

**An Evaluation of Factors Influencing In New Product Innovation & Process -
With Special Reference to Health Insurance**

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Abstract

The new product development is indeed very important for insurance companies. However, developing new products is an uncertain process. In this situation to reduce the risk and uncertainty of the new products, insurance companies need to evaluate their new product initiatives carefully and make accurate decisions. This paper aims to identify the factors influencing decision making in new product in the health insurance. This paper presents an integrated framework for understanding how various factors affect in new product and provides development of new product process.

Keywords: New Product, Health Insurance, Development Process.

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1. Introduction

New product development (NPD) has been an important activity for firms. At the same time, it is a very risky and uncertain process. Throughout this long process, firms need to evaluate their new products and decide whether or not to proceed with their development. This paper addresses these two issues, namely it deals with improving the accuracy of new product evaluation decisions and offering guidelines for effectively evaluating new products. It aims at identifying factors affecting decision making in new product evaluation, understanding how those factors might affect the evaluations and providing guidelines for reducing the factors negative impacts on new product decisions. With increasing demand, the health insurance industry has come up with innovative products to enable policyholder to plan comprehensive protection against health eventualities by combining hospitalisation indemnity products with supplementary covers or additional policies to meet specific needs of the policyholder.

A few insurance companies are also designing niche products with the concept of covering “nonadmissible expenses”, this one type of standard exclusion in indemnity hospitalisation policies. There

is no limits to insurance companies experimenting with innovative product designs¹. However, below poverty line (BPL) families and low income, small urban population also to be a targeted/untapped market by the insurance industry to provide coverage to those who are in dire need of health insurance. In fact, this segment could actually be used to increase insurance penetration in the country. The Authority's agenda has been improving insurance coverage to weaker sections of the society; IRDA has conceptualised a composite standard product to provide a comprehensive package of insurance covers to persons belonging to economically weaker sections in rural and urban areas. The standard product could become the primary instrument for fulfillment of the rural and social obligations of insurance companies under the Insurance Act, 1938.

1.1. Product: Meaning and Concepts

A product, broadly defined, is anything that satisfies a customer's need or want. From an institution's point of view, a new product represents an opportunity to create value, and in so doing, offers a strategic competitive advantage.²

2. Product Innovation: The Indian Experience

Health insurance in India was first marketed in 1986 by non-life insurers as a standardized annual indemnity product, Mediclaim. Mediclaim had an annual limit of indemnity chosen by the insured earlier, and the premium was largely based on the annual limit chosen and the age of the prospect. Insurers typically offered individual health and critical illness Mediclaim products for individuals with riders available depending on the customers' needs. These riders provided the only flexibility to these policies, and constituted the extent of product innovation offered. Over time, insurers started to offer products tailored to the needs of different age groups such as senior citizens and children. However, standard offerings to customers like individual health plans and critical illness plans remain prevalent. So far, players seem to limit innovation to minor modifications on tariffs and features, such as schemes covering

