD efforts in 2014, and the fastest companies had the shortest PD time from idea generation to launch for 2014 PD efforts.

**Figure 1**

Question B2: Primary Focus of Life Insurance Product Development Strategy



Among the five fastest and five most respected companies, some companies indicated having no clearly defined strategy for its PD process. Also companies without clearly defined strategies did not report having fewer products launching or lagging in development. It should be noted that companies responding that “strategy is not universally defined” for their life or annuity product line may indeed have strategies tailored to specific products within the line but not a consistent strategy for the product line overall.

Of companies that did choose a strategy, fast follower or niche strategies were the most commonly chosen strategies. Fast followers gain the advantage of not initially paying for innovation but must work quickly to react to changes in the market and potentially improve on the design being followed. Niche strategies would mean developing differentiating products or skills that address a specific market or need, and this may provide an opportunity to innovate. However, market leaders were more apt to indicate being strong in innovation but compromise more on timelines and speed to market. Moving products through a regulatory regime that may not exactly address the unique aspects of the product causes delays in approval and launch because of lack of understanding of newer products. These hurdles may be overcome with meetings with local insurance departments and proactive management than with reactive responses to objection letters.

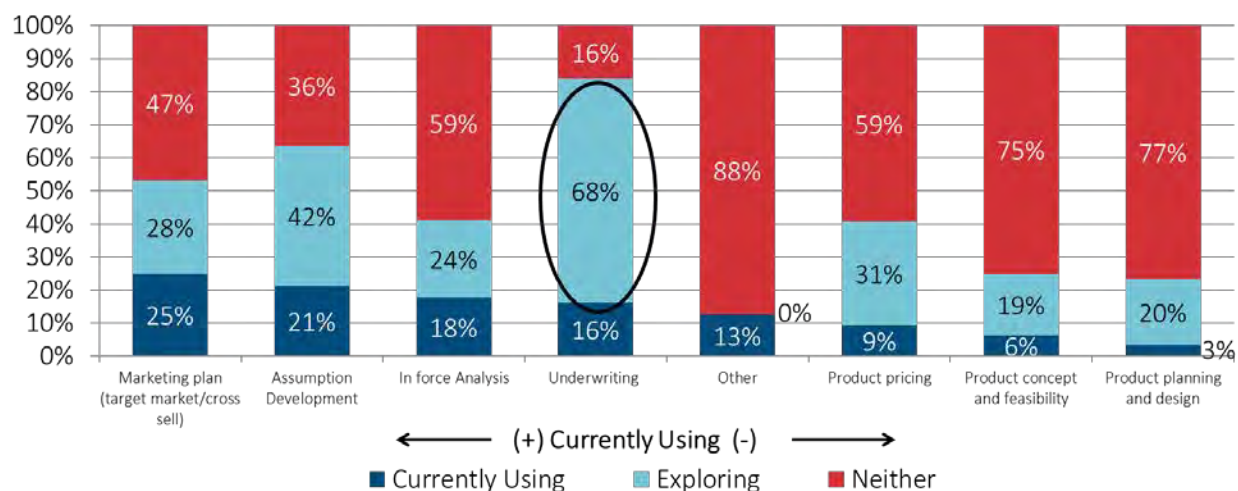
Most companies were able to successfully launch or keep on track product initiatives started in 2014. A potential downfall of any PD process is knowing when to discontinue or pause efforts that have begun so the proverbial “spinning of the wheels” does not put a drag on time and resources. Some companies have reached success through front-end vetting of the product in the early stages of the PD process. Through multiple stakeholder buy-in and/or stage-gated approaches, companies provide an opportunity to deprioritize or abandon projects that are no longer able to meet the needs of the organization. This does not mean that these approaches stop the process well before the desired launch, but mainly try to prevent the financial loss or disappointing results from a less well understood or unsustainable initiative.

It is apparent from the research that companies are pushing into a new PD realm focusing on accelerated underwriting, simplified underwriting and the use of predictive models.

