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Speed to Market

Part of the Insurance series: Benefits of a New Policy Administration System: Why Going Live is Not Enough

Abstract

Speed to market is a priority for property and casualty carriers, as they combat the competitive pressure to become more nimble in an increasingly analytically-driven and efficient marketplace. While speed to market is a common mantra across the industry, carriers struggle to achieve desired product development outcomes when faced with talent shortages, operational silos, cumbersome processes, outdated technology, and data limitations.

To address these challenges, companies of all shapes and sizes are making substantial investments to improve flexibility and agility in product development and deployment capabilities. These product initiatives are often coupled with analytics and core systems transformation programs to mine additional speed to market benefits. To become more nimble in the marketplace, insurance carriers should create a framework that balances consistency and flexibility in product management, starting from product design through the deployment of products in systems.

Why Speed to Market Is Important

Speed to market is a common catchphrase for insurance product development. Carriers with a focus on growth strive to rapidly launch new and enhanced products to capture market share in targeted customer segments. For new product development, conventional wisdom indicates that carriers who are first to market tend to have a better chance of winning over competitors. The first to market in an unaddressed segment faces less competition and thus enjoys better profit margins. Getting fresh and relevant products to market quickly attracts customers. Product innovation also leads to increased brand recognition and perceived value.

For existing products, speed to market with product updates is an equally important objective. When facing margin pressure, carriers seek to pinpoint areas of underperformance in their portfolios, and then quickly implement pricing or other product changes to protect profitability. The ability to make timely updates to coverage offerings and pricing can help protect profitability when unfavorable trends emerge. Keeping up to date with compliance or legislative changes can also help avoid costly fines and unnecessary regulatory scrutiny.

Achieving speed to market has become increasingly important in the current insurance marketplace. Insurance is inherently a zero-sum game, as the universe of insurable risks rarely grows in sync with the top and bottom line growth goals of insurance companies. Competition for market share is fierce, particularly in commoditized product lines like personal auto, homeowners, and small commercial insurance. Commoditization of products leads to thinner profit margins, which in turn requires greater volumes and lower operating costs to achieve scale and reach profit targets. For intermediated business, the power of the distribution channel in the sales process intensifies the race for shelf space and market share.

Why Speed to Market is Hard to Achieve

While speed to market is a common mantra across the industry, carriers struggle to achieve desired product development outcomes when faced with talent shortages, operational silos, cumbersome processes, outdated technology, and data limitations.

A key obstacle to achieving speed to market is the lack of a consistent, repeatable approach to product management. Inconsistent approaches and lack of collaboration between operating units and geographies lead to product proliferation. This redundancy and duplication significantly drives up maintenance costs for both business and IT.
Leading carriers maintain a disciplined approach to product lifecycle management, view the product portfolio holistically, proactively engage the right resources at the right times, and regularly monitor the performance of the product portfolio as well as product development teams.

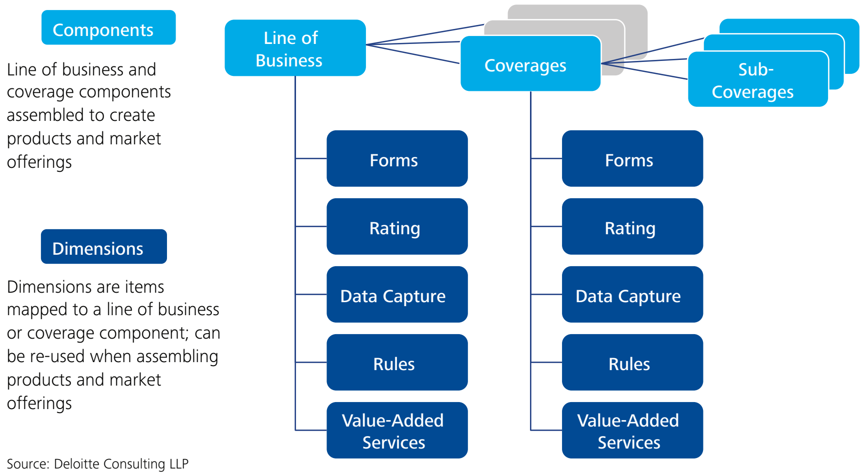
Legacy technology environments are also a major hindrance to meeting desired product launch timelines and keeping pace with product maintenance. Many insurance companies operate through a complex patchwork of outdated systems, where the prevalence of embedded code and manual workarounds is the enemy of market agility. In a recent Deloitte Consulting LLP survey of commercial lines insurance carriers, over 90% of the respondents indicated that their existing technology environment will not be sufficient to support product development capability requirements in the coming 3 to 5 years. As a result, companies are making substantial investments in modern policy administration platforms and product configuration tools, where better speed to market is a compelling component of the business case.

