Accelerating market impact

Product innovation in commercial insurance

By Gail McGiffin and Thom Cranley

The commercial insurance industry has not traditionally viewed product innovation as a standard operational process, a process capable of providing strategic advantage or being made more efficient and productive. New products have originated when executives saw a market opportunity and began shaping ideas and assembling the components necessary for a new product. These product ideas have often been compromised to fit within expense and technology constraints. And too often, products have been “me-too” responses to first-mover competitors.

Products have also failed to reach their potential for granularity and targeting. Compared with other industries, customer targeting and segmentation have not been broadly adopted by commercial insurers. Micro-segmentation – where insurers target potential policyholders not just by industry but by more detailed attributes – has been used even less.
Further, responsibility for product innovation has not always been clearly assigned. A tangled web of incompatible systems, organizational silos and disjointed processes has perpetuated product development approaches that are reactive, incremental and focused on single offerings. Unlike their counterparts in consumer-driven and manufacturing industries, insurance executives have not typically thought in terms of product lifecycles or creating “platforms” of common elements and options from which customized products could be assembled quickly and launched efficiently to specific market niches.

Increasingly, however, these traditions are changing within the commercial insurance sector. Flat premiums, modest investment income, rising customer and agent expectations, increasing complexity and constantly changing market conditions have placed new emphasis on the value of tailored product offerings and personalized services. There is no doubt that an advanced architecture for product design, development and delivery can be a significant source of competitive advantage.

Deep insights into micro-niche industries developed through primary research and sophisticated data analytics power the ability to identify meaningful and distinctive coverage and service offerings that can yield higher margins. Insurers that can go beyond simple SIC and NAIC codes to see the attributes that correlate to higher profitability and lower risk gain a potentially large and sustainable advantage in serving the most attractive segments of the commercial insurance market. Additionally, by executing rules consistently for specific industry and company types, insurers can engineer a better overall book mix, as opposed to simply trying to impose their own risk appetites on the market.

Tomorrow’s market leaders are embracing a holistic approach to product innovation driven by enabling technologies, centralized ownership for product development, well-designed product delivery blueprints (based on service catalogs and switchable components) and an integrated technology environment. The end results are speed to market, operational quality improvements, higher performance and increased returns on equity.

Early adopters are leveraging internal and external data sources to generate unique customer and industry insights and aligning market offerings to distribution channels for expertise as well as customer access. And, importantly, they are abandoning the pursuit of standalone, “silver bullet” technology solutions and focusing the necessary work of re-architecting monolithic legacy platforms to introduce key technology components that enable flexibility and reusability.

New approaches to product design will require thorough modeling capabilities, modernized systems, common data models and integration between the “design” and “run” sides of both business processes and technology solutions. These elements are necessary to establish truly productive and high-quality product development capabilities. Just as lean manufacturing, Six Sigma and total quality management (TQM) took a great deal of time to refine, operationalize and scale in other industries, commercial insurers will face a similarly long maturity curve when it comes to product innovation. But the long-term opportunities and value proposition will make the effort worthwhile.

The business case for product innovation

Advanced product development and delivery capabilities represent an opportunity for commercial insurers to find viable and profitable answers to core business questions, including:

- How do we tailor products and services with relevant coverage, service and pricing modifications and eliminate the need to “reinvent the wheel” in the future?
- How do we balance the efficiency and consistency of core product wording and rating/pricing with the introduction of proprietory elements? How do we get to common product structures that support the hybrid nature of bureau-based and proprietary product needs?
- How do we integrate the design and run sides of product development across both business processes and the IT platform?
- Is the data used to design products and services the same that is used to manage operations?
- How do we rationalize our existing writing company and approach to rate tiers to optimize pricing flexibility and accommodate acquisitions and book rolls?
- How do we improve the accuracy of product and segment performance analytics through better mapping of claims data to policy and customer account data?
- How do we efficiently meet the need to tailor both for mass customization and for individual accounts?
Following the lead of manufacturers

When it comes to product innovation, the commercial insurance industry could learn a great deal from manufacturers. Formalized innovation programs, advanced product planning and sophisticated consumer analytics changed how manufacturers operated. Some leading-edge firms even came to believe they could determine what consumers wanted before consumers themselves knew. From lean to Six Sigma to just-in-time inventory management, leading-edge management practices that originated in manufacturing have profoundly influenced other sectors.