¹ Bimabazaar.com

² CFP Knowledge Series Product Development

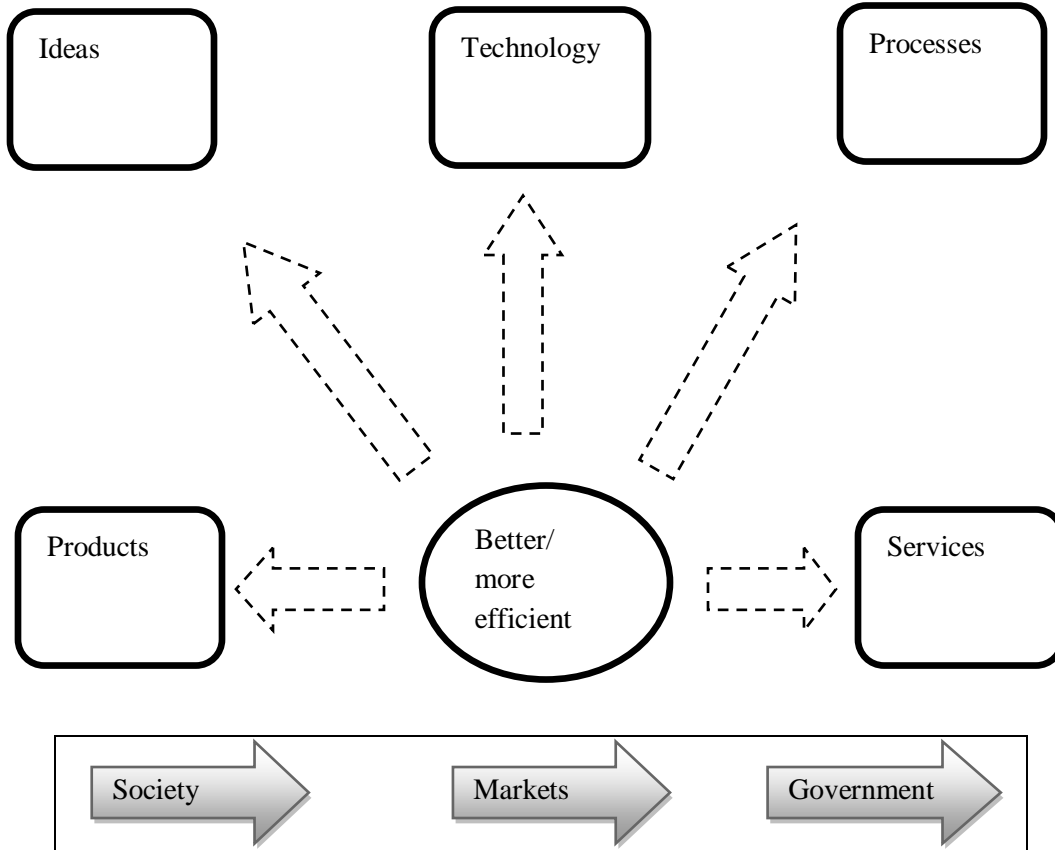
swine flu or riders on electronic opinion, and so on. For instance, the electronic opinion rider recently offered by a leading insurer will cover the expenses of a second opinion (via an electronic consultation) for serious illness in India from physicians in the World Care Consortium. An insurer has also been able to create customized products for group policies, including floater products, and has cooperated with the corporate sector on schemes for employees.

The public-sector non-life insurance companies called Bhavishya Arogya introduced the first health savings account-type product in the Indian market in 1990. The policy was not widely accepted due to lack of aggressive marketing by the insurers. In addition policyholders also lacked faith in the insurance companies' capability to maintain long-term records since computerization in the insurance industry was then just beginning.

Recently, a few life insurance companies have attempted to introduce health savings account-type products. However, the products fall short of customer expectations in terms of coverage, which is limited to named surgical procedures and a daily cash amount for hospitalization.

Product innovation in health insurance today is not so much about what a policy covers as it is about the way it works. Innovative products must therefore offer managed healthcare in place of policies claiming for hospitalization, discounts/conditions related to lifestyle habits rather than claims history, and niche products, such as cover for senior citizens, – the scope for innovation in the Indian context is huge and insurers have only just begun to scratch the surface.

Figure: 2.1



Source: RGA Services India Private Limited

The three importance things to consider product innovation in health insurance under:

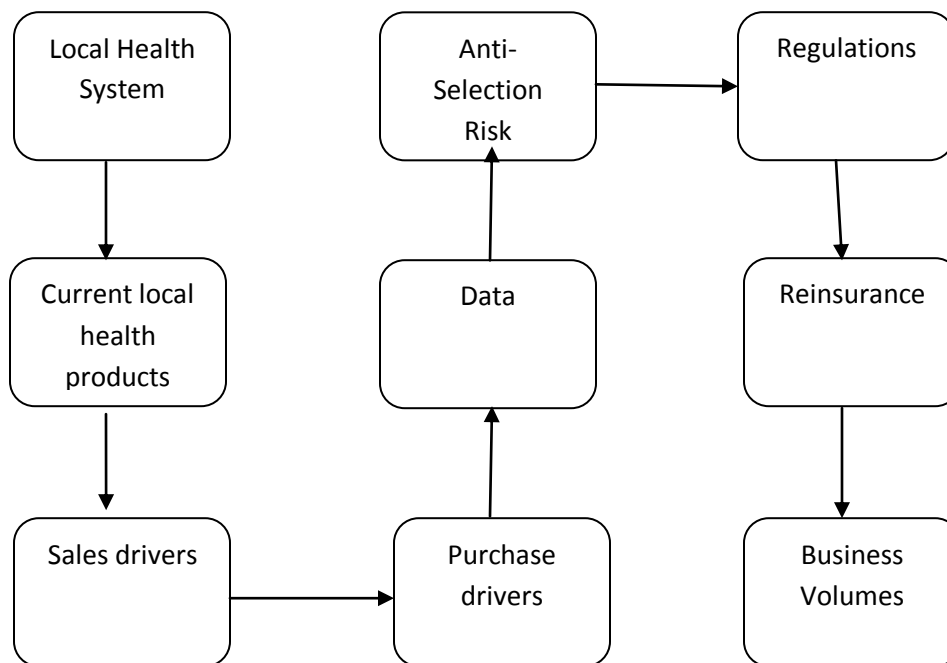
- Customer needs and their financial ability to pay
- Health needs change through a life cycle; products tend to be static
- Move from treating acute health episodes to one that keeps persons healthy.