Building a Foundation for Speed to Market

Forward-thinking business and technology professionals should collaborate to build a foundation for achieving speed to market aspirations as part of core systems programs. Simply doing a "lift and shift" of product information from the legacy environment limits the potential benefits from technology investments. To become more nimble in the marketplace, insurance carriers should create a framework that balances consistency and flexibility in product management, starting from product design through the deployment of products in systems.

Leading carriers are taking advantage of core systems transformation programs to develop modular product architectures, or organized frameworks for consistently defining and documenting the coverage components of products and the related dimensions, such as rates, forms, and rules.

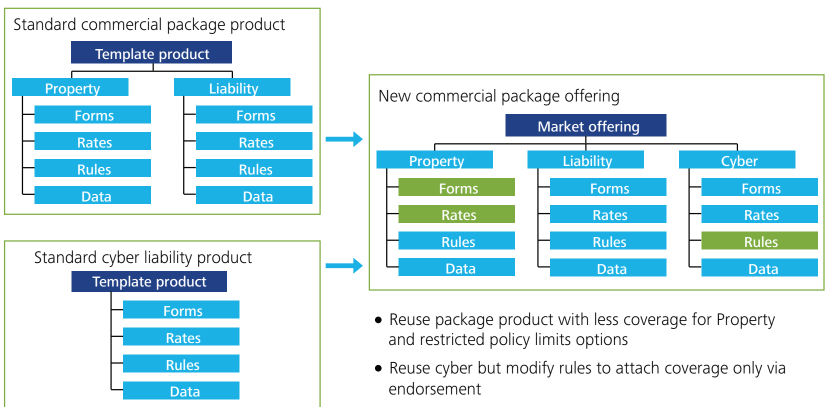
Figure 1. Product architecture enables a comprehensive mapping of the coverage components and dimensions for products, focused on isolating the reusable assets.



Source: Deloitte Consulting LLP

This modular product architecture provides better visibility into product assets across business units and customer segments, which can allow product developers to create new market offerings in a shortened timeline through re-use and bundling. Similar to an automobile manufacturer, insurance carriers can leverage a common chassis and a set of building blocks to create tailored products in an efficient manner.

Figure 2. New market offerings can be created by reusing or modifying any of the components, dimensions or rules for unique risk characteristics of target market



- Reuse package product with less coverage for Property and restricted policy limits options
- Reuse cyber but modify rules to attach coverage only via endorsement
- Updates to elements of a template product, such as a rate factor table change, can be set to automatically update related market offerings

The product architecture creates a common language between business and IT, so changes to product components, such as rate tables, algorithms, forms, and rules, can be more easily communicated and implemented in policy administration systems. The ability to reuse product assets also creates resource capacity so that skilled product development personnel can be used more effectively.

Creating Benefit for System Implementations

Deloitte Consulting LLP's experience indicates that a key to success for the implementation of policy administration systems is business readiness. The product architecture becomes a useful mechanism to create efficiency in systems initiatives in a number of ways:

- Engages business and technology stakeholders early in the process.
- Helps determine logical groupings of products for release schedules and requirements gathering.
- Reveals gaps in product information, issues with product information, and expertise that will be needed.
- Highlights opportunities to streamline business requirements documentation by identifying common or shared product components and dimensions.
- Aids in consistency and traceability since requirements are documented using a common framework.

Leading carriers also work with product stakeholders to define data and reporting requirements early in technology initiatives. This builds the foundation for expanded product portfolio monitoring capabilities, where front line managers can quickly drill down into trends and make fact-based decisions on how to optimize product performance.

