Product Development Under the Microscope
How BPM Can Help Insurers Speed up Time to Market

ORACLE WHITE PAPER | OCTOBER 2015
# Table of Contents

Executive Summary 1

- Stagnant, ultralow interest rates 2
- Fierce competition and a new consumer mindset 3
- New risks from the sharing economy 3

Typical Problems in Product Development 3

- Lack of structure 4
- Lack of leadership 4
- Lack of clarity 4
- Lack of unity 4
- Outdated technology environments 4
- Unrealistic expectations of technology 5

The Value of Close Examination 5

The Five Stages of Product Development 6

- Stage 1: Product concept model and time/cost analysis 7
- Stage 2: Product design 7
- Stage 3: State Filing 8
- Stage 4: Implementation 9
- Stage 5: Launch 10

Ideal Conditions for Hardwiring Efficiency into Product Development 10

- The role of the champion 10
- Organizational buy-in 10
- Change management expertise 11
- Modern IT systems 11

The Answer to Insurance State Filings: One-Stop Processing and Reporting 11

- Highlights of Oracle Insurance Compliance Tracker 12
Executive Summary

Consider the changes in the last 20 years in technology, communication, and people’s buying habits. From an insurer’s perspective, the rapidly changing world translates into new risks and therefore, new opportunities to bring innovative insurance products to market. The problem for most insurance companies is that little has changed in product development processes for decades.

Too many insurance organizations rely on manual processes using ancient organizational tools like paper files and spreadsheets. Bottlenecks are considered normal in all phases of product development. Despite advances in technology, the time it takes to roll out a new insurance product remains at a snail’s pace. In a recent survey by Accenture, 40 percent of insurance underwriters and product managers said they take 12 months or longer to take a product from idea to implementation. Only 28 percent of insurers said they could launch products within a six-month time frame.¹

Granted, insurance is a highly regulated, document-intensive industry. Some delays involving regulatory bodies may seem out of an insurer’s control. Nevertheless, insurers are under tremendous pressure to develop new products regularly and expedite the time it takes to launch insurance products.

Oftentimes, insurance executives turn to software products to solve their problems. While technology solutions play a critical role in automating tasks, executives typically fail to identify problems before implementing the software. They simply transfer their archaic processes into their shiny new software.

Industry experts agree that repeatable, streamlined business processes are essential to success. Now is the time to examine your organization’s internal processes in product development through business process management (BPM). In this white paper, BPM does not refer to a specific software product. Instead, it describes the holistic, enterprisewide approach to maximizing efficiency. BPM refers to the bigger picture and analyzes the actual steps people take, communication methods, technology tools—all the minutia that members of an organization perform to accomplish a business goal. Gartner defines BPM as a “discipline that uses various methods to discover, model, analyze, measure,

improve, and optimize business processes. A business process coordinates the behavior of people, systems, information, and things to produce business outcomes in support of a business strategy. In this white paper, we analyze every phase of product development in the insurance industry, and offer insights on how organizations can improve their processes. Oracle Insurance Compliance Tracker is one solution that can drastically eliminate the unnecessary delays of regulatory filings and increase productivity. By improving product development, insurance companies can reduce costs, differentiate themselves in the market, and foster a culture of innovation.

Behind the Push to Develop New Insurance Products

Industry veterans remember the days when product development was perceived as more of an ordinary business function than a strategic initiative. Up until the end of the 1990s, insurers came out with new products on an as-needed basis. They typically competed primarily on rates than on product differentiators. However, dramatic changes in the economy, the market, and business in recent years have turned the old paradigm upside down. Today, insurers feel the urgency to develop new products to diversify their offerings, attract new customers, and stay relevant in the digital age. Coming out with new products regularly is not a bonus, but a necessity for survival.

Let’s explore the forces driving the demand for new insurance products.

Stagnant, ultralow interest rates

Since the financial crisis that began in 2007, persistently low interest rates have been a major source of distress for the insurance industry, which relies heavily on investing premiums. Releasing new products gives insurers more opportunities to generate revenue. The faster they can get new products out to market, the faster they can start earning—especially before competitors come out with similar features.

