



Life insurance and annuity product development

Bringing a paradigm shift

Key takeaways

- Similar to other segments in the financial services industry, the US life insurance and annuity segment is also grappling with rapid technology innovations, dynamic customer demands, increasing competition, and evolving regulatory landscape. With new risks emerging, and traditional coverage requiring updates to stay relevant in the evolving landscape, the need for effective product development seems to be intensifying.
- Today's customers are diverse and their needs and demands also differ considerably. Offering generic and standard product features will not help insurers to win in this market. Carriers that offer wider product features, personalized experiences, and faster speed to market, are positioned well to gain competitive advantage.
- The current traditional product development approach is likely not enough to cater to the customer demands and create differentiation in the marketplace, as carriers are facing significant challenges in terms of increasing product development volume, low success rate, long product development lifecycle, and technology system implementation bottlenecks.
- There needs to be a clear paradigm shift in terms of approaching the product development in the current dynamic market scenario, with increased customer centricity, data/ analytics driven approach, closer integration of product development function with the overall insurance value chain, and adoption of GenAI and other new age technologies.

Introduction

The US life and annuity segment is witnessing evolving customer expectations and behaviors, emerging ubiquitous technology innovations, increasing competitive and pricing pressure, and expense pressures, all amidst an ever-changing interest rate environment. This is compelling insurers to re-evaluate their product offerings periodically and respond quickly to market demands to stay relevant and deliver market-leading performance.

With technology advances over the years, customers have become knowledgeable and demanding of their carriers. They want the best product for their needs at the best price and are no longer looking for standard products with no customizations. They have kept carriers on their toes to innovate the products, offering personalized customizations with varied features. They have become more price-sensitive with the advent of new technology-focused carriers offering the latest features at lesser price. Carriers not only need to cater to these demands but also need to do that at a faster pace beating their competitors to retain their customer base.

The majority of the carriers surveyed as part of Deloitte's 2023 L&A Product Development Study believe that product development is core to their overall growth strategy, however, many continue to follow the traditional approach. The COVID-19 pandemic and the ensuing demand for savings and protection products have led many insurers to rethink their product development ecosystem in order to better respond to shifting demands.

This requires a change in the paradigm to break the silos, drive integrated and collaborative approach, leverage latest technology/toolset, and bring customer centricity to the forefront.



Case for change

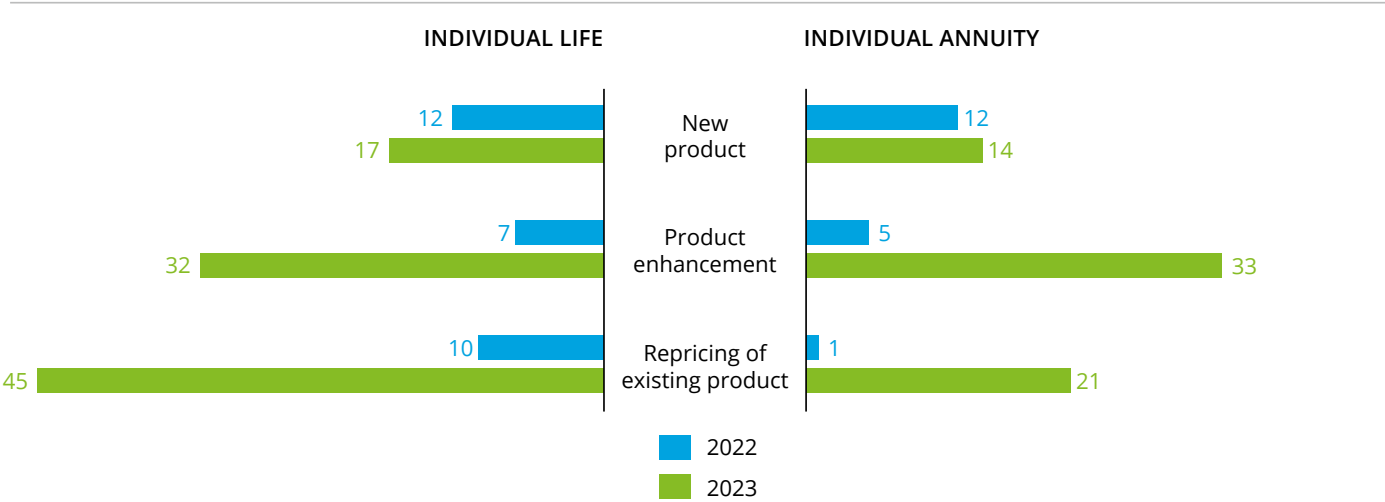
In order to study the current trends in product development in individual life insurance and annuities, Deloitte conducted a primary research study on product launches completed in calendar year 2022. In total the study covered 53 product launches, with 32 in life insurance and 21 in annuity.

