



Product Development Issues: *Speed to Market*



Actuaries Club of the Southwest
Fall Meeting
San Antonio, TX

Andy Ferris
Deloitte Consulting LLP
November 15, 2007

Audit. Tax. Consulting. Financial Advisory.

Agenda

Recent Studies on Product Development Process

Deloitte's Organic Growth Study: Background for
PRIDE Study

Highlights from Deloitte's PRIDE Study



Complimentary Studies on the PD Process

- SOA Marketing & Distribution Section
 - *Product Implementation Survey*
- LIMRA
 - *Individual Life Product Development Process: The Need for Speed*
- Deloitte
 - *Organic Growth for Life Insurers: A Playbook for Market Advantage*
 - *Product Initiation, Development and Effectiveness (PRIDE) Study*

Product Development Issues

Deloitte's Organic Growth Study: *Background for PRIDE*

Growth Is Key for Insurance Companies to Thrive

Specific characteristics of the insurance market suggest that insurers should position themselves for growth, and that growth should be organic, or they risk falling behind as other companies seize market opportunities for expansion.

Why Will Growth Companies Win?

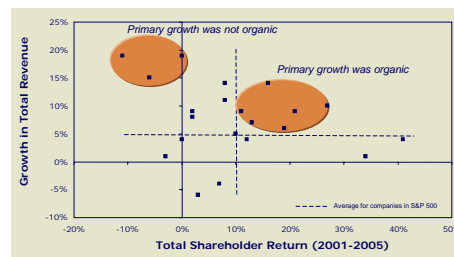
- Intense pressure to grow from both financial markets and rating agencies
- Increased power of distribution channels (independent agents and financial planners) in the sales process has increased the race for shelf space and market
- Commoditization of products mean thinner profit margins, which in turn requires greater volumes to achieve scale and reach profit targets
- Organic growth is a leading indicator of a company's long term health

The Stock Market Rewards Organic Growth

A study of top insurance companies showed distinct results:

Organic growth was directly rewarded by above average returns

Non-organic growth was left yet unrewarded



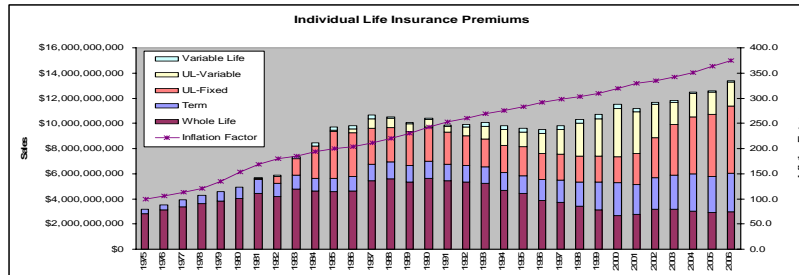
Industry Dynamics – Individual Life Insurance Products

Measured in a variety of ways, life insurance sales are not significantly growing.

Premium revenue and coverage rate show a static market even though the product portfolio has expanded

- Premium revenue for individual life insurance products has grown only modestly over a variety of historical time periods:
 - 20 Years from 1986 - 2006: 1.6% CAGR
 - 15 Years from 1991 - 2006: 2.1% CAGR
 - 10 Years from 1996 - 2006: 3.5% CAGR
 - 5 Years from 2010 - 2006: 3.7% CAGR
- Growth rates have generally lagged inflation rates over corresponding time periods. The last significant sales increase came in the mid 1980's with the introduction of the Universal Life product, one of the few periods in which the premium growth rate did exceed the inflation rate.
- Over the past 40 years, the industry has been unable to increase the proportion of U.S. adults with life insurance protection.
- In 2004, one third of adults still carry no life insurance at all, similar to the 30% of adults without coverage in 1960.

Source: *US Individual Life Insurance Trends*, LIMRA International and *Trends in Life Insurance Ownership Among U.S. Individuals*, LIMRA International
Consumer Price Index for All Urban Consumers, US Department of Labor, Bureau of Labor Statistics



Note the Inflation Factor is the CPI rescaled such that calendar year 1975 has a value of 100.

Copyright © 2007 Deloitte Development LLC. All rights reserved.

6

Industry Dynamics – Individual Annuity Products

Annuity sales climbed steadily through the 1990's but have been relatively flat since.