How best to leverage predictive models (shown in Figure 2) and the team that is going to produce the models is a subject of some debate. Some companies reported having a dedicated team or resources, while some do not. Any team member may reside within or outside of the PD area. A predictive modeling exercise seems to benefit from having someone representing the business for which the model is going to be used on the team to optimize outcomes.

**Figure 2**

Question B11: Use and Potential Use of Predictive Modeling



Companies indicated a specific effort to improving management and oversight to assumption governance, as well as speed and efficiency for the state filing efforts. Although many companies expressed bottlenecks occur in IT-Administration, very few companies indicated any specific effort to enhance or update technology, and less than 30% of companies indicated adding speed or efficiency to IT-day 1 activities, which are activities that are needed to sell and issue a policy. Improving the bottleneck of IT resources and systems takes commitment from senior management and capital (human and financial) to achieve the likely multiyear goal. To improve speed and efficiency, some companies have explored the use of a project management style called Agile, which breaks up projects so areas can be more flexible, collaborative and efficient.

One way to improve the PD process is outsourcing. Some companies may not outsource any part or may outsource many parts of the PD process to gain some efficiencies. A number of vendors available in the many steps of the PD process may be leveraged, redirecting internal resources to focus on other company initiatives or efforts. One company indicated it outsources all of its pricing so the organization can focus on ideas on improving design or marketing.

### 3.2 Organization and Resources

Many companies have concerns about managing staff and efforts. There are clear benefits of having a dedicated PD team, but not all companies can keep these resources completely focused on just PD. Smaller companies may struggle more with needing staff to be multidisciplined. For companies with dedicated staff, some companies find that having a pool of resources may work well, while other companies prefer one resource being dedicated to one type of initiative such as by product line (e.g., term or fixed annuities). Pooling, where resources available come from a group rather than a dedicated staff, can allow for cross-training of pool participants but can create lack of continuity and inconsistency of work concerns. Dedicated staff with strong rotations can allow exposure to different areas for cross-training but can also create continuity concerns when newer rotations occur.

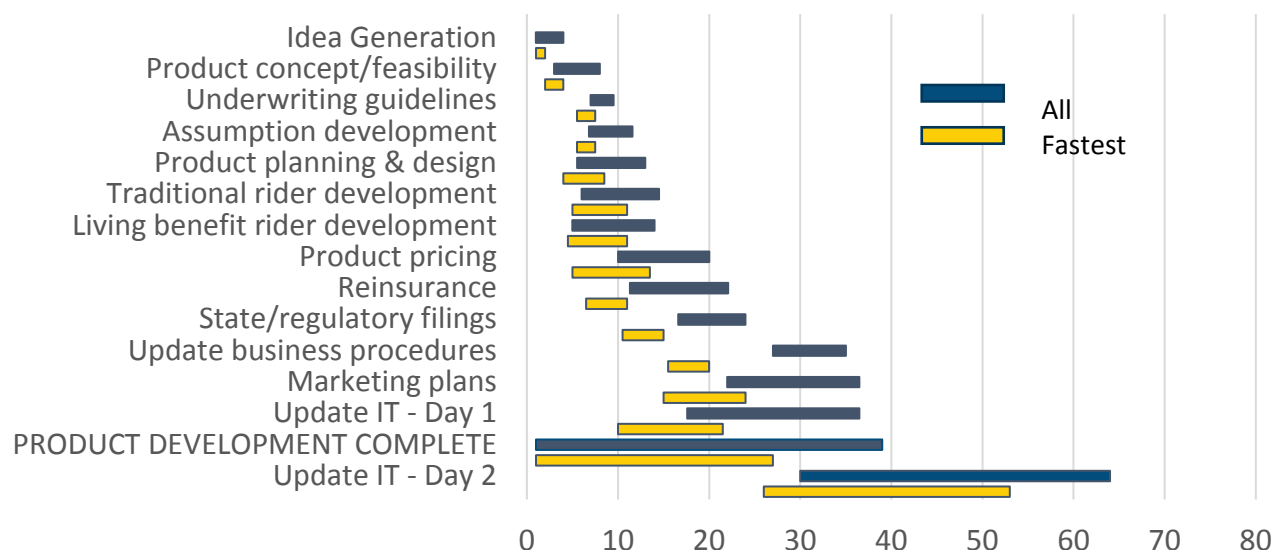
The survey asked what areas are involved in the steps of the PD process. Many steps of the PD process do not involve a single area, but multiple areas. The key concept here is communication—what other areas may be currently involved and what areas may need to become involved in the steps of the process for the overall PD to improve. For example, between one-third and one-half of companies involved valuation in the assumption development and pricing. When reserves may be a primary issue in the pricing of the product, involving valuation sooner rather than later can prevent delays due to inability to put certain structures through the valuation system or misunderstanding of pricing assumptions or regulation associated with the reserve or risk profile. Forward thinking to principle-based reserves, the interaction of pricing and valuation will become more important and vital to overall PD delivery.