To meet increasing customer demands and address the market dynamics, carriers are undertaking a higher number of product development initiatives. They have dedicated workforce for the processes but most of the carriers are still very late to the market. Most of the product development processes are outdated and time consuming across every step of the value chain. Delays in product design, admin system implementation, bottlenecks across regulatory landscape, inefficient manual processes pose significant challenges in launching the product timely.

01. Increasing product volume

In our primary research study, we learned that carriers are embarking on a higher number of product development initiatives to tap growing customer demand by introducing new products, enhancements to existing products or product repricing. The number of planned product launches for 2023 in life insurance segment was 203% more than the number of initiatives launched in 2022. The number of planned product launches for 2023 in annuity segment was 224% more than the number of initiatives launched in 2022.

Individual life and annuity: Product development initiatives - 2022 vs. 2023



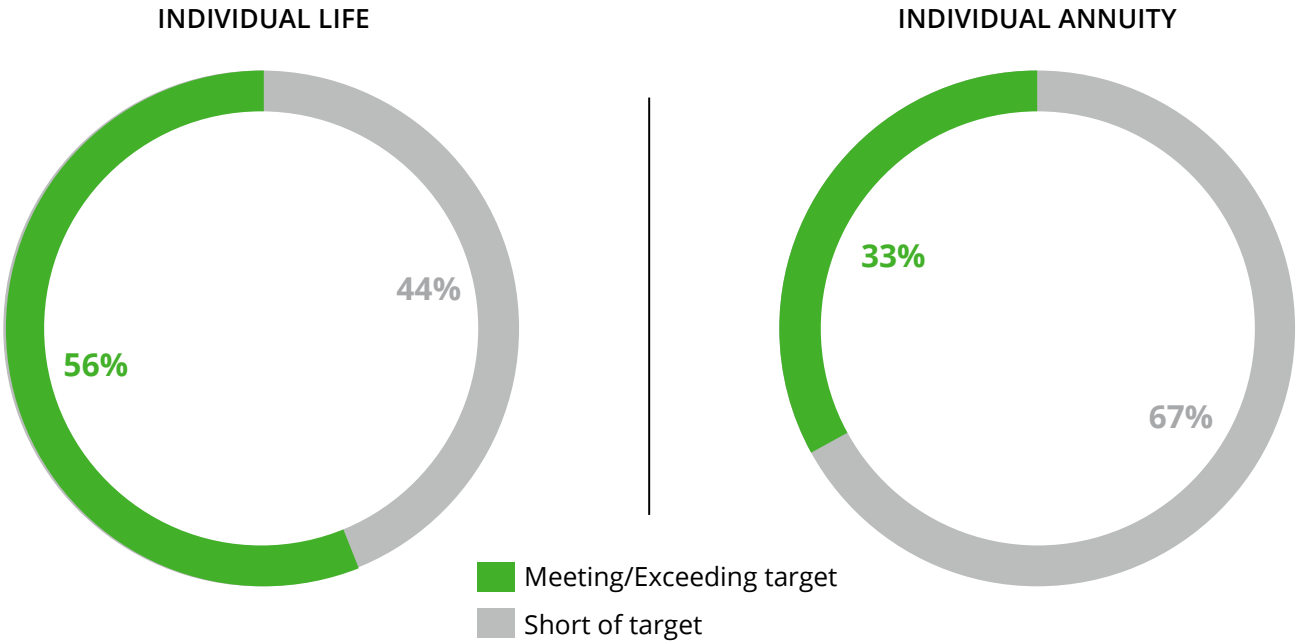
Source: Deloitte L&A Product Development Study, Deloitte Consulting, 2023

02. Low success rate

For the carriers surveyed, only 56% of life and only 33% of annuity product launches met their targets of new premiums for the new product launches in 2022. The following reasons contributed primarily to the low success rate:

- A. New product launches are not oriented to address changing customer demands. A leading life insurance carrier cited finding the balance between sales, profitability, and risk goals as a major challenge for designing products as per customer demands.
- B. By the time a carrier launches a new product, either the customer demands may have changed, or their competitors may have beaten them for the launch.
- C. Products are not available at the right distribution channel. One leading carrier talked about delays in distribution planning also impacting their distribution costs apart from their sales.
- D. Marketing of the product is not as effective as it could be.
- E. Product development is carried out in silos without involving key sales, marketing, or distribution teams.
- F. Ineffective planning, governance, and limited communication across teams.