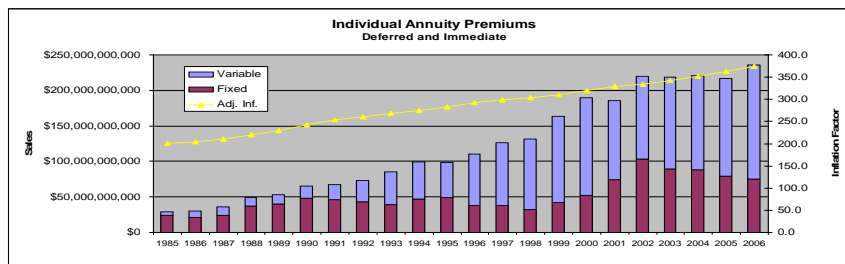
During the 1990's...

- Variable annuity sales grew substantially, exceeding the inflation rate
- VA sales growth made a significant impact on overall annuity premium growth
- Contributing factors including strong equity market returns and introduction of living benefit riders

Since the 1990's...

- Variable annuity sales have remained relatively flat, lagging the inflation rate
- Due to consolidation of manufacturers, selected individual companies' market shares have increased while total industry sales have remained unchanged.

Source: *The 2006 Individual Annuity Market*, LIMRA International
Consumer Price Index for All Urban Consumers, US Department of Labor, Bureau of Labor Statistics



Note the Inflation Factor is the CPI rescaled such that calendar year 1975 has a value of 100.

Copyright © 2007 Deloitte Development LLC. All rights reserved.

7

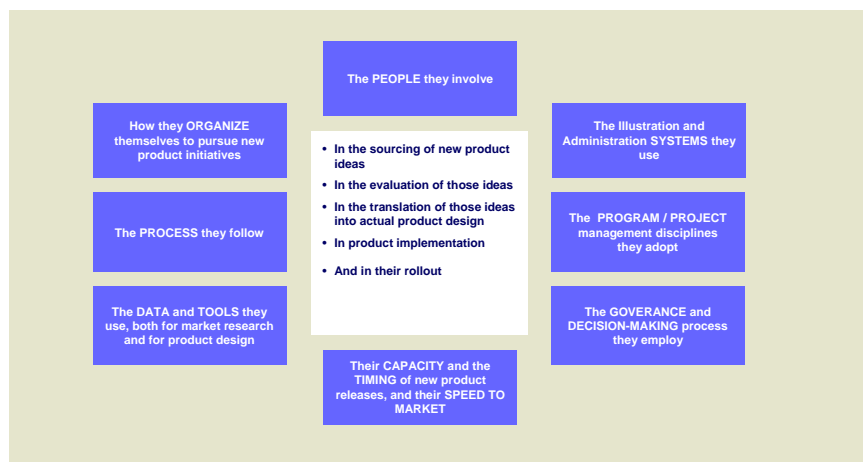


Product Development Issues

Deloitte's PRIDE Study: Highlights


Deloitte's PRIDE Study: Background

A goal of the PRIDE study is to provide insight into how successful life insurance companies approach new product development.



PRIDE 2006

Deloitte has recently completed PRIDE 2006, a life insurance product development benchmarking study...



The image shows the cover page of the PRIDE 2006 survey. It features the Deloitte logo at the top left. The main title is "Product Initiation, Development, and Effectiveness Survey (Life Insurance Version)". Below this, it says "PRIDE 2006" in large green letters, followed by the subtitle "Standardizing Insurance Car Sales". At the bottom, there is a registration form with fields for "Organization Name", "Date", "First Name", and "Title".

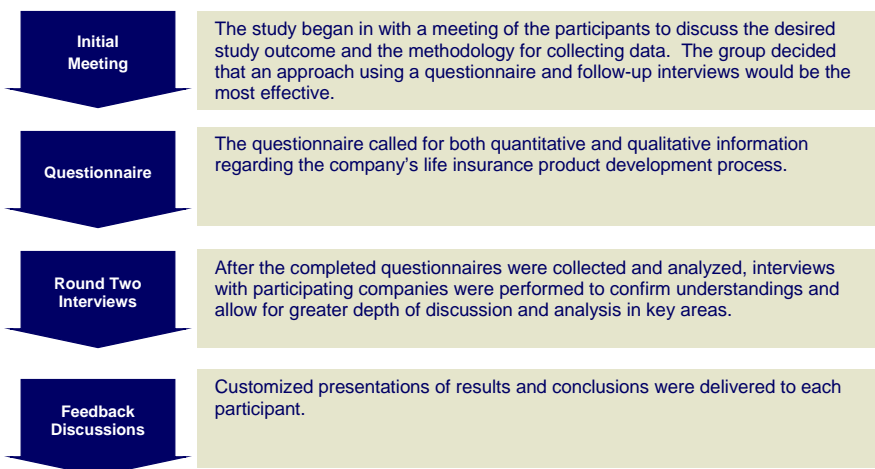
Deloitte's PRIDE life insurance product development survey included nine companies that collectively received over \$3.8 billion in first year premium coming from over half a million paid applications.