Insurance companies can design product architectures along the lines of the “vehicle platform” systems developed by automotive manufacturers. These companies developed a standard set of components, including the drive train, engine and chassis, from which they can create product variation. More than just switching out exterior detail and interior features, automotive brands could develop multiple lines of vehicles based on these core assets, with each tailored to different segments of the market. This operational flexibility translates into marketing power and the ability to profitably meet market demands for different categories of vehicles (sedans, SUVs and crossovers). On the price front, they can meet needs on both ends of the spectrum, delivering simpler, less expensive vehicles as well as higher-end, more luxurious ones. For insurers, this “platforming” approach would entail building different classes of products from the same core set of coverage components.

Robust product lifecycle management (PLM) programs are another hallmark of world-class manufacturing organizations. PLM programs manage the entire life span of individual products, from initial inspiration and conception to design, testing, launch, ongoing support, refinement, extensions, replacement, retirement and phase-out. Given increasingly complex engineering challenges, PLM has become a critical capability for global manufacturers. Therefore, PLM programs are supported by robust systems, integrated processes and common data sets across the enterprise, reaching across functional areas and organizational boundaries.

Insurers today must bring to market a wider range of commercial products tailored to specific market needs. That is why forward-looking carriers have embraced PLM concepts and practices. PLM helps them ensure they identify and maintain all the components necessary to all products as well as the specific options and elements that can be tailored and the necessary steps to place products in various distribution channels.
Too often in the past, insurers’ product development processes did not fully address these questions. Thus, insurers frequently faced unpleasant surprises when inconsistent product terms, unexpected quality issues or unintended processing costs were uncovered after products reached the markets. The consequences could be expensive (e.g., regulatory fines) or damaging to relationships with customers and agents. With a strong product development architecture based on reusable and flexible core components, executives can be confident that these questions are addressed before new products are released.

There are both internal and external reasons why insurers should optimize the product development and delivery approach. Internally, many companies struggle to work around the high cost and low quality of their current product development practices and platforms. Many also suffer from unnecessary sprawl and repetition in product portfolios, which complicates underwriting, operations and claims processes, and exacerbates technology issues.

Externally, the major driver for enhanced product development is the need to stay ahead of – or at least manage – rising customer expectations for tailored product offerings and personalized service. At the same time, the current maze of different product forms, rules, rating and processing platforms confuses the marketplace and can erode distribution effectiveness. For example, agents may be challenged to understand the wide range of product options available across all carriers and marketplaces. They will naturally gravitate toward easily understood products because they are easier to sell. Thus, carriers with clear, consistent product cores and structures can gain a competitive advantage based on ease of doing business.

A product delivery platform that makes such targeting both repeatable and profitable may be the most effective means insurers have to navigate the huge market shift toward finer segmentation and personalization. The resulting returns on product development investments are likely to involve higher sales with improved hit ratios, increased market share, lower loss ratios with a more select book mix, lower expense ratios through more efficient design and delivery systems and stronger loyalty among agents and policyholders.

**Increased market demand for customization.** The prospect of increased sales of higher-margin business is the simplest and strongest reason for insurance companies to improve product development capabilities and processes. Product offerings pre-tailored based on unique industry insights enable efficient mass marketing, as well as more selective distribution through managing general agencies (MGAs) and other program business channels. Well-packaged and differentiated offerings facilitate up-selling and cross-selling, as well as marketplace branding. By making it easier to design, build, release and continually refresh customized offerings, insurers will be able to more readily attract and retain target customers and strategically shift their book to a highly preferred mix.