% of product launches meeting their targets of new premiums

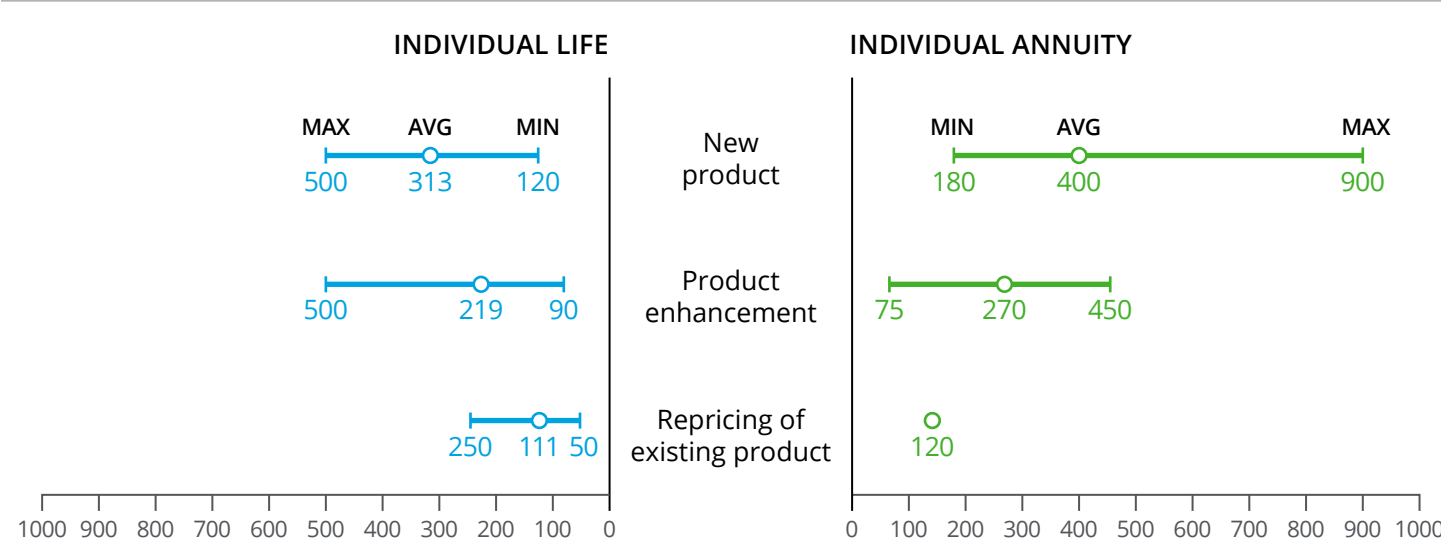


Source: Deloitte L&A Product Development Study, Deloitte Consulting, 2023

03. Long product development lifecycle

Product development efforts can take a considerable amount of time from conception to market launch. With dynamic economic environment and ever-changing customer demands, carriers are unable to consistently deliver sufficient success with their traditional product development approach.

Number of calendar days for a product development effort



Source: Deloitte L&A Product Development Study, Deloitte Consulting, 2023

For individual life, the average number of calendar days taken across product launches were 313 for new product, 219 for product enhancement, and 111 for repricing of existing product. Similarly for individual annuity, average number of calendar days taken across product launches were 400 for new product, 270 for product enhancement and 120 for repricing of existing product.