Study participants included industry leaders across the full range of individual life products—both in terms of sales and profitability, and in terms of their reputation for innovation.

Copyright © 2007 Deloitte Development LLC. All rights reserved.

10

Methodology and Approach



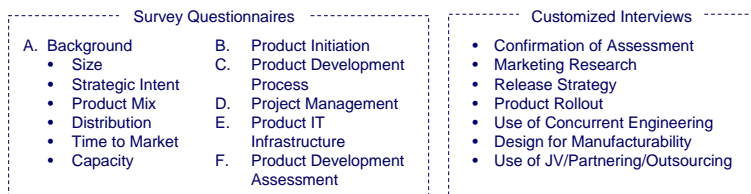
Copyright © 2007 Deloitte Development LLC. All rights reserved.

11

PRIDE 2006

As a part of this study, we were able to examine the product development process at these companies in some detail, either through survey questionnaires or customized interviews.

PRIDE 2006



- Providing meaningful, insightful comparisons against other leading companies
- Providing, where applicable, meaningful "Best Practices" or "Leading Practices"

Key Classifications: Strategic Intent & Product Initiative

Strategic Intent

Companies were asked to report their high level strategic intent. Three broad categories emerged:

- Market Leader
- Fast Follower
- Other

Product Development Initiatives

Product development initiatives were classified into three categories:

- Repricing or Refinement of Existing Product
- Clone Existing Product / Add New Features
- Innovative New Product

Key Classifications: Self-Reported Product Launch Success

Self-Reported Product Success Rate

Companies were asked to report the percentage of their product launches over the past 3 years that they considered successful.

Self-Report Product Success Definition

Companies were asked how they define success.

Three categories emerged:

- High Success
- Moderate Success
- Low Success

PRIDE 2006

Five Categories of Findings

1. Not every company desires to be a market leader.
2. Speed to market was not a predictor of success.
3. Even successful companies expressed dissatisfaction with their speed to market.
4. Other factors appeared to contribute to their reported success.
5. The most successful companies embrace many of the same innovative approaches to product design and manufacturing that are often so commented upon when they are seen in other more consumer oriented, product-driven industries—such as consumer products and electronics.

Not Every Company Desires to be a Market Leader



Copyright © 2007 Deloitte Development LLC. All rights reserved.

16

Not Every Company Desires to be a Market Leader

Self-Reported Market Strategy	Average Self-Reported Product Launch Success Rate
Market Leader	90%
Fast Follower	49%
Other	67%
Overall	64%

Copyright © 2007 Deloitte Development LLC. All rights reserved.

17

Not Every Company Desires to be a Market Leader

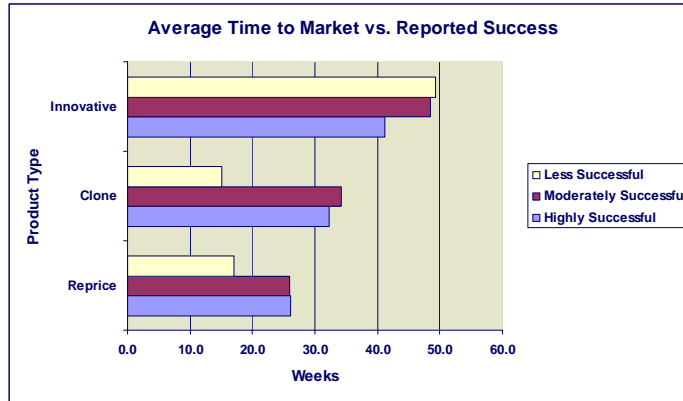
Average Number of Product Initiatives for all Participants Between 2003-2005			
Self-Reported Market Strategy	Re-pricing or Refinement	Cloned Product / New Features	Innovative New Products
Market Leader	12.5	7.5	2.0
Fast Follower	7.5	4.5	3.3
Other	8.7	4.0	2.0
Overall Average	9.0	5.0	2.6

PRIDE 2006

Five Categories of Findings

1. Not every company desires to be a market leader.
2. Speed to market was not a predictor of success.
3. Even successful companies expressed dissatisfaction with their speed to market.
4. Other factors appeared to contribute to their reported success.
5. The most successful companies embrace many of the same innovative approaches to product design and manufacturing that are often so commented upon when they are seen in other more consumer oriented, product-driven industries—such as consumer products and electronics.