While the “personalization revolution” hit most of the insurance industry, commercial insurance products remained broadly generic and inwardly focused. But the value of offering products and services tailored to specific classes of businesses and through their preferred access methods is too great to ignore. Insurers and agents able to demonstrate detailed knowledge of a specific type of business and reflect the related risk characteristics through a customized product offering can gain an immediate edge. Product offerings infused with industry-relevant wording on policy forms, breadth of coverage to address key risk considerations, pricing that reflects particular exposures, underwriting approaches that leverage experienced insight and services that fulfill specific risk mitigation needs are compelling to both agents who sell and customers who buy across diverse businesses, in industries ranging from health care to manufacturing to finance. In the realm of services, industry-specific tools for loss control and risk mitigation – for example, self-inspection checklists and disaster plan templates for chemical companies that differ from those for law firms – can strengthen bonds with customers. Further, customers are willing to pay higher premiums for solutions and services tailored to their unique industry, size and market.

**Overwhelming complexity.** The urgency to transform the product platform increases as the number and complexity of products increases and as delivery environments grow more complicated. Rising complexity is often a result of acquisitions, varying sales/service strategies across product lines and geographies, and technological incompatibility across the company. For example, underwriting, policy data and warehousing platforms often present integration challenges in terms of data cohesion and data quality. Access to current and complete operational data may also be compromised. This complexity and fragmentation reflects outwardly,
Product delivery architecture

An advanced architecture for product development and delivery incorporates a range of activities and tasks, which are represented below. Ideally, the “design” and “run” functions are closely integrated and share common data sets.

The product delivery architecture includes all the operational capabilities and systems that are necessary to deploy products to processing systems and across distribution channels and access points. These elements typically include:

- Organization, roles, skills
- Agent and customer processes
- Internal business processes
- Decision-making authorities and tasks
- Technology applications (portals, underwriting workstations, rules engines, rating engines, policy processing systems, etc.)

- Data and information management capabilities
- Performance measurement systems and processes
- Interfaces with regulators and reporting systems

Industry veterans understand that these functions today incorporate a fragmented set of processes and incompatible legacy systems. In many cases, the relevant IT systems are antiquated, with processes on multiple platforms or diverse applications, often due to an extensive acquisition history. This complexity exacerbates disjointed underwriting and policy processes and usually results in poor quality.

Without a centralized product configuration and deployment capability and an enterprise product catalog that interfaces with the processing systems, insurers cannot realize the benefits of streamlined and accurate product delivery.

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**Design/development**

Product configuration workbench

- Product configuration engine
  - Base
  - Core
  - None

  Rules taxonomy and architecture

  - Rating
  - Rules
  - Forms

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**Run time**

- User access
- UW workbench
- Policy administration
- Data warehouse and downstream reporting

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**Strategic data sources**

- Rules integration framework
- Impact analysis
- Product documentation
- Version model
- Projects
- Rules taxonomy

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Accelerating market impact: product innovation in commercial insurance
Asking the right questions

Whatever product development capabilities insurers have developed to date, formalizing and optimizing innovation practices, delivery processes and technology infrastructures requires finding the right answers to a set of core questions:

- Is the overall product architecture model sufficiently flexible to accommodate the full range of both standard and specialty commercial lines offerings?
- Are the components of the product definition and rules taxonomy mutually exclusive and collectively exhaustive to ensure reusability?
- Which elements of the product have the most variation or change most frequently – i.e., coverage forms, rules, rating or data capture? Which are most difficult to change?
- What components can be rationalized and reused?
- What naming conventions work best to provide both flexibility and reuse of the product definitions? How do we get agreement on the new vocabulary for our products?
- Are sufficient analytics capabilities in place to define and predict the highest-value variables for product tailoring?
- Where are current bottlenecks in our delivery processes and systems?
- What are the causes of quality issues?
- How consistently and logically do our product designs and definitions map to our delivery platforms, including mapping to claims coding?
- Which product design methodologies can be leveraged to simplify or standardize products to reduce delivery platform complexity?

 too, and can be an obstacle to growth. A common product architecture with reusable components can help insurers simplify and rationalize product and service offerings.