Towers Watson, a global risk and financial management firm, reported the widespread industry concern about low interest rates in a recent survey. The firm asked North American life insurance CFOs to name their top challenges in the medium and long term. Respondents identified low interest rates as a “significant threat.” Seventy-one percent of the CFOs predicted three to five more years of low interest rates.

In September, the Federal Reserve announced it was not raising interest rates, much to the dismay of many insurers. If the economic outlook worsens in the coming months, the rate hike could be delayed until 2016—which would amount to a decade of near-zero interest rates.

Fierce competition and a new consumer mindset

Google, Overstock, and Wal-Mart livened up the competition in 2014, when they joined the insurance business and added insurance sales to their websites. As insurers adjust to the online retail environment, product development will become a higher priority. Ernst and Young, a global professional services organization, advises insurance companies to expand their market presence by developing products that will appeal more to online shoppers—in particular, creating simplified products with modular riders.4

The more pressing matter for insurers is how to stand out from their competitors, knowing that consumers can compare policies and prices with a few mouse clicks or a few smartphone taps. Policyholders are now more inclined to switch insurance providers. According to a recent survey by Accenture, a global management consulting company, two-thirds of insurance customers are open to buying insurance products from organizations other than insurers. Many respondents said they would consider buying insurance from online service providers, banks, telecommunication companies, retailers, even car dealers. The consulting firm expected policyholders to switch insurance providers in droves, amounting to $400 billion of insurance premiums transferring from carrier to carrier in a one-year period.5

New risks from the sharing economy

Hyperconnected people all over the world are quickly catching onto the benefits of buying and selling through peer-to-peer markets. If they need a place to stay, they can book a room in a private home on AirBNB. If they need transportation, they can catch a ride through Uber or Lyft’s ridesharing services. From parking spots to loans to prom dresses, more consumer needs are being met through peers rather than traditional commercial routes.

Seventeen billion-dollar companies have grown out of the sharing economy, many of which reached the billion-dollar milestone in less than four years, according to VB Profiles, a market intelligence firm.6 The growth in new risks and new opportunities for insurers is exploding.

Only in recent months have insurers begun offering new products designed for the sharing economy. GEICO, Farmers Insurance Group, and Metromile recently released insurance products to address coverage gaps in ridesharing services. Yet overwhelmingly, the insurance industry has failed to keep up with the sharing economy’s rapidly growing demand for new products.

Typical Problems in Product Development

Insurers realize that product development needs to be a top priority. They’re well aware that product development cycles exceeding six months—oftentimes exceeding twelve months—are far too long in a world of lightning speed market changes. Insurance industry leaders openly discuss the need for innovation, transformation, and customer-centric approaches. Yet, there is no open dialogue about the common problems within insurance organizations that inevitably lead to delays, errors, and inefficiencies in product development.


Here are the most common problems, which often overlap:

**Lack of structure**

Many insurance organizations approach product development without a formal structure. Insurers typically begin developing products through a series of sit-down meetings scheduled around the availability of attendees. Representatives from various departments like underwriting, legal, and marketing get together around a table and share document drafts. Team members refine the drafts little by little until the documents are final and ready to submit to the state insurance agencies.

This informal approach can lead to many problems. Too much is unpredictable at the start of the process, including how much time the organization needs to launch a product. Unable to pinpoint a launch date upfront, insurers are hard-pressed to get producers to commit to the new product.7

**Lack of leadership**

Oftentimes, the authority figures responsible for signing off on documents create the bottlenecks. They might miss an e-mail or a meeting, which ends up forcing staffers to wait unnecessarily for approvals. In other instances, managers simply give rubber stamp approvals without reading documents thoroughly, which can lead to miscommunication and mistakes. Ultimately, these scenarios cost the organization more time and money.

**Lack of clarity**

During the infancy stages of product development when staffers are formulating the product concept, the vision sometimes remains blurry. Team members fail to pinpoint crucial details such as the goal, the customer, or why the market needs this product. Lack of clarity will sometimes lead to scope creep, where specifications and feature sets end up going through multiple revisions. This leads to duplicate work throughout product development.