### 3.3 Steps and Timelines

Companies most commonly benchmark the PD process based on the speed with which it is completed. Companies that can produce products faster may be seen as having a more effective or efficient PD process. One key takeaway from this section is identifying when a step of the process begins. Figure 3 provides an example of how the average time new term insurance product takes compares to the fastest companies.

**Figure 3**

Average Time (in weeks) for PD Process for New Term Insurance Product



A more efficient critical path may be plotted when one understands what is truly necessary to be completed before another step begins or how long a task should and does take to be completed. Companies in this study that were able to navigate the PD process faster tended to begin steps much sooner and alongside other steps, not completely waiting for completion of one task to move on to potential dependent tasks. Additionally, for most life and annuity products, the fastest companies appeared to have the most time savings on marketing plans and IT-Day 1 updates relative to all other companies for new Product Development efforts.

### 3.3 Regulation and Compliance

Companies expend a large amount of effort attending to consumer protection and actuarial guidelines for both life and annuity lines of business. Given the regulatory interest in disclosures, sales activity and rate increases, companies can anticipate continued effort in the consumer protection area.

Many companies indicated being able to get the product through the filing process in two to three months but often more when the product is new to the market or to the company. When products are newer to the market, guiding the regulators through the product takes more time but will be more beneficial in the end. This time-consuming process may be a barrier to innovation.

### 3.4 Regulation and Compliance

The fastest companies relied on competitive intelligence and agents at a much greater rate compared to the average for the participants when looking for ideas related to PD. Steering committees, while often responsible for approval of products and initiatives, had particularly little occurrence as a source of new ideas for both the fastest and most prolific companies. Financial impact, market size and share, and distribution requests have the greatest impact on the prioritization of new ideas. Most companies engage in either an ad-hoc or continuous process for refilling the pipeline of new ideas, which may be a product of watching competitors and reacting to changes in the market to be a fast follower.

### 3.5 Product Concept and Feasibility

Virtually all companies produce an internal business case to evaluate new PD efforts and review the actual results to the approved business case. Competitive analysis, cost-benefit analysis and multiyear sales projections are items that are frequently included in business cases. However, balance sheets and income sheets are not, implying that business case approval is not dependent on detailed actuarial and financial modeling.

### 3.6 Distribution and Channel Marketing

Survey participants indicated using brokerage and captive distribution channels the most in 2014. However, life and annuity companies differ on use of other channels. For example, banks are more prevalent for annuity writers, whereas direct mail and worksite marketing are utilized only by life insurance writers. Respondents are more apt to adding more distribution channels than eliminating existing channels regardless of declining growth. Sales promotions, trips and bonuses are the primary tool to retaining agents, but companies also leverage advancing commission and deploying technology (specifically agent portals).

### 3.7 Expense Approach

Almost all companies tend to have fully allocated expenses incorporated into PD, although a few annuity companies have marginal (fixed and variable) expense approaches. About half of the participants do not compare their expense to the GRET (Generally Recognized Expense Table), and the majority that do only sometimes refer to the GRET, implying that they are using proprietary, internal studies.

