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The Impact of Technology on the Distribution of Insurance and Financial Services

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Summary: This session looks at how marketers are pushing the distribution frontiers of insurance and financial services. What technologies are being used today and in the near future? How successful are they? What are the implications for our products, services, and companies?

Mr. H. Neil Lund: This specialty track is presented by the Nontraditional Marketing Section, and I'm very pleased to have Mike Levison as our speaker. I've known Mike for quite a long time and have enjoyed working with Mike and his company. Mike is the vice chairperson and CEO of Covertell and Company in Atlanta. Mike has been there for nine years. Covertell and Company is a leading provider of direct marketed life, accident, and health products. It works with many of the country's largest banks helping them sell insurance to their customers. Covertell is taking direct marketing to new levels through its ownership and joint ventures with Quick Quote, the world's first virtual insurance agency. As part of this presentation, Mike will be going on the Internet. A modern correlation of Murphy's Law is that technology works except when you need it to, so we hope that will prove untrue.

Mike's company, Covertell and Company, has a long history in the insurance industry and a long history as a pioneer entering into marketing with banks very

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†Michael Levison, not a member of the sponsoring organizations, is Vice Chairman and Chief Executive Officer with Covertell and Company in Atlanta, GA.

successfully, and is now venturing onto the Internet with banks in pushing the marriage of technology and the selling of insurance and financial services.

Mr. Michael Levison: As Neil said, he's asked me to talk about the Internet and what the opportunities and what the implications are for the insurance industry. It's pretty early on in this whole development process so I don't think there are any real experts out there at this point, but my firm is doing some interesting things, and so I'm probably as close to an expert as Neil could find. Before we get started, who here is a regular user of the Internet? Well, those of you who aren't, don't feel like you're necessarily in the minority. I saw an interesting statistic the other day that underscores how far we really have to go. There are six million regular Internet users in this country and there are seven million avid square dancers.

I'm going to touch on a number of things. First, I want to talk about the revolutionary impact that the Internet is having on commerce in general because it really is quite significant, the impact that it's going to have in general terms on the financial services industry, and then get into specifics as to what the application or the opportunities are for using the Internet within the insurance industry, which I imagine is the piece that you're probably most interested in. As Neil indicated, assuming the phone lines cooperate, we'll go online. I'll take you to a variety of different insurance-related sites, so you can see what different companies are already doing. I have a couple questions I forgot to ask. I already asked who uses the Internet. Has anybody ever bought anything over the Internet? What was it?

From the Floor: I don't recall. I think I ordered some flowers.

Mr. Levison: Yes, that's a big item. Has anybody ever bought insurance over the Internet? There you have it; it's a big opportunity. Let's start with the impact on commerce in general because I'm a big believer that the Internet and the Worldwide Web are going to rewrite virtually all the rules that we've operated under for a number of years. There aren't many things that you can't purchase on the Internet now, and it won't be long before you'll be able to purchase any product, goods or services, sitting at your desk or sitting at home. Today you can buy everything from computers to flowers to cars to real estate.

There are going to be some industries that are more affected than others, the publishing industry is one in particular. It's already having a dramatic impact on publishing. There are Internet-based bookstores now, and if any of you've ever traveled to one of them, they're really quite good. Bookstores are one of the more successful business models on the Web right now, and you can find what you're looking for. You can search for things much more easily, get synopses of the books,

information about the author, and purchase books typically at lower prices. There are quite a few major players in the publishing industry that have made major investments in bookstore chains and other similar chains that are very worried about where all this is going.

Entertainment is another industry that is going to be impacted in a big way. There's been a great deal of speculation as to what's going to be the killer application for the Internet, and there's a pretty strong school of thought that it will be gambling. That is, once the virtue of gambling is widely available, people will be jumping on the Internet in droves, and there are early versions of that already emerging. One of the problems with the Web is that there are no boundaries. State gambling restrictions, for instance, don't apply. There are Web sites that are being set up overseas that people are accessing here in the U.S. and getting around essentially every regulation that exists.