**Lack of unity**

Employees from different departments will inevitably see developing products from their own lenses. One actuarial researcher described the typical conflicts in cross-functional product development teams: “Marketing would want a new product to be the most innovative to create the most impressive press coverage. Sales would want the cheapest, best, quickest to get commission out of . . . Actuarial [departments] go for complicated products.”8

Aligning the entire organization’s priorities to focus on product development can also be difficult when other companywide initiatives are happening during the development lifecycle. PricewaterhouseCoopers, a multinational professional services network, found this to be especially common in global insurance companies that have disparate national and business cultures.9

**Outdated technology environments**

Loading complex insurance products into older legacy systems can be a burdensome process, according to Ed Fenwick, a product expert and senior vice president of The Nolan Company, a management consulting firm specializing in insurance, healthcare, and banking. In a recent survey of commercial lines insurance carriers, over 90 percent of respondents indicated an urgent need for more advanced technology, specifically for product development.7

---

development. The insurers reported that their current tools would not support product development capability requirements in the coming three to five years, according to Deloitte, a global professional services network.¹⁰

The vast majority of insurers use old-fashioned tools for organizing, collaborating, and storing documents. They rely on manual processes such as creating spreadsheets, data entry, and filing paper copies of documents in folders. These routines create more work, rely on hand-offs, and drive up costs. Manual processes also leave organizations prone to errors—an especially dangerous predicament in a highly regulated industry.

Rod Travers, a process improvement expert, explained a common scenario.

"Because of an inadequate functionality in a system, you develop a workaround," said Travers, executive vice president of The Nolan Company. "Before you know it, you have all these workarounds, and they're not truly adding value. They're just workarounds making up for a shortcoming in automation."

Unrealistic expectations of technology

Putting too much faith in technology as a "silver bullet" solution leads to dysfunction not only in product development, but throughout the insurance industry. Executives often search for a tech solution, expecting it to solve all the organization's problems without evaluating their business processes. However, technology is only part of the equation. That the combination of automation, process design, change management, and management practices all contribute to making the technology solutions effective and sustainable, Travers explained.

When decision-makers believe certain software alone will fix everything, they tend to overlook the root causes of BPM dysfunctions. They'll typically import archaic processes into their new software systems. In effect, the new system simply replicates the same routine and further ingrains inefficiencies into the product development phases.

The Value of Close Examination

Industry experts agree that consistent, repeatable business processes are crucial to improving product development. In mature organizations, the collective inclination is to continue doing things the way they've always been done. Now is the best time to step back and study every step of the product development process—down to every last click of the mouse—and start implementing incremental changes to improve business processes.

There is no universal product development process that will work for every insurer and resonate with every employee as the most effective. That's why each organization must conduct a value analysis of every action from idea to launch. A C-level executive sponsor should gather a team representing the most forward-thinking individuals from all business units and assess every step in product development.

"It all comes down to breaking a process down into component pieces, evaluating the value, and quantifying the value of these component pieces," Travers said. Then you analyze how the pieces can be combined or eliminated. "The more you can consolidate those process pieces and have fewer hand-offs, the fewer people you need, the more you can automate, the higher the quality," he explained.

The Five Stages of Product Development

The product development process in the insurance industry typically consists of five stages:

1. Product concept model and time/cost analysis
2. Product design
3. State filing
4. Implementation
5. Launch

Insurance organizations may use different terms for each stage. Regardless of the terms your organization uses, this is the typical product development journey from idea to launch. The following sections will define each phase.
Stage 1: Product concept model and time/cost analysis

The birth of ideas naturally demands the most creativity and openness to unorthodox ideas. The first stage is also especially important for all parties to have a clear vision of the company’s strategies, as well as how the new idea fits with the organization’s short-term and long-term goals.

Product developers may generate ideas from a number of activities. They typically conduct studies on market needs, market penetration, or competing insurance providers. Field input from sales personnel is also extremely valuable. Accenture advises insurers to use the sales department’s daily interactions with customers to help identify the features and functions customers want.11

Analyzing product portfolios regularly also spurs idea generation. The top 20 life writers in North America undergo product portfolio reviews a median of once every four months. Smaller life writers conduct reviews a median of every 15 months, according to the Society of Actuaries.