### 3.8 Review and Monitoring Results

Companies tend to have a high-level peer review rather than a detailed review, while small companies are more likely to have no formal peer review process at all. Pricing assumptions, pricing model inputs and profit model outputs are nearly universally included in a peer reviews.

New business results are the most important success measures of a PD effort, specifically, new policies/contracts, premiums/considerations and profit goals. Disruptive innovation is a minimal consideration on the internal perception of a successful PD. To assist with the monitoring process, most companies conduct annual experience studies for mortality, persistency and expenses.

### 3.9 Smaller Insurance Companies

The similarities and differences in executing the PD process for smaller insurance companies are highlighted in the study in a variety of ways. However, in an interview with a smaller insurance company, the company indicated that being small is no longer an excuse for not being able to deliver certain products or services. Smaller insurance companies indicated they have spent time and effort improving technology, and coupled with the possibility for less legacy system burden, this has improved their outlook on their competitive position. Smaller companies have fewer resources to share the load of the PD process and often do not have dedicated PD staff for steps in the PD process and thereby may need to be more selective on which efforts to tackle for any given year reducing the number of PD efforts completed. Smaller companies' primary measure of success is similar to other companies, focusing on new business premium or considerations. Marketing efforts tend to use brochures rather than direct mail, with some leveraging television, the internet or sponsorships. Looking over the PD process, smaller insurance companies face apparent challenges, including resources, distribution demand, cost of innovation and competition for shelf space. In favor of smaller insurance companies is the potential to leverage technology enhancements and not be burdened by multiple or legacy administrative systems. Smaller companies may also be more nimble by not being bound to a single PD strategy.

### 3.10 International Perspective

Product development globally faces many similar and unique issues navigating the PD process. Markets such as Brazil do not focus on innovation and, in fact because of the regulatory environment, potentially discourage it. Other markets such as Hong Kong face constant product changes and updates that need to push through the PD process quickly. Reinsurers are often involved in the PD process in Italy but struggle to involve underwriting and claims in the PD process.

In many countries such as China, Brazil, France and South Africa, where bank distribution is the primary outlet to reach customers, the banks may have extreme influence on what products are offered and may control access to the end consumer. Insurance companies may not be able to access data from banks to potentially leverage data in predictive models, so although predictive modeling is being explored, it is not highly emphasized. Products tend to be more savings focused and less pure mortality because of this fact. Given the global economic environment, companies must choose how to develop products pleasing to the distribution yet still de-risk on interest rate exposure and design changes to increase returns. This could slow the PD process when competing ideas and directives hit the PD staff.

## Section 4: Closing Remarks

The study offers many responses to a variety of questions that probe the current working of the individual life and annuity insurance PD process. Once understanding of the current state and relative nature of individual versus average or aggregate performance is achieved, evaluation of the process can begin to seek improvement or note excellence in benchmarking against the average.

A natural benchmark can come from evaluation of PD speed through reviewing Product Development Steps and Timelines. Many companies ask how the process can be sped up, and the graphs from the report may reveal efficiencies other companies have realized by initiating a task sooner or in parallel with other tasks. To start a task sooner, communication is key and the fundamental question of “What do I need to know to start or take the next step(s)?” should be addressed. Some items may not need to be fully complete before another task can begin, and companies could evaluate the information available to not stall a step longer than necessary.

A common theme relative to PD in North America and other countries is that certain administrative systems slow the PD process and potentially hinder initiatives. Distribution, mostly through banks in many countries, also has an influence on product design and delivery, sometimes in such a manner that makes or breaks a product offering or success. One key difference in some international PD is the potential to issue a product without the need of regulatory approval. Not requiring the approval process would potentially facilitate innovation speed to market that many North American companies have had to deemphasize because of costs of development and approval, as well as resource constraints.

Smaller insurance companies face some distinctive hurdles that are not unexpected but still difficult to overcome. Burdens of implementing newer regulatory regimes and reporting and the ever-present resource issue continue to make these smaller companies feel a larger impact of competition.