2.2. Road Map of India's Product Development (Table.2.2.1)

1986 Single Product – No innovation	2009 Multiple Products – Limited Innovation	2010 and Beyond Differentiated Products – Innovation
Standardized annual indemnity product, Mediclaim	Individual and group floater indemnity products. Critical illness indemnity and benefit products. Hospitalization benefit and surgical benefit products. Hospitalization daily cash benefit products. High deductible and top-up covers. Micro health insurance products. Overseas travel and International comprehensive coverage products. Specific disease products e.g. cancer, HIV, diabetes Products for different age groups e.g. senior citizens Products with outpatient coverage in some form	Differentiated and multitiered products Copayments with policyholders Long term policies

Source: www.accenture.com.

3. Factors Influencing Innovation in Health Insurance: (Figure: 3.2)



Source: RGA Services India Private Limited

3.1. Local health care systems:

- Access to and utilization of public health care systems
- Primary v/s complimentary / supplementary covers

3.2. Current health products

- Identify gaps and saturations in current products
- Pros and cons for various stake-holders

3.3. Drivers

- Commissions
- Simplicity of sales and servicing
- Need of the customer

3.4. Purchase drivers

- Features and differentiation
- Cost of the product
- Need – Immediate protection or savings for future medical costs

Availability of data

- Quality and quantity of data
- Drivers would be limiting risk while gathering experience

Anti-selection risk

- Innovation in product involves opening up to risk
- Drivers would be limiting or controlling risk

