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Selling Life Insurance Over the Internet

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Guest Presenter: O. WILLIAM O'QUIN§

Summary: This session addressed whether life insurance products can be sold effectively over the Internet. An interview format will draw out both panelists' and participants' views and ideas.

Mr. Edward F. McKernan: My experience on the Internet is very limited. In fact, I started using e-mail several weeks ago, claiming it's the only way I can elicit a response from my boss. So I'm by no means an expert on the subject, but I have done some background reading. Periodicals are loaded with articles on the topic of selling insurance over the Internet and either how great it's going to be or how unsuccessful you'll be. There is a diverse range of opinions in the periodicals. I received the latest copy of *Best's Review* and noticed the cover story addresses what companies are doing out in the industry. There are a couple areas that we want to dive into. Companies are also using the Internet for many different types of vehicles and not for the sole purpose of selling insurance. The Internet is also serving as a platform to meet agent and consumer needs, and it is a means of displaying our wares, if nothing else.

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We're going to address these subjects in four main categories. The first is using the Internet as a distribution mechanism. This may involve distribution of products, either as a direct distribution system (selling products through what I'd coin an electronic agent) or through the building of distribution systems through "recreative" methods. Companies are finding that they need to start thinking about these areas. In fact, it has been noted that on the forefront of CEOs minds is how to tackle other methods of distribution because of the slowdown in their sales and the new business production through their traditional systems. So the Internet is very much at the forefront of what CEOs might want to plan on in the future.

The second topic we want to address is uses of the Internet to automate the sales force or the agent. Our third and fourth topics will address how the Internet is used to serve customers (policyholders) to the extent that they are able to tap into the Internet and take a look at all the information of the insurance company—current account values, in-force business and the like. Finally, we'll discuss how the Internet is used to integrate other financial services.

Tom Mathews is vice chairman of World Marketing Alliance, an independent agency that has built a product distribution system that now spans six countries and U.S. territories. It's perhaps the largest independent producer of variable universal life (VUL) business. Tom has been instrumental in developing World Marketing Alliance marketing strategies, including development of its Web site and other marketing systems.

Our second panelist, Bill O'Quin, is president of Financial Services Online, a paperless publishing clearinghouse to help financial service professionals better serve their clients. Bill has developed several insurance marketing tools that are distributed through Pictorial Publishers, including business needs analysis, personal needs analysis and estate planning insurance consideration.

Our third panelist is Michelle Smith, an actuarial consultant out of Tillinghast's Atlanta office. One of Michelle's primary areas of professional expertise lies in assisting insurance companies develop strategies to improve their existing information technologies or create new technologies to address their business needs and services better.

Mr. Tom Mathews: We want to show you a few examples of the many ways the Internet and the life insurance industry have combined. Quotesmith's Web site is one of the best examples of how to market insurance on the Internet. We've had some challenges trying to get insurance marketed through an electronic agent. Term insurance is an area where people price shop and do not necessarily need a lot of explanation. Most people have a pretty fair understanding of how term

insurance work and you can go into a site and shop from over 100 different companies and find the best rate or the best company. You can go in and get instant quotes and choose from 134 companies. They even go into second-to-die policies and annuity quotes. One thing I've heard over the years is that a lot of people browse through that information, but it doesn't necessarily lead to very many sales. I know companies do some sales, but not every person that obtains a quote says, "Write me up."

It's an example of what kind of research can now go on behind the scenes that couldn't be done five years ago. You wouldn't have found out about it from four or five different variable annuities. You had an independent agent that could be unbiased enough to share that with you. Most of the decisions that were made prior to something like this, might even have been commission-driven by an agent. A client can go in, plug in his or her own scenario, and take a look at everything from the ratings to the projected interest rates to what might happen within a certain time period. It can predict what your potential cash assimilation could be in this multiple of companies. You can click on a hot link and go to a separate page on a company that would refer to specific policy and some details. It's almost like an electronic brochure. Some people refer to it as brochureware. You can go through and actually plug in your name and address and how you'd like to do it.