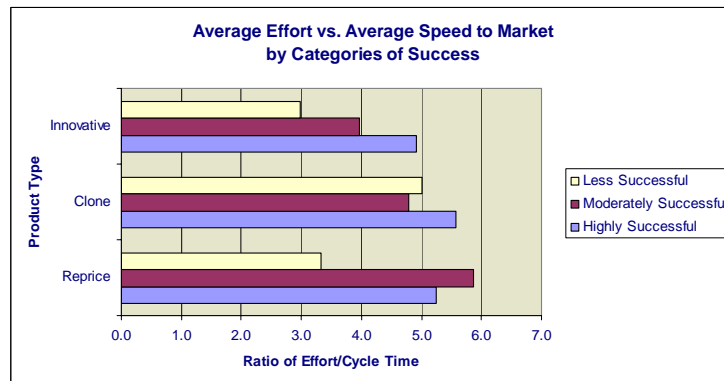
Speed to Market was not a Predictor of Success



The companies reporting the greatest success with new product initiatives, were fastest to market only with innovative new products, but they introduced these at a pace of less than one a year.

Speed to Market was not a Predictor of Success

Not only did the more successful companies sometimes take longer to bring new products to market, but they also reported more weeks being spent on the individual steps making up the product development process.



Speed to Market was not a Predictor of Success

Time to complete a new product introduction varied widely by type of new product development effort and by strategic intent

Product Delivery Time (in weeks)			
Self-Reported Market Strategy	Re-pricing or Refinement	Cloned Product/New Features	Innovative New Products
Market Leader	4-24	12-36	12-48
Fast Follower	10-78	10-61	20-69
Other	4-39	18-39	24-91
Overall	4-78	10-61	12-91

PRIDE 2006

Five Categories of Findings

1. Not every company desires to be a market leader.
2. Speed to market was not a predictor of success.
3. Even successful companies expressed dissatisfaction with their speed to market.
4. Other factors appeared to contribute to their reported success.
5. The most successful companies embrace many of the same innovative approaches to product design and manufacturing that are often so commented upon when they are seen in other more consumer oriented, product-driven industries—such as consumer products and electronics.

Even Successful Companies Expressed Dissatisfaction with their Speed to Market

Of all the criteria potentially influencing product development success, companies were least satisfied with their speed to market and indicated that this was one area in which they would most like to improve.

- Satisfaction with speed to market had no correlation with the number of product launches or types of products introduced.
- The companies that introduced products on an ad-hoc basis were less satisfied with their speed to market and had a lower percentage of successful product launches than companies that introduced products on a regular cycle.

Interestingly, the highly successful companies were more interested in improving the rollout process than in improving speed.

PRIDE 2006

Five Categories of Findings

1. Not every company desires to be a market leader.
2. Speed to market was not a predictor of success.
3. Even successful companies expressed dissatisfaction with their speed to market.
4. Other factors appeared to contribute to their reported success.
5. The most successful companies embrace many of the same innovative approaches to product design and manufacturing that are often so commented upon when they are seen in other more consumer oriented, product-driven industries—such as consumer products and electronics.

Other Factors Appeared to Contribute to their Reported Success

More interestingly, other factors appeared to contribute to their reported success.



The most successful companies typically reported employing a well thought out, well documented, and well understood, repeatable product development process—one that was embraced not only by the product development staff but also by all those others involved in the total end-to-end process—their distributors, their market research, their actuaries, the operations and systems staff, legal, and/or compliance.

Other Factors Appeared to Contribute to their Reported Success

- **Had a clearly articulated, broadly understood and accepted strategic intent in terms of product development**
- **Focused more on establishing a reputation with their producers for delivering quality, error free products on time than on speed to market:**
 - Introduced products on a regular cycle as opposed to on an ad-hoc basis
 - Were more interested in improving the rollout process than in improving speed, viewing building and maintaining producer commitment to the new product launches as the critical ingredient to their success
- **Successful fast followers adopted a more disciplined approach to tracking competitors' products, capabilities, and plans:**
 - Competing on the basis of their ability to quickly "innovate at the edges," through adaptation of their existing portfolio of products to changing market needs