The Internet is having a big impact on communication. You can already have telephone conversations over the Internet. With some fairly simple software and a board, you can have a phone conversation with someone on the other side of the world at no cost other than what you're paying to your Internet access provider. With the proliferation of cable modems, which we're just starting to see, videos are being transmitted over the Web as well. I pulled up a site in Boston that had a video camera focused on Boston Harbor. I was looking at a live video of Boston Harbor. We're just seeing the very tip of the iceberg as to where this technology is going to take us.

The impact on the financial services industry I think is going to be particularly significant in a number of ways. One is that it really levels the playing field. In many respects, the Internet is a great equalizer. Small players can be every bit as impressive, available, and visible as large players. If you have good content and good functionality in your site, you have just as broad a reach as a Fortune 500 company, and that has very significant implications. As I alluded to earlier, it eliminates all geographic barriers. What keeps companies focused on a particular geographic region now because of just the sheer economics of broadening your distribution doesn't apply when it comes to doing business over the Web, and so there are going to be many more choices available to consumers.

The Internet is likely to have a fairly significant impact on the pace of industry consolidation, especially those consolidations that are being driven by the quest to streamline or find deficiencies in the distribution system. That has certainly been the case in the banking industry where banks are buying one another to bring down their distribution cost. The efficiencies that you get through that type of consolidation pale in comparison to the efficiencies that you get through Internet

distribution. I think in place of actual consolidation, you'll see much more alliances between companies. It's very easy to link companies together on the Internet, to broaden your reach through that channel. The technical integration issues are far less complex than they have been in the past. The ability to integrate systems together, since the Internet really is an open architecture common platform, will ensure that these types of alliances proliferate much more quickly and efficiently than they have in the past.

Probably the biggest impact of the Internet on insurance is on product repricing. When you look at the efficiencies that this technology offers and compare those to the allowance that is built into most of our products for distribution, there's a tremendous opportunity to reprice these products, bring the cost down, and I think that's when you're really going to see consumers migrate pretty rapidly when they come to realize that there is a legitimate cost advantage to doing business through this channel. Ultimately I think all of this will result in a fundamental shift in the delivery systems for financial services in this country. It is under way in a fairly big way in the banking industry, and we're starting to see some pretty significant movement within the insurance industry itself.

What are the applications for the insurance industry? I've broken this down into four basic categories: general communications, product pricing, agent support, and direct sales, because there are opportunities in each of these areas. The most fundamental and probably the most prevalent use of the Internet by the insurance industry today is primarily general communications. Most major companies have a coordinated program or campaign to build awareness and build image with consumers; the Internet just provides another channel for doing that. The really well-thought-out strategies and well-thought-out sites, the themes, and the positioning that you see in those sites matches the theme and positioning that you see on the television set or in newspaper print. In that regard, it's just another channel of communication and another channel of promotion.

The Internet is a great medium for providing much more product detail and more current product detail than is typically available, and you can provide it much more cost effectively. In that regard, it's a good medium for making major announcements and getting the word out on new developments, whether it be to your employees, to consumers, or to your agents.

A number of companies are using the Internet as the primary distribution channel for shareholder information—items that companies are required to make available by law and the type of thing that companies spend a great deal of money printing and distributing. They put it up on the Web. It can be downloaded and printed out on demand. I'll show you some examples of all of this when we go online.

Finally, others are using the Internet as a tool to direct consumers to local offices and to local agents. I'll show you an example of that in a minute. Others are using it to collect customer feedback and distribute customer satisfaction surveys and other types of feedback devices. It's very valuable in that regard. The most fundamental use of the Web now and what most people are using it for is as a stepping stone. Everybody who has a presence on the Web and uses it as an electronic brochure is making plans to take it to the next step.

A little bit more about product pricing. As I alluded to earlier, there are tremendous efficiencies in Internet distribution, and good interactive sites or interactive technology really can replace most of the functions that agents have been typically relied upon to provide. Doing needs analysis and price quotes, providing product detail and carrier detail and taking the application is easily accessible to a well-thought-out Web site, and it typically ensures a degree of consistency and accuracy that you don't always get through the agent channel. I personally believe that there will always be a role for agents when there are advanced needs and advanced cases, but for the bread and butter products, this technology is going to eliminate quite a few of them—similar to bank branches.