I know that many of the bigger companies with their own Web site have a portion of their site dedicated to performing these kind of sales, but they haven't had a lot of success. We use our Web page for client information. We've taken all of our brochures on specific products and services plus our recruiting opportunities and, turned the site into an electronic media source. In our Web site, wmas.com, which stands for WMA Securities through World Marketing Alliance, we've taken a very unique approach. There are many people on the Internet trying to sell something. Our site is basically dedicated to providing basic information on our company, but it's biggest use probably revolves around the opportunity to come to work with our marketing company. We recruit people who are not from the industry (people looking for a second income) or people who have been in the business 20 or 25 years. You can go to our Web site and get a feel for how we conduct business.

One visitor had a series seven security license, an insurance license, and was a CPA. He became very dissatisfied with a broker-dealer, went into the search engines on the Internet and came up with our Web site. He then pulled up information that led him to consider us as a candidate. The Internet may ultimately be one of the bests ways for people to gather more information when they want to look around.

If you were a dissatisfied agent who wanted to try and find a new broker-dealer, where would you go? Now the Internet allows you to do this great research and pull up information week-to-week that shows commission examples. A potential new associate to join our marketing company is almost like a potential candidate that might want to buy an insurance policy. They can go into this site and leave their vital information, if they're interested, and send us an e-mail. I can give an example of how well it's done. I actually have a field organization within our company, in addition to my home office duties. In the last 12 months, my organization has recruited over 400 people through the Internet that came with either an insurance license, a securities license, or both. We might have never found those people and they certainly might have never found us if it weren't for the Internet. They were able to get enough information about the diversity of our products and concepts to determine that they wanted to take a closer look. We talk a lot about building your own business and the independence we offer. It allows us to show some of the options they have with our broker-dealer and some of the benefits and features that make us unique.

Potential candidates can e-mail us and the message is automatically forwarded to one of our field offices in that person's area. That person will turn on the computer and have an e-mail message waiting from a potential candidate who wants to come work with our business.

Recruiting is one of the biggest, untapped uses of the Internet with respect to the life insurance industry. As far as I know, we're one of the few companies aggressively doing it. Most companies are just trying to get their name out and show a list of products. As far as the Quotesmith and other types of sites in this age of consumerism, people want to shop around. I wish I had more of an indication of exactly how many policies are actually sold. Based on some articles that I've read and some of the research we did prior to this meeting, it seems as though quite a few people feel that their initial estimate of what they thought they might be able to market selling policies individually off the Internet is coming up a little short.

From our vantage point, the recruiting possibilities for building a distribution system is the best use we have found so far.

Mr. McKernan: As I said, my Internet experience is limited. I've read a few articles, but one camp believes that, within the next couple of years, there will just be a purchasing evolution through the Internet, with billions of dollars of premiums generated through direct sales. The other camp thinks this will never really happen. People might explore the Internet and ultimately decide to make a purchase but, at that point, they'll still ask to speak with a company's agent in their area. Ultimately, the consumer is going to want the agent to say that the product does, in fact, fit the

customer's needs. Do you see people soliciting for purchases, as well as recruiting on the WMAS site?

Mr. Mathews: Sometimes they want more information, but certain things require interaction with a live person. For instance, when you look at variable products, I don't know how a person could go to a web site and gather enough information about asset allocation and subaccounts.

Mr. McKernan: I guess that speaks to the issue of whether insurance is sold over the Internet or whether it's bought over the Internet. In commodity-type products, like homeowners insurance, auto insurance, or even term insurance, the user is shopping for price. When you get into products that have more sophisticated wrappers—interest rates, surrender charges, equity products, or variable products—that is an instance where the product is sold. The consumer needs a higher level of education of the product and its uses. Quotesmith was interesting in that it had all the annuity products laid out and some of the yields on those products were approaching 8%. Someone might go on the Internet and browse and decide to buy an 8% product. You have to wonder about disclosure issues. Is that product suitable? Is that 8% forever? Is this all going to come back and haunt us at some point?