**Higher quality.** Low product quality is often a by-product of complexity; when insurers must manage too sprawling and diverse a portfolio, it becomes more difficult and expensive to ensure that each individual product works as advertised, carries no hidden underwriting risk and is well understood by agents and brokers. In an era of increased regulatory scrutiny and empowered sales forces, quality issues can have real financial implications – both in terms of fines and reduced sales.

**Lower costs.** Conventional wisdom holds that product customization carries higher cost. But many carriers now realize that more efficient product development capabilities can actually reduce costs and grow margins. A standardized set of core product templates, with extensible and customizable elements and automated delivery, streamline processes that are largely manual and often error-prone. These efficiency gains may also pay dividends in terms of simplifying compliance processes and reducing acquisition costs associated with customer churn.

**Faster speed to market.** The long product development cycles of the past are no longer sustainable. Just as some insurers gained competitive advantage by cutting claims resolution time lines, insurers that can shorten product development cycles stand to realize significant market gains. True speed to market must be measured not only by how fast the next new or enhanced product offering reaches the market, but also by the sustainability of the delivery platform itself and its ability to bring future products to market quickly. Many insurers have suffered from the compounded impact of many new offerings being introduced with manual operational support. This scenario typically results in quality issues and challenges in scaling. Tomorrow’s product platforms must be prepared for higher-velocity innovation cycles.

**Richer experience.** Beyond speed to market, innovation in insurance is increasingly focused on the delivery of a superior and differentiating customer experience. Within product development, that means bundling coverages and services in ways that meet specific market needs rather than building products that align to internal silos and functional capabilities. Further, the selling process must be easy and convenient, with clear product information presented to new buyers and a simple
renewal process with relevant product enhancements for returning customers.

For product delivery, the emphasis should be on creating new connections with potential customers in ways that align to their preferred access methods (e.g., through social media and mobile apps). Trusted insurers and agents have an advantage in engaging customers through these channels. From a product delivery standpoint, tomorrow’s market leaders will launch new products and services seamlessly into multichannel and media-saturated environments.

The distributor experience is also worth mentioning. Agents and brokers will seek offerings that are easy to sell, with real-time access to information, services and tools through multiple channels. Creating “stickiness” in broker relationships helps insurers gain mindshare and goodwill with this increasingly empowered group.

Taking the first steps

As you can see, product design and delivery architectures are central to innovation and fulfillment processes across the insurance enterprise. The role of the product catalog crosses the entire spectrum of end-to-end processes, from the front end (customer-facing sales and service channels, underwriting) to critical back-office operations (policy administration, billing, claims, business intelligence and analytics). That is why the establishment of advanced product development and delivery capabilities must be considered a broad-based transformation effort and not simply a matter of retooling a single, stand-alone process or deploying more new software into the IT patchwork. These architectures must be designed for simplicity, stability and reusability, but also for flexibility and scalability to respond to market shifts, suddenly emerging opportunities and continual innovation cycles.

Given the high impact of such changes on insurance operations, the recommended first step is to assess current product development practices and systems and develop a prioritized road map for transformation. Ideally, the program should be overseen by diverse, cross-functional teams with a wide range of skills and knowledge.

Assembling the right team ensures that innovation engines and product platforms combine high efficiency and operational excellence with sales productivity and high-margin results. They can also serve insurance companies by:

- Creating a holistic view of product lifecycles
- Capturing and codifying valuable institutional knowledge that is currently implicit and unstructured
- Enhancing communication and developing common terminology across functions
- Standardizing key deliverables across the enterprise
- Enhancing organizational roles and responsibilities to align with more sophisticated product development capabilities
- Defining standard metrics to track product performance
- Promoting the evolution of application environments for component functional elements for maximum flexibility
- Promoting a culture of continuous improvement

With streamlined product design and delivery architectures, future insurance products will be delivered more simply, collaboratively and accurately than they are today. Insurers will be able to identify market opportunities and segments more precisely, confidently and granularly than before and deliver more products more efficiently. Those products will be of higher quality and easier to modify than in the past. It is a compelling vision for insurance executives, and an achievable one provided insurers build the right planning frameworks and move toward implementation with purpose and with the right stakeholders involved. ■

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