Other Factors Appeared to Contribute to their Reported Success

- **Had a well thought-out, well documented, and well understood, repeatable product development process:**
 - One that included all those involved in the total end-to-end process—marketing, distribution management, the actuaries, the operations and systems staff, financial, legal, and/or compliance
- **Demonstrated a disciplined examination of ideas from the field, with active involvement of the Business Unit Executive leadership and with both a clearly defined decision-making and escalation/appeal process:**
 - Triaging product ideas
 - Focused on understanding the needs and expectations of producers and potential policyholders
 - Involving all the impacted functions, including Operations and Systems, in the decision making
 - Leveraging dedicated product development teams

Other Factors Appeared to Contribute to their Reported Success

- **Demonstrated the same disciplined approach during implementation:**
 - Leveraging the insights provided and gained by the operations and systems staff during the development of the business case
 - Actively involving the advisory/controllership functions – CFO, Compliance, and Legal
 - With the leadership of product implementation coming from a dedicated Product Development team or department
 - With that leadership having a substantially broader skill set than project/PMO management
- **Demonstrated the will and the capacity to manage multiple, but simultaneous product development streams with staggered completion dates**

PRIDE 2006

Five Categories of Findings

1. Not every company desires to be a market leader.
2. Speed to market was not a predictor of success.
3. Even successful companies expressed dissatisfaction with their speed to market.
4. Other factors appeared to contribute to their reported success.
5. The most successful companies embrace many of the same innovative approaches to product design and manufacturing that are often so commented upon when they are seen in other more consumer oriented, product-driven industries—such as consumer products and electronics.

Leading Practices in Design & Manufacturing

The more successful companies embrace many of the same innovative approaches to product design and engineering and to product manufacturing that are often so commented on when they are seen in other more consumer-oriented, product-driven industries—such as consumer products and electronics.

Formal, Rigorous, On-Going, and Adaptive Market Research

- Producer Panels, Surveys, Focus Groups
- Consumer Surveys and/or Focus Groups
- Third Party Research
- Internal Research
- Product Labs, Incubators, Recruiting Market Researchers from Other Industries
- Competitor Research

Disciplined Product Manufacturing

- Concurrent Engineering
- Design for Manufacturability
- Creating a Value-Adding Organization (JV/Partnering/Outsourcing)
- Reusable Component Based Design
- Rigorous Scenario-Based Economic Testing and Planning

Leading Practices in Design & Manufacturing

Formal, Rigorous, On-Going, and Adaptive Market Research

- Producer Panels, Surveys, Focus Groups
- Consumer Surveys and/or Focus Groups
- Third Party Research
- Internal Research
- Product Labs, Incubators, Recruiting Market Researchers from Other Industries
- Competitor Research

- The companies reporting the greatest success with life insurance products appeared to be those who placed the greatest emphasis on understanding and consistently responding to their producers' needs and expectations in terms of product features, pricing, and service.
- Some of the more creative approaches to market research were focused on finding ways to better anticipate and/or shape their producers' needs by developing a better understanding of consumer behaviors and preferences, including:
 - Either commissioning or conducting their own consumer surveys and focus groups
 - Prototyping, product labs and incubators to better test alternative product designs.

Leading Practices in Design & Manufacturing

Disciplined Product Manufacturing

- Concurrent Engineering
- Reusable Component Based Design
- Design for Manufacturability
- Creating a Value-Adding Organization (JV/Partnering/Outsourcing)
- Rigorous Scenario-Based Economic Testing and Planning

- A number of companies described how they were attempting to introduce more parallel processing and template-based design into their product development efforts.
 - Smaller companies and/or larger companies with a strong culture of teamwork, cooperation, and trust appeared to report fewer problems with these efforts.
- Companies reporting varying degrees of success with Design for Manufacturability.
 - A number cited the combined experience of their product design, systems, and operations staffs as a key contributor to their success.
 - Conversely a number also pointed to the challenges introduced into the product design process by changing administrative operation and systems.

PRIDE 2006

Five Categories of Findings

1. Not every company desires to be a market leader.
2. Speed to market was not a predictor of success.
3. Even successful companies expressed dissatisfaction with their speed to market.
4. Other factors appeared to contribute to their reported success.
5. The most successful companies embrace many of the same innovative approaches to product design and manufacturing that are often so commented upon when they are seen in other more consumer oriented, product-driven industries—such as consumer products and electronics.

Contact Information

Deloitte.

Andy Ferris, FSA, MAAA, CFA
Manager
Actuarial & Insurance Solutions

Deloitte Consulting LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA

Tel: 312-486-1469
Fax: 312-247-1469
Mobile: 773-720-1601
anferris@deloitte.com

Member of
Deloitte Touche Tohmatsu

Deloitte.

Copyright © 2007 Deloitte Development LLC. All rights reserved.

Member of
Deloitte Touche Tohmatsu