3.5. Regulations

- Type of products allowed
- Price and features

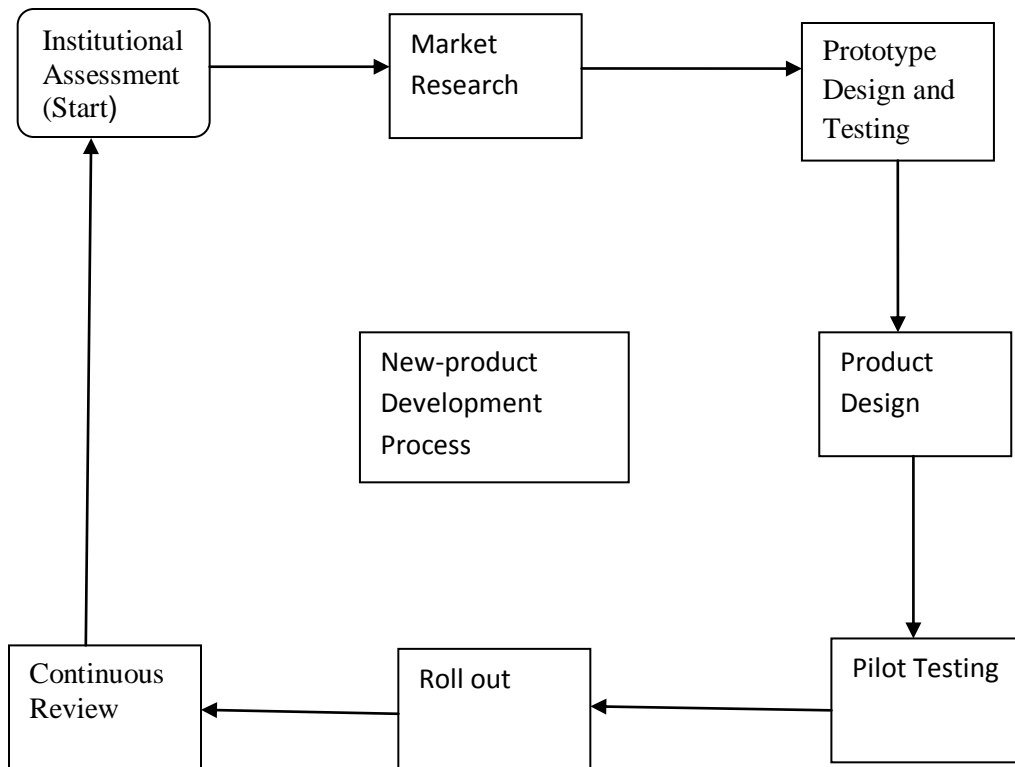
3.6. Reinsurance

- Appetite for risk
- Experience with products

3.7. Business volumes

- Appeal for the product
- Ability to sustain volumes and continuously bring in new business

4. Product Development Process for Health Insurance: (Figure: 4.3)



Source: Micro insurance Centre

The following steps of new-product development are addressed in detail:

4.1. Institutional Assessment:

Institutions lack the capacity to provide health insurance; others lack the will. While certain shortcomings can be addressed, an institution should understand the commitment it is making before embarking on product development. Product development is challenging for institution to determine whether it is prepared for the work ahead

4.1.1. Select product champion

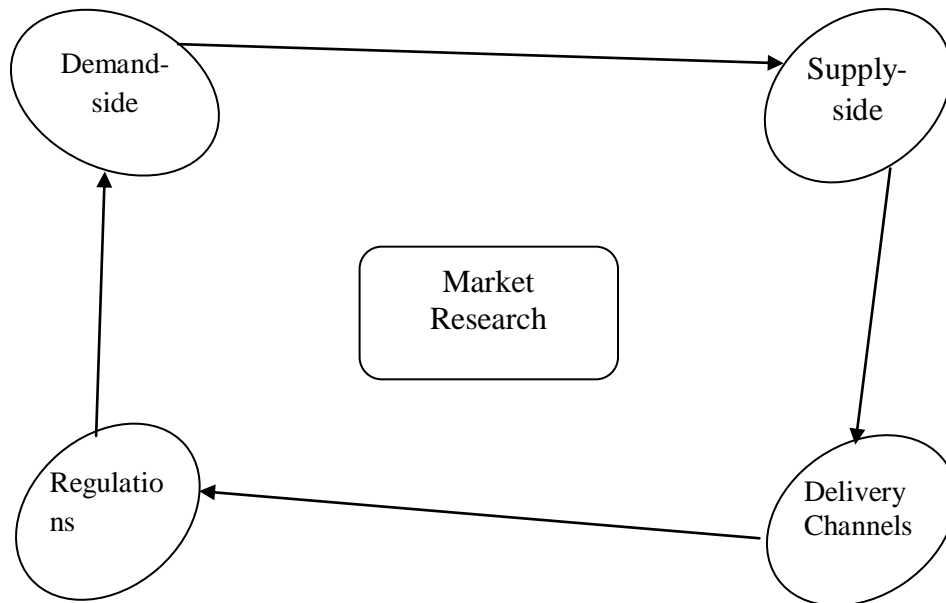
Once an institution has determined that it is prepared to move forward, it needs to select a product ‘champion’ to manage the product development process. Product champions shepherd the product development process and ensure that it gets the support and resources it needs. The champion may be a product development specialist or a manager within the institution, but s/he should have the following characteristics:

- Some understanding of both insurance and the low-income market, since the project will bring these areas together;
- The respect of management and the board, so they can keep these top-level leaders informed of the project’s progress and maintain their commitment;
- Leadership skills ability to work with various types of people and diverse skill sets;
- Flexibility and imagination with openness to considering and implementing new and innovative solutions for the product.

4.2. Market research:

Understanding the market is crucial. The demand & supply, delivery channels, regulations and education level of potential clients, how a product should be developed. Institutions will need an intimate understanding of the market in order to craft a successful product.