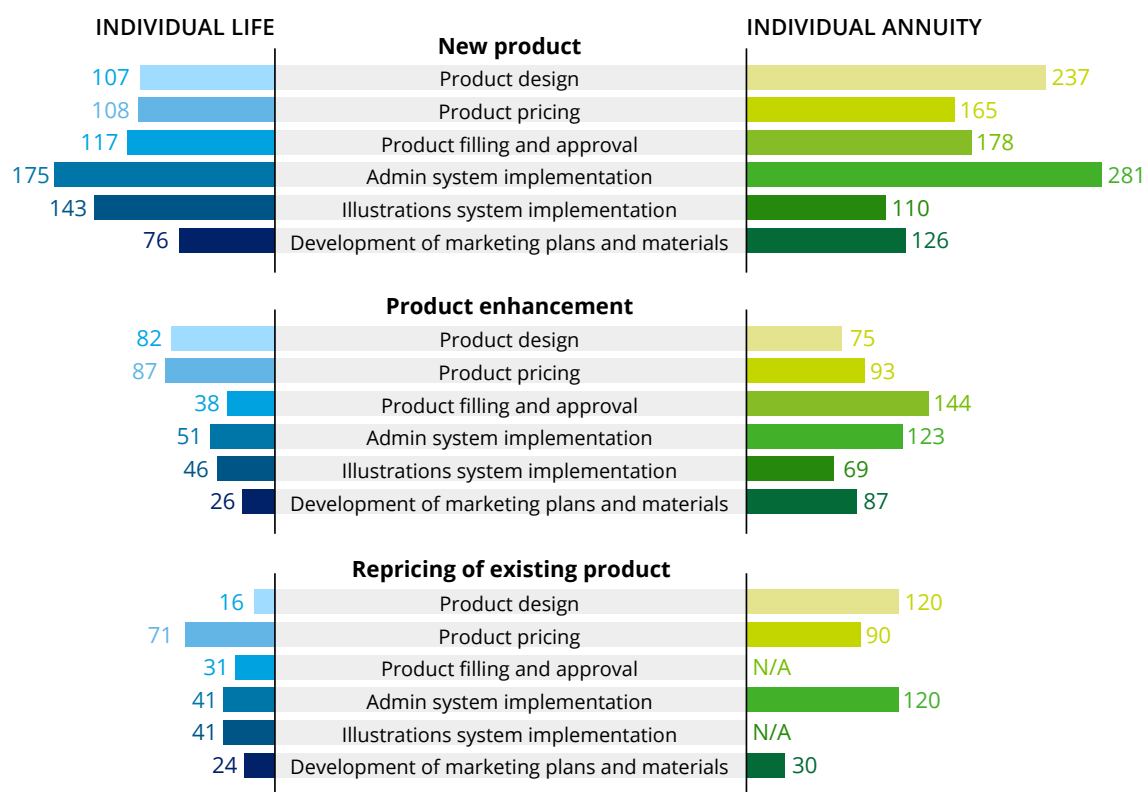
Carriers taking more than 4-6 months for product development may be impacted by changing interest rates, fluctuating customer demands, new regulations, new product innovations by other carriers, and could lose out on the first mover advantage. One individual life carrier cited threat to competitive advantage with longer product development cycles with the possibility of changes in competitor rates during the process and multiple delays in distribution planning and design.

04. System implementation bottlenecks

Among the various activities in the product development cycle, carriers spend the greatest amount of time on admin system and illustration system implementations, followed by product design and product filing. While the time spent on regulatory processes for filing and approval may not be entirely within the company's control, carriers need to assess and address the issues around admin system implementation and product design.

Some of the challenges carriers have faced in recent times include issues with new accounting regime, translation of product specifications on IT systems, internal team response, competitive response, and distribution strategy. Some carriers have also faced challenges with new product development with third-party administrator, design finalization, product-price alignment, and changing specifications after implementation work had started.

Average number of days taken for each activity



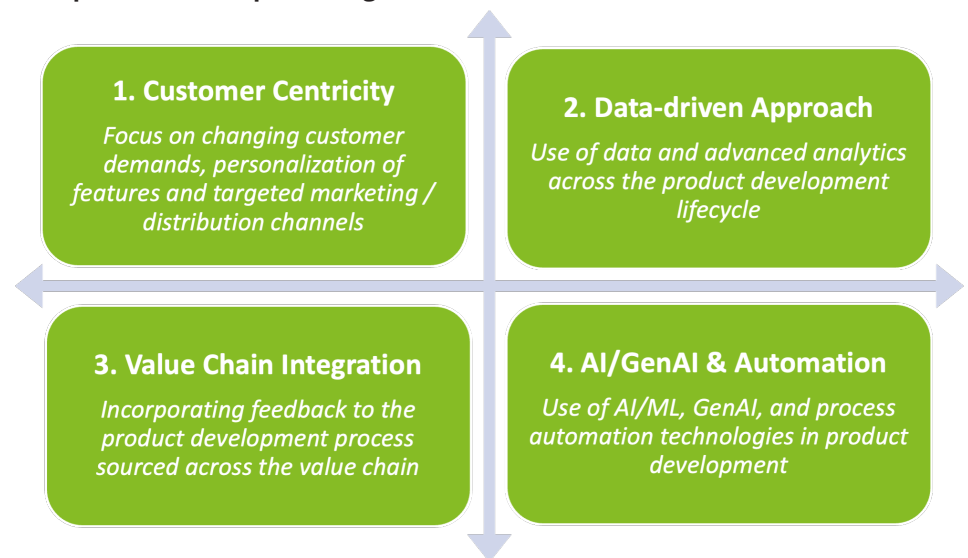
Source: Deloitte L&A Product Development Study, Deloitte Consulting, 2023