There are tremendous efficiencies on the front end in the marketing and the distribution process. But the efficiencies don't end there; there will be much more gained on the back end as well. A number of companies are putting their applications online either to download forms or because of the next evolution, which will be full online electronic applications—the technology will have built-in help wizards so an agent or a consumer can fill them out, and those data will be transmitted to all the necessary users of the data, the pyramid company, directly into the carrier's underwriting system.

One of the things that the firm in which we have an ownership interest is doing is developing what we call real-time underwriting pass/fail tests. Before an application is submitted electronically, it's going to go through a screen that contains the basic underwriting criteria, and it's going to make an immediate determination whether or not that applicant meets the basic criteria for the product. If the answer is no, the agent knows about it immediately and can direct the applicant to a more appropriate product. You know as well as I do that in the current process, when a large percentage of these applications come in, there's a great deal of work done on them only to find out that the product wasn't sold properly to begin with, that the applicant really doesn't qualify for the product that he or she is applying for, and there's a great deal of cost involved in that. This will help eliminate that.

The ability to electronically communicate among all the parties through E-mail and giving agents online access to case management systems will have a significant

impact on the cost structure. When you put it together, there's a big opportunity to reduce the price of the products. There's probably a bigger opportunity in the insurance industry given the inefficiency of the distribution system and the loads that have been built into the product to pay for that inefficiency. There's probably more opportunity for product repricing in the insurance industry than any other industry that I can think of.

Agent support is another opportunity and is another way in which companies are using the Internet. Currently, it is a major undertaking to provide product details and updates, announce when a new product comes out, or announce a change in an existing product to the field personnel. Typically it costs a great deal of money and takes a great deal of time. Even then, the agents often don't get it and don't use it. When you make a change to product information on the Internet, it is available worldwide in seconds.

I mentioned earlier the ability to download forms. Part of the site that we currently operate has a section where an agent can go to a carrier where we have broken down all the carriers' forms by state. The agent can download that to the printer and work off those forms, so he or she always has accurate, up-to-date forms available. The next evolution will be online applications, but just having the forms available offers tremendous efficiencies.

There's one carrier that we work with that estimates it is going to save \$1.5 million per year just in printing and inventory management costs. Even after it spends money for new forms, typically for many months after the new forms have gone out, applications still come in on the old forms. The Internet really solves all that. It's a good way to provide financial planning or sales tools to your agents. Needs-analysis worksheets, state planning worksheets, telemarketing scripts, and telemarketing letters can all be put out there and downloaded and used by your agents very easily.

As far as real-time price quotes, when an agent is in front of a consumer, you want to provide as much information as possible. Most agents have the ability to provide price quotes now, but the distribution of that information is fairly awkward. Usually it involves creating diskettes at the home office, trying to get them out to hundreds or thousands of people in the field. The Internet provides an easily accessible, centralized place for storing all that information, and it ensures integrity of the data. You know the data are current.

Just giving an agent online access to case management status or underwriting status today is a difficult and cumbersome thing to do. It results in a large amount of wasted communication time. Providing this kind of access through the Internet

online in real time, will make your life much easier. Direct product purchase is obviously the theory of the business that we're most interested in because my firm is a direct marketing firm. There is tremendous opportunity here, and there are people out there starting to do it and doing it successfully.

As I said before, a good interactive site replicates many of the functions that agents have typically been called on to provide. Consumers are going to have direct access to information that, in the past, has been available only through the agents. They'll be able to go online and assess their own needs using basically the same tools that agents use now. They'll be able to get price quotes across hundreds of carriers where they can actually get an unbiased view of the marketplace. They're going to get this in a more objective, more easily accessible manner, without any pressure.

When you put all of that together, it's hard for me to envision a strong role for agents, especially in the middle-market segment of the population. As a final step, they can initiate the application process online. As a matter of fact, some are already putting full applications online and others are putting short-form versions of the application with a follow-up teleunderwriting call behind it.

Ms. Donna R. Jarvis: Are we to provide our agents online proprietary information on our pricing in our real-time quotes? How can we protect that information from people getting at it? That's one of the problems right now with the Internet. Also, how can we protect our applicant data? I mean, that's information that people don't want everyone in the world to know.

