

Insurance product life cycle management

Shedding light on product life cycle management for the insurance industry

It used to be that managing the life cycle of an insurance product meant getting the policy issued, storing it in a dark closet and processing periodic premium checks until the term expired.

Information technology (IT) has made the world a much more interactive and volatile place, though, and insurers are continuing to learn that managing a product for optimum profitability entails a continuous and quick analysis of large amounts of data, as well as the ability to respond in near real time to the messages that data is sending.

Traditionally, insurance companies, whether they focus on life, health, or property and casualty, haven't demonstrated a significant degree of creativity or originality in their product offerings, and have been relatively slow to respond to new market opportunities. To be sure, the industry as a whole has made some good progress in terms of managing existing products via tiering and segmentation, but at the moment it appears to be stuck in a late 20th century mindset that sorely underestimates the full value of both customers and market information.

In fact, many insurance carriers essentially have figured "second place" into their product development strategies, purposely conceding the leading edge to competitors and targeting more traditional product sets. But the market will change; it's inevitable. And over time, the most successful insurers will be the ones that can offer innovative, differentiating products that appeal to increasingly savvy and technologically empowered customers.¹

Customized, niche products in life, health and property are the next phase in insurance. Capitalizing on that trend will require dynamic product life cycle models designed to quickly take advantage of fluctuating market and customer demands, as well as information systems and data to help identify, predict and manage to those demands.

Detours ...

In general, the roadblocks to that phase come in two varieties: disorganized and inconsistent product information including information used to create the product, and a lack of ability to think and act beyond traditional models. Either one or both together can derail effective, revenue-generating product creation and product management.

Under the *product information* heading, such speed bumps can include:

- A lack of tools to manage products throughout their life cycles
- Insufficient tools in place to mine and analyze large pools of untapped or underutilized internal and external data
- An inability to quickly react to (or maybe even predict) market conditions
- A stale product portfolio
- Inflexible IT systems with insufficient scalability
- No centralized, interactive product repository
- An inability to rapidly define, test and launch insurance products

- No capacity to share and cross-sell across divisions or related companies
- No way to bundle products into specialized offerings
- And no established best-practice benchmarks.

The *clinging to traditional models* category can include such restrictive viewpoints as:

- We've been delivering profitable products to date
- Changes to the current model would be too costly
- The price of failure for trying new models is too high.

Even with some or all of those speed bumps removed, an insurer's ability to effectively manage product life cycles can be short-circuited at the governance and procedure level. Carriers that don't set and stick to strategic limits, for instance, are prone to over-analyze and bring in too many variables for consideration, causing the product development step to become too long. Or, they don't position product management processes to correlate straight back to the enterprise's strategic business objectives. At the same time, insurers need to understand when to retire a product after it fails to meet essential profitability requirements.

Those and other procedural weaknesses, along with continued pressures to reduce cost and improve efficiencies in the product development process, can cause carriers to price incorrectly or miss a window of opportunity.

A call to action

Successfully managing innovative insurance products depends on the availability of the right data – customer, market and even geo-political – delivered at the right time to make the right management decisions. But traditionally, there has been a gap between strategic business intelligence and operations. In other words, insurers aren't realizing the full value of linking information to action.

Companies whose business strategies include the micro-segmentation of customers, for instance, need an integrated, rules-based information system capable of analyzing data from a multitude of sources. Maybe the idea is to develop a unique auto insurance product keyed to an unusual mix of age and driving experience, vehicle combinations, garage and work locations, and specific credit requirements. Similarly, perhaps there is opportunity in marketing life or parental long term care insurance to

children in a selected income bracket with parents of a certain age. Data from across the value chain – quickly located, collated and submitted for analytics – will be required to determine the viability of the market, the right price point and the timeframe for the offer.

A central data repository for insurance products is a crucial component in a service-based insurance processing environment because it enables standardized product definitions and rules – as well as the availability of those rules for use with other core insurance system components. Internal operations ranging from risk and claims analysis to underwriting, product pricing, marketing, segmentation management and customer retention all can help squeeze significant value and business insight from the same centralized pool of information.²

Having that information in a single repository – and available for analysis and distribution across the enterprise – permits an insurer to feed a multitude of processes in an integrated fashion. It also allows existing products to be shared and customized throughout the enterprise. A key strength of product life cycle management, in fact, is the capacity to enhance and adjust offerings that are already on hand, and then quickly reintroduce them to the market in new forms to serve different needs.

Product life cycle management systems also must be multidimensional if carriers expect to be able to develop and deliver innovative products and coverages quickly. An integrated IT framework based on a central data repository and analytic engines must be set up to translate into useful information dealing with:

- Financial, operational and external activities
- Agent input
- Targets by customers and producers
- The potential value of individual opportunities
- Appropriate commissions and bonuses for producers and service representatives
- Results forecasting
- Performance measurement.

Less risky business

Such an integrated model can help provide a more discriminating analysis of actual experience to determine the right price for a particular risk. Analytic tools and processes refine the rating model by evaluating how experience compares to expectations across multiple dimensions, and implementation tools and processes then apply that rating model to identify appropriate rates for each specific risk.

Those same tools and analytic capabilities help route new products through approval, streamlining the process by automating certain steps, reducing errors and reducing underwriting leakage. Corrections, adjustments and product withdrawals also are facilitated throughout the entire process. The result is a shorter go-to-market timeframe, less cost in terms of man-hours, tighter underwriting, more accurate price points and, most important, the ability to quickly take advantage of market opportunities as they become available.

Across the major lines of insurance – life, health, and property and casualty – profitably managing new insurance product life cycles boils down to being able to quickly assess five key variables, each embedded in the following question: *who* needs *what* product *when*, *why* and for *how long*?

Insurers need to be able to make those assessments accurately and, wherever possible, in real time. This ability will require taking customer and policy information out of those dark closets and using integrated analytic engines to squeeze from it every last drop of value while applying new thinking beyond traditional product and business models.

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