One annuity carrier cited delays in syncing technology across its internal and third-party platforms for admin and illustration systems. For another carrier, it was about time taken for product ideation and design while its internal regime had changed during the product development process.

Bringing a paradigm shift

The life insurance and annuity segment is currently undergoing a transformative paradigm shift in its approach to product development. Traditionally, the industry has been anchored in legacy systems and age-old practices, often leading to a slow, bureaucratic, and rigid product development process. However, driven by rapid technological advancements, changing consumer behaviors, and evolving regulatory landscapes, there is a clear shift towards innovative, agile, and customer-centric product development models. This significant shift in strategy and operations not only presents new opportunities but also challenges that require a radical rethinking of traditional practices.

New product development regime



01. Customer centricity:

The paradigm shift in product development is potentially a result of the customer-centric mindset shift. Many insurers are reconsidering outdated product-driven business models to meet customer experience-driven market expectations.

Customer centricity is taking the center stage of product development for many carriers. Product features and design are becoming more focused on customer requirements and their feedback over what is an easy fix for a carrier. Customers taking center-stage in the new age product development process also leading to a better success rate for the carriers, providing a win-win situation for all.

Carriers are having dedicated processes and teams to gather customer feedback while initiating the product design process—evident in the average number of days spent on product design. Personalization of every touchpoint with the customer has increased the need of making the product journey seamless and efficient. Wearables and technology are increasing the constitution of life products and to customers benefit, insurance companies are playing an active role in shaping customer health.

Identification of customer demands	<ul style="list-style-type: none"> • Conduct primary and secondary market research to identify customer requirements • Assess competitor actions towards the changing landscape
Personalization of product features	<ul style="list-style-type: none"> • Adapt and design product features based on personalized customer requirements • Gather and address customer feedback at every customer touchpoint
Marketing and distribution channels	<ul style="list-style-type: none"> • Design custom marketing plans to target customers based on their demographic profiles and requirements • Make the products available at the relevant and new age distribution channels as per customer expectations

02. Data-driven approach:

Leading insurers are moving away from traditional-static approaches and adopting technology and data-driven methods, while shifting from operational tasks to breakthrough innovations. Data-driven product development is becoming a necessity for insurers to stay relevant and competitive in today's dynamic and customer-centric market. Successful carriers incorporate technology and innovation across every stage of the product development process.

PRODUCT DEVELOPMENT STAGE	APPROACH
Product design	For new product development today, it is important to design products after understanding customer segmentation and their needs in detail through various external and unstructured data points. Different sources of data, when coupled with leading technology, enable developing products which best meet consumer needs, expectations, and maximize benefit for both the carrier and the consumer. Use of new age technology such as AI/ML provide enough data points and insights for a relevant product design

Product pricing	Data analytics of product performance with pricing as one of the dimensions helps identify the correlation of pricing with the success rates, eventually helping carriers identify feasible price points for customers.
Product filing and approval	Automating manual tasks in the lead up to and preparation of product filing help saves important time in the entire process
Admin and illustration system implementation	Data captured at the time of policy purchases, claims interactions, and other customer interactions within the policy administration system, is processed, analyzed, and used as an input for product development
Marketing plans and materials	Build on performance marketing plans targeting customers on social media platforms with content personalized as per customer profiles