Successful organizations balance reactive approaches such as listening to customers and agents and proactive approaches such as conducting market research and competitive analysis, according to Christopher O’Brien, director of the Centre for Risk and Insurance Studies at the University of Nottingham in the United Kingdom.12

The team solidifies ideas in the product concept model, and from there, the actuarial department gives feedback on the feasibility of the product concept. Then the compliance/state filings department provides an analysis on the time and cost. Once those steps are completed and any concerns are resolved, the process moves forward into the product design stage.

Stage 2: Product design

Product design and development are cross-functional by nature and relies heavily on involvement from all the business units:

» The marketing and sales departments develop the marketing plan and set compensation levels.
» The actuarial department develops the product pricing and negotiates reinsurance pricing and contract.
» The underwriting department establishes underwriting guidelines.
» The policy service department develops the policy administration plan.
» The finance department develops the investment plan.

After all of these steps are completed, the product development process moves on to state filing.

Stage 3: State Filing

Preparing and submitting filings to regulatory bodies often come with the worst bottlenecks—partly due to the sheer number of regulatory agencies. In the United States, if an insurance carrier does business in more than one state, the company must file with multiple departments of insurance.

Staffers must draft documents, complete forms, and gather various items like actuarial memorandums, signatures of company officers or notaries, and justification exhibits. Part of the filing phase also includes making payments wherever the regulatory body requires a filing fee.

Additionally, analysts from multiple business units need time to negotiate with state departments of insurance, which causes further delay.

Once the insurers receive approval notifications from the appropriate regulatory bodies, they move into the implementation stage.

In the event a regulatory agency denies approval for a new product, the process loops back to the product design phase for modifications.
Stage 4: Implementation

The implementation stage is where the product features, IT systems, and business procedures all come together. Insurers must update their IT systems, so that the newly approved product is incorporated into policy administration, billing, commissions, quoting, claims, reinsurance, and financial. If the new product is a permanent life product, such as universal life, whole life, or variable life, the illustration system must also be updated.

In addition, business procedures must be updated and employees must be trained to effectively market, sell, and administer the new product. From there, insurers are ready to officially launch the new insurance product.
Stage 5: Launch
In this final phase, the carrier has the opportunity to drum up excitement about the new product in the market and among its producers. The sales team masters the product knowledge and sales pitch, while the marketing team promotes the product. Sales training and the marketing launch are essential to a successful product rollout.

Lastly, monitoring and reviewing the product’s performance are important post-launch activities that should not be ignored. Regular assessment ultimately feeds back to the first phase of product development and helps insurers refine and improve their product portfolios.

Ideal Conditions for Hardwiring Efficiency into Product Development
Insurance organizations are constantly under pressure to work toward goals in multiple areas: compliance, profitability, customer centricity, digital transformation, and more. Product development is one more priority on the list.

How does an insurance company create a culture where the importance of developing new products is imbued through all departments? Is it possible for all departments to view product development as a necessary component of all other priorities? For many insurers, the key is balancing “the need for strong execution and risk oversight with the need for creativity and product innovation,” according to PricewaterhouseCoopers.13

The role of the champion
Support from executive management is always important to promote corporate initiatives. However, improving an insurance organization’s product development processes requires a leader with the authority to enact changes in multiple departments or the influence to convince other leaders to administer changes. Sometimes, project managers are tasked with assessing BPM and recommending changes, but if they don’t have the official authority to follow through on their recommendations, it’s unlikely they can make an impact.

In Travers’ opinion, the person assigned to heading BPM improvements should be a forward-thinking leader, a visionary, someone who is committed to seeing things through. The champion, which some organizations call the executive sponsor, should have a firm grasp of the competition. Travers gives a hypothetical example of an insight a champion might offer to an auto insurer: We’re losing business to another carrier because they offer innovative features like accident forgiveness.