Mr. Levison: Really you're asking just a general question regarding the security of any transaction on the Internet, and there's a great deal of concern out there about that, but it is being solved. The security issue is being solved very rapidly especially as it relates to putting up fire walls or protecting data that you don't want just anybody to see. There are good encryption technologies out there. There are ways to password-protect that data. Most of the concern at this point involves how do you protect data like credit card numbers that are in transit, and how do you protect that from people grabbing them and using them? The issue of protecting a database of information has largely been solved, and it will be improved even further over the next year or two. Most of the concern we're hearing now is how do you protect data that are en route. There are many Internet sites now where you can only get into them if you have proper password authorization.

Ms. Kim J. Long: I was wondering how this technology will be affected by the illustration regulation where you now have to send out an illustration when you

send out the policy and then have the consumer sign it, and send it back or do you see any problems with that?

Mr. Levison: Yes, because there are some companies that are providing quotes on the Internet right now that aren't providing full illustrations. That's obviously a concern. But there are some that are providing full illustrations.

There are certain things that the Internet, at least at this stage, can't solve, such as the need for a signature, and you do have that requirement on the application. We send out those applications Federal Express same day to the applicant, have them sign it, and send it back. Others have the paramedical firm get the signature when they go out and do the exam, but it isn't going to be long before digital signatures become prevalent. There are already laws on the books in a number of states that accept or make digital signatures or digitally captured signatures legal and binding. There's a great deal of work being done in the whole area of authentication of individuals. It is one of the keys I think to ultimately opening up all this to the full range of products and services, but it won't be long before that's solved.

Ms. Lisa A. Thompson: You were talking about all the tools you could put out for agents to use. It has been my experience that in talking to producers, many of them know about the Internet, but they don't really use it. They're accustomed to having their forms sent to them, having the signature, and not dealing with that. How long do you think it will be or do you think it will take a new generation of agents for this to actually work?

Mr. Levison: Probably. Yes, it's a fact of life. There's a large segment of the agent population that is just set in their ways and they're not going to change. But I think they're going to get squeezed out of the business ultimately, and it probably will require a new generation of agents before the technology is really widely embraced.

From The Floor: What insurance products are currently out on the Web and successfully being sold?

Mr. Levison: Term life insurance would be the primary product, but annuities are starting to make some real headway as well. In fact, there's one company that I wanted to show you that has built an annuity specifically for Web distribution, and it offers higher credited values, higher guaranteed rates, and I'm aware of a number of companies that are reengineering life products for Web distribution. I'm not seeing much in the area of whole life or any of the cash accumulation products at this stage. They're much harder to illustrate and quote. There is some progress being made with property and casualty products. One of the sites I'm going to

show you offers an ability to get an automobile or a homeowner's quote online and initiate the purchase process.

From the Floor: Do you think that the Internet really deals with more commodity-like products, that insurance products on the Internet will become simpler, like a trend away from universal life and towards term or more vanilla types of whole life?

Mr. Levison: That's a good question. I certainly think most of the sales activity on the Internet will be with simpler products, and then some products will be more simply designed than perhaps they are right now. Everybody's talking about the opportunity to sell life insurance to middle America. I think that by definition suggests simpler products. Even those that aren't looking to Internet distribution are redesigning some of their products to have more appeal to that middle market segment of the population. Will the cash accumulation products become simpler? I don't know. I think that technology for explaining them, illustrating them, and conveying information to consumers is going to get better. The viability of selling more complex products will increase over time, but there's going to be sort of the upper segment of the population where an agent really is going to be necessary with more advanced need.

From The Floor: How does the profile of a middle America match up with the profile of a typical Internet user?

Mr. Levison: That's a hard question to answer because the profile of a typical Internet user is changing very rapidly. Every month new statistics come out, and frankly the statistics are often quite conflicting. There's no question that what the typical Internet user looked like a year ago and what he or she looks like now, and what he or she will look like two months from now, is a very rapidly moving target. Once products are priced to reflect the efficiency in the distribution and consumers understand and know that, consumers will come on and use the Internet that would not have used it perhaps otherwise when they know that there's a benefit. You can build a 15–20% price advantage into a product if you access it through this channel. That's going to cause many people to take a look who might not have done so otherwise.