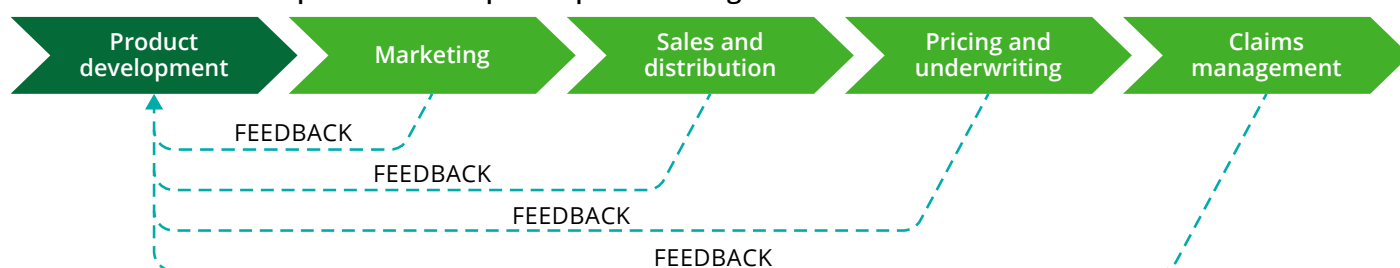
03. Value chain integration

Successful carriers have well-documented and integrated product development processes, with clear visibility of cost, schedule, product quantity, and quality. They have integrated the product development into the overall insurance value chain and involved all departments and processes throughout the product development lifecycle instead of operating in silos. They are able to have an end-to-end view of the process and to, therefore, save time and effort when moving through the different phases. They have established robust metrics about products and processes to predict product performance and end of commercialized products' lifecycles. These carriers focus on continuous process improvement and cost-optimized product development and end-of-life processes.

Traditional value chain - product development conducted in silos



Modern value chain - product development process integrated with the value chain



VALUE CHAIN CAPABILITY	FEEDBACK TO PRODUCT DEVELOPMENT CAPABILITY
Marketing	<ul style="list-style-type: none"> • Customer feedback as received from primary and secondary surveys conducted by marketing • Insights from marketing campaigns, social media outreach • Usability tests conducted on select few customers • User behavior on customer touchpoints
Sales and distribution	<ul style="list-style-type: none"> • Sales volume and profitability analysis • Customer cohort analysis • Customer satisfaction score • Customer feedback on distribution channels • Sales insights and KPIs from agents, brokers, and distribution partners • Demand—supply analysis
Pricing and underwriting	<ul style="list-style-type: none"> • Insights from pricing analytics including competitor benchmarking and market availability • Cohort analysis during underwriting including customer details such as net worth, medical history lifestyle, occupation, habits, preferences, wearables data, risk score
Claims management	<ul style="list-style-type: none"> • Process feedback during claims management • Configuration required on admin systems for effective claims handling

04. AI/GenAI and automation

AI/ML, process automation, RPA, blockchain are not just the buzzwords for technology industry now but have become reality across every industry and sector. The L&A segment as well can benefit from these new-age technologies and build several use cases, including in product development, enhancing customer experience, and operational excellence.

- **Artificial intelligence**—AI can speed product design by testing multitude of design ideas and permutations while also analyzing customer feedback. This can help carriers tailor their products better as per customer preferences and demands. Apart from this, AI can help analyze data gathered during the product development process, generating insights to improve, and help make decisions across the value chain.

- **GenAI**—Chatbots powered by GenAI can transform the communication among different team members and probable customers. AI bots can act as customers based on data processed through machine learning and predictive analytics. This would help the teams test their product features accordingly and gather near real customer feedback without actually launching the pilot product. Apart from creating a virtual prototype, GenAI can also help build codes faster for technology admin systems using NLP.
- **Workflow process automation**—There are several third-party applications that automate process flows within the product development cycle and can be easily integrated into the admin systems. Such automation tools can help expedite the end-to-end processes and improve cross-communication interactions by reducing dependencies and solving bottlenecks.

Conclusion

An efficient product development ecosystem will go a long way in improving speed to market, enhancing customer experience, and accelerating growth of the organization, and it's high time that carriers pay required attention to this function. Siloed and disjointed efforts will not provide the desired results. Taking a comprehensive approach to re-evaluate and redesign the product development operating model, bringing innovations across the people, process, technology, and data dimensions, along with a customer- and stakeholder-centric approach, will enable carriers to outperform the peers.

The L&A segment is at the precipice of disruption and offers a game-changing moment for the carriers to embrace the changing customer and market dynamics and bring the required innovation in product design in partnership with the organizational functions to alleviate the value for the customers, employees, producers, and overall industry.

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