Organizational buy-in
While the executive sponsor and senior management may be fully committed to improving product development, they’re still facing an uphill battle changing routines that employees have followed for many years. “Active engagement with staff at all levels of the organization will help internal stakeholders understand the impacts of a transformation on roles, improve employee satisfaction and engagement within the organization, as well as help the company effectively manage any talent risks,” according to PricewaterhouseCoopers.14

In most insurance companies, the marketing, sales, and product development departments primarily drive new products. These departments are sometimes blended in insurance organizations. Cultivating an organizational culture around product development requires much more than commitment from a few departments. Study after study, the research shows that all employees must change their beliefs and behaviors in order for a successful

Part of fostering engagement throughout all levels includes developing employees, offering incentives, and assigning responsibilities to the right people.

Change management expertise

In some cases, the organizational momentum to maintain the status quo is too strong to overcome. Even a cross-functional committee made of the brightest representatives from each department may not be able to spot dysfunctions that an outside consultant may notice right away. Management consulting firms can offer valuable assistance in those cases. However, even in instances where an insurance company hires an outside firm to improve their BPM, Travers said, the process redesign still needs input from the people who perform the particular processes on a day-to-day basis.

Modern IT systems

Even small, incremental changes in product development BPM translate into major adjustments when you consider the massive volume of data insurers manage. Insurers need modern IT systems to be the enabler of new business processes—not merely support existing processes.

Organizations rely on advanced systems to help avoid errors, store multiple versions of documents, access compliance requirements for all jurisdictions and regulatory agencies, and the list goes on. Technology alone isn’t the silver bullet solution, but an advanced IT system is crucial for implementing the changes insurers need to stay competitive.

The Answer to Insurance State Filings: One-Stop Processing and Reporting

Oracle’s insurance software products were designed to eliminate the complexity that stifles innovation, especially in the highly regulated climate of financial services. Oracle Insurance Compliance Tracker provides insurance companies with the only end-to-end software product on the market directly integrated with the System for Electronic Rate and Form Filing (SERFF).

Offering a single point of access to all compiled and stored documentation, Oracle Insurance Compliance Tracker has helped many insurance companies radically increase productivity, eliminate manual tasks, and speed up product development cycles.

Here are two of Tracker’s customer success stories:

- **Bituminous Insurance Companies**, also known as BITCO, provides insurance to special industries including construction, forest products, oil, and gas. BITCO more than doubled its annual volume of filings in the first year using Oracle Insurance Compliance Tracker. In the second year, the company’s number of filings went up 20 percent.
- **Utica National Insurance Group**, one of the top 100 insurance organizations in the United States, sells a wide range of commercial and personal coverages. After implementing Oracle Insurance Compliance Tracker, Utica reduced turn-around time on new filings from three weeks to one week and eliminated a two-month waiting period to initiate filings. The company also boosted productivity by 54 percent and saved $64,800 annually.


Highlights of Oracle Insurance Compliance Tracker

Create, manage, and electronically submit regulatory filings from one place
» Promote self-service throughout your organization by allowing other business units to access documents directly
» No more lost documents, internal inquiries about document revisions, or missed messages buried in e-mail inboxes

Run instant reports
» Track filing status, speed to market, staff productivity, historical information, rate change impacts, and more by generating reports in a few clicks
» Provide accountability and measurable results
» No more manual spreadsheets

Automatically convert all filing components to PDF for submission via SERFF
» Eliminate paper and postage costs
» Free up office space of file cabinets and stuffed file folders

Send and receive status updates from departments of insurance (DOI)
» Get the latest information via two-way communication with SERFF

Pay required state filing fees with submission via electronic funds transfer (EFT)
» Available to regulatory bodies that accept direct debit payments

Improving the product development process is a huge challenge for all insurance companies. The sooner you begin your BPM value analysis, the sooner you’ll uncover the hidden dysfunctions of your current procedures. Eliminating manual, paper-based processes from product development will free up time and resources for generating ideas, negotiating with regulatory bodies, and building a stronger organization.

To begin the first step toward simplifying your regulatory filings, contact Oracle at 1-800-735-6620 or visit us online at www.oracle.com/insurance. Under products, look for Oracle Insurance Compliance Tracker.