Figure: 4.2.4



4.2.1. Demand research

“Market research on demand can inform decisions about whether to enter the market, what type of product to introduce, and what market segments to target. Once a general product concept has been identified, market research can help identify specific product attributes that match the needs, preferences, cash flow patterns and other capacities of the target market.”³ The financial risks that people face and how they respond to them are often different from market to market, and they are influenced by economic, social, religious, environmental, cultural and political factors. Some risks will be insurable, some may not be. For example, a common ‘risk’ mentioned by low-income people is that of paying regular school fees. But this type of risk is likely better addressed by another tool, such as savings.

³ Accelerated Microenterprise Advancement Program (AMAP) of the United States Agency for International Development (USAID) (Sebstad, Cohen and McGuinness 2006).

There are many ways to manage risk (figure 4.2.5).



Source: Michael J. McCord. *Training curriculum*. Boulder Microfinance Training Institute, Turin, Italy, 2007

- Avoiding and reducing risk, which limits their options and reduces their opportunities?
- Sharing risk among family and local social groups, but these groups tend to be low-income as well, and thus have limited ability to assist;
- Retaining risk by borrowing, using savings, reducing ‘discretionary’ costs such as nutrition and schooling, and selling productive and non-productive assets
- When faced with a shock. However, this strategy expends hard-won gains and tends to keep people at low income levels.

4.2.2. Supply Research

When planning a new product, it is important to understand what is already available, or soon to be available, within the prospective market. There are lessons to be learned from the successes and failures of organizations offering similar products, but if the new products will be directly competing with existing products, it is important to consider whether the market is big enough to support two similar products. An institution can obtain key information that will help it appeal to the market and to build in competitive advantages within the product details. Such an assessment can also help indicate where the institution might tap into a relevant skills base.

Available supply may come from legal or extra-legal sources. The objective at this point is not to focus on the legality of these different insurers, but to understand how each type of micro insurer operates, and what one can learn from the products and processes of each. Regulatory issues are addressed below.

It is useful to compare institutions and their offerings side by side, examining the 9 Ps of marketing: product, price, promotion, place, positioning, physical evidence, people, process and partnerships.

4.2.3. Delivery Channels

There is a great deal of experimentation in delivery because it is a key cost driver. As health insurance relies on low premiums, it is critical to reduce the costs of offering it as much as possible. The optimal delivery channel will tap into a large market, keep delivery costs very low and display integrity. It is likely that technology will take on an ever greater role in health insurance delivery as a way to reduce costs.

Understanding the range of delivery channels may help an institution become more efficient by adopting or innovating new mechanisms based on what is learned from existing channels.

4.3. Prototype design and testing:

Before rolling out a full product, it is necessary to design a prototype to evaluate the market's response to the product and to educate the public about its value.

4.4. Partnerships:

Most institutions will need partners to provide health insurance. Evaluating and selecting the right partner will affect the quality and success of the product

4.5. Product design:

A product that is successful in one market may not be successful in another. Nevertheless, every health insurance product needs to be S.U.A.V.E. – simple, understood, appropriate, valuable and efficient.

4.6. Pilot testing:

Products should be tested on a small scale. It is easier to address problems in a trial run than after a product is fully implemented.

4.7. Roll-out:

Once a product has been shown to be feasible and successful on a small scale, it can be made available to a wider audience. Even so, scaling up has its own challenges.

4.8. Continuous assessment:

Even after a successful roll-out, products must be continually monitored to ensure that they are meeting the needs of all stakeholders. New information may come to light once a product has been available for an extended period

Conclusion:

Health insurance contributes to just about 2% of the total health care spend in the country. Higher incidence of lifestyle diseases, rising medical costs and increasing awareness of the benefits of health cover will drive the growth of the category. The entry of new players in the category will lead to a wider range of product, pricing and service options for the customer. The health insurance will be driven by innovative products targeted at specific customer segments and addressing to customer needs. Some of the customer needs are in the area of comprehensive health coverage, long terms plans, health funds, cost effective senior citizen plans etc.

Product innovation in health insurance today is not so much about what a policy covers as it is about the way it works. Innovative products must therefore offer managed healthcare in place of policies claiming for hospitalization, discounts/conditions related to lifestyle habits rather than claims history, and niche products, such as cover for senior citizens, – the scope for innovation in the Indian context is huge and insurers have only just begun to scratch the surface.

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Web Resources:

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