Mr. Lund: Less than two months ago, my parents became Internet users, so it's definitely a changing demographic situation.

Mr. Levison: I'm going to take you to a variety of different sites just to show you how different firms are using it; we'll start with CNA. CNA is obviously a major company. It is really, at this stage of the game, just using the Internet as essentially a corporate electronic brochure, providing some financial information about the

company, some very basic information about its products. You can send E-mail and provide the company with some feedback, and CNA has some links to some other interesting insurance-related sites. You can get information on job opportunities at CNA, if any of you are interested in that, but there's a variety of other insurance related-sites that you can hot link to. It's fairly simple with no frills and not a very functional site at this stage.

The State Farm site is similar in scope, but the company takes it a step or two further. One thing that I like about the State Farm site is that you can go in and find an agent who's near you. They built a database where you simply put in an E-mail address, put in your zip code, and search. It will pull up a list with zip codes. You can't get that out of the phone book typically. It states the agent's name and will display a picture of the agent, his or her address, phone number, fax number, and if I so desired, it will pull up a map to his or her office and tell me exactly how to get there. That's what State Farm is doing. State Farm is also providing some product information and some shareholder-type information.

Another carrier's approach, Zurich Direct, has all the basic corporate propaganda, but you also have the ability to go online and get an instant quote by providing some basic information. Actually in Zurich Direct's case, it requires that you provide a good bit of information. It will come back with a customized quote for your particular profile. Obviously, that's only for a Zurich product.

From there you can initiate the application process. Zurich Direct doesn't take the full application over the Net. It takes just some basic information and has a teleunderwriting department where an underwriter's going to call and essentially complete the rest of the application and get you clarification on any of the information that is required. As far as I know, Zurich is one of only a few carriers like the Southwest, that actually provide a quote and give the consumer the ability to actually interact with the system and to purchase a product.

Fortunately, there are some other innovative companies that are doing that. I mentioned before Independent Life and Annuity, which is a subsidiary of Liberty, that has built an annuity specifically for the Internet; it's the only way that it's distributed, and it is better priced than really anything else out there because it doesn't have that huge load built in to pay the agent. We're going to see much more of this in the not-too-distant future.

Another interesting site called Insweb takes a different approach. Insweb is building a shopping mall of insurance carriers on the Internet, and each of the different carrier sites has a different degree of functionality. For instance, Zurich is on the Insweb. You can get the same kind of functionality that you do if you go to the

Zurich quote. Another thing that Insweb is doing is building a consumer education center. You can go online and get a great deal of general information about insurance and understand the differences between different products. There's a glossary of terms, frequently asked questions, and an agent locator where you can get directed to agents from a variety of different carriers. This is also the site that has the ability to get an instant quote on automobile coverage, although at this stage of the game, it's only for residents of the state of Utah, but that's going to be expanded soon. There's some big money behind this operation so it is likely to have a pretty significant impact.

Let's get into some of the quote services. The company that we own a piece of and have a joint venture with is called Quick Quote, and I'll take you there after this, but Quote Smith is one of the shopping or comparison services. It's been around for a number of years. I'll do a quote here just to show you how it works. You put in your birthdate information, residence, gender, and indicate whether or not you smoke. I want, let's say, \$1 million of coverage, and I want it for ten years. I submit that information and the service just searched a fairly massive database. It searched 138 different companies and found 237 policies that met the criteria that I put in. It provides every one of those policies in ascending order based on cost.

First Pacific is the most price competitive. At an annual premium of \$1,260, the ten-year total is \$12,600. It goes straight on down to the most expensive one out there. Anybody here from Ohio National? The annual premium is \$8,100 versus \$1,240. Consumers will get excited when they see the opportunity to shop the market objectively in this fashion. From there you can go into any one of these and pull up the full details on the product. There's an analysis of the benefits, the policy description, the reentry options, convertibility options, the waivers and the riders that are available, and in this case, I'm not sure this is the full legal illustration or not that's provided all the details here. I mean what more could an agent provide if you knew you wanted to purchase term life insurance?