Streamlining the Product Portfolio

In addition to creating efficiency in system implementation efforts, the product architecture can be leveraged to mine ongoing business benefits. Once carriers begin to view products through a modular framework, it can become easier to recognize opportunities to streamline the product portfolio.

- Redundancy in market offerings across operating units become more visible when there is a clear understanding of how market offerings vary from a base product.
- Rationalization and simplification of forms can improve operational efficiency, increases reusability of remaining forms, and provides intangible benefits through consistency in look and feel for producers and customers.
- Enhanced rating and pricing tools help enable better tracking of profitability and underwriter performance, improved profitability in high priority areas, and the ability to more easily incorporate recent assumptions and trends.

Case Studies

Forms Rationalization Case Study

A direct property and casualty insurance carrier wanted to undertake a rationalization of its forms prior to integration into the new underwriting technology platform. The focus of the rationalization effort was to reduce both the cost and timeline for delivering forms support.

Deloitte Consulting performed a rationalization of the forms for the product portfolio that was to be implemented in the new system. The project included working with the client to:

- Inventory the forms to identify areas of potential overlap
- Develop rationalization guidelines and conduct a comparison of information across products to identify candidates for retirement or consolidation
- Review and validate the list of rationalized forms with the client's product experts
- Create standardized templates for dynamic forms to facilitate future revisions
- Define the requirements for the system implementation, such as variable data specifications and attachment rules

The project resulted in the following business results:

- Reduced the number of forms by more than 35% and enabled more than $1M in savings on the project
- Reduced the maintenance effort and the cost of developing the forms into the system
- Prepared a long term governance and structure for requirements development and articulation for IT handoff

Pricing Process Improvement Case Study

A major US property and casualty insurance carrier wanted to enhance its pricing processes, which included more than 40 Excel-based pricing models with dated assumptions for its casualty products.

Deloitte Consulting assisted the carrier in designing a comprehensive pricing model that included a technical price for multiple lines of business within one pricing tool. Key pricing assumptions such as trends and development factors were also updated and included in the model.

The project included working with the client to:

- Review current pricing models for consistency and model sophistication
- Analyze consistency of assumptions
- Identify areas of model consolidation and upgrades
- Customize a single core pricing platform by coverage and exposure
- Develop a governance process for timely update of assumptions and revisions to pricing models
- Incorporate a streamlined documentation process to assist with underwriting review
- Store all relevant data elements in the single pricing model to facilitate price monitoring and portfolio analysis
- Develop a data warehouse for improved pricing management through real-time dashboard reports on key pricing analytics
- The project resulted in the following business results:
- Improved consistency and sophistication of existing pricing tools by reducing 40 different models into a single model
- Ability to capture and maintain account pricing information
- Improved rate monitoring process, including the ability to track actual versus technical price
- Improved governance and controls of the pricing process

Lessons from the Trenches

Deloitte Consulting's experience working with hundreds of insurance carriers globally has allowed us to synthesize several important leading practices that can lead to faster time to market and a more manageable product portfolio:

- Engage all stakeholders for product development in your effort to define a common product management framework that will support discipline and reusability across business segments.
- Factor the benefits of a modular product architecture into your technology selection and architecture design for your core systems transformation.
- Rationalize and standardize your product portfolio as much as possible before beginning your core systems transformation.
- Consider bringing in an objective third party such as Deloitte to help your IT and product development teams think differently about what's possible and how to take advantage of leading practices in the industry.

Conclusion

If better speed to market is a desired outcome, just going live with shiny new technology is not enough. In an age where customers expect exactly what they want, when they want it, insurance carriers need to think differently about how their products and services are designed, developed, delivered, and supported to be truly nimble in the marketplace.

Forward thinking insurers seek a more agile approach to product management, both in how products are structured and how they are deployed through the operating model. A key success factor in enabling this modern approach is to develop a modular product architecture before starting a core systems transformation — not the other way around. A core systems transformation that does not contemplate the foundation for an agile approach to product management will not bring the full value of your technology investments. Leading with product architecture has the dual benefit of reducing costs during the system implementation as well as accelerating the realization of speed to market goals.

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