Mr. William O'Quin: I think the statistics about what's being sold on the Internet is a little bit like gas mileage—everybody lies about it. Zurich was processing about 40 policies per month. Quotesmith is giving numbers like 1,400 policies a month. Now that's as serious as a heart attack. Despite that, I don't feel that there's much that will be sold on the Internet. That seems like a lot, but when you look at the big scheme of things, it's not.

Ms. Michelle D. Smith: That's also just Quotesmith. We can look at some of the other insurance malls, and there are a lot of them out there. Most don't get much business. What distinguishes Quotesmith is that it has hundreds of companies in its database. Consumers prefer sites like Quotesmith over some of the other malls that only have 5–10 companies in their database. It appears that the Quotesmith model is more attractive than others.

Mr. O'Quin: Those are the two models that are working and there are at least three out there that are for convenience buyers. You have a shopper that's coming specifically to shop on the Internet, but I also think you are going to have some convenience buyers despite the fact that you don't think it's going to be that big a thing; this has been a new evolution to me. I've tried to understand that there are some things that are going to take place. One of them has to do with what you guys do. The convenience buyer is the person who selects a site because he banks there

and does all of his transactions there. Those type of sites are trying to get customer loyalty by putting everything at one location. The customer will assume that some shopping has been done, so it must be a good company. In the two areas I do see working, the first addresses any shopping in a product driven environment. The second addresses the convenience buyer who is involved with such products as Quicken or Microsoft Money.

Mr. McKernan: My impression is that insurers are well behind the curve in how to develop distribution over the Internet. It seems like they're putting up their billboard out there to say, "Here's our company; we offer these products; call this 800 number." And that's where it stops. I imagine that people who are spending time browsing the Net are seeking information to be educated. If they get to the site that doesn't tell them anything about the business or the products, they're going to move right on. One of the things I'm wondering is where the industry thinks it's going with the development of these sites. Are insurance companies actually looking for direct sales?

Are they looking to link up with electronic agents? If so, what kind of peers would they have in their current distribution system? That is the first major roadblock we face as a distribution company. "We'd love to do business with you, but our existing distributors will get very upset and we're very protective of this distribution system." Even though their business is dwindling, they're not willing to take that step to develop alternative methods. Are you willing to rely on electronic agents or even direct distribution? The third method is recruiting and building your own distribution systems. I would welcome any comments on where companies are heading or where they have headed. Are there any success stories?

Mr. O'Quin: What would be interesting to me if I were an actuary is there's not one product on that Quotesmith list that has been designed for sale on the Internet. Most every product there has the same commission structure being sold by career agents or brokerage agents anywhere in the U.S. To me, that's kind of the ringer in the deal here, even though, I don't think a lot could be sold on the Internet. I'm not an actuary, but I certainly can understand the difference between 150% load first year of premiums versus a 35% load.

With the incredible power of distributing information that's available on the Internet, it's not going to take too long to understand that they can buy a product that has a load of 35 cents on the dollar versus one that's \$1.50. I'm an agent. I've been in the business 26 years, and I can assure you that you cannot sell a relationship sale for that big a gap. As more and more products that are developed that have lower loads, it's going to put pressure on the entire agency system. I think you'll probably see lower prices with information being distributed and

disseminated through the Internet. People are finding out that the true differences that can exist on those products is going to put pressure on the agency system to lower or close that gap some. I don't relish the thought of that happening, but I think it will.

Ms. Smith: Not many products are sold on a reduced-commission basis to reflect distribution efficiencies. It's the way the products are sold and the way the product has not taken advantage of this technology. A person goes into Quotesmith and fills out an initial application, but then everything reverts back to the old paper and snail-mail way of doing business. The insurance process is exactly the same as it has always been. It still takes from one to two months to issue the policy. These are things that insurance companies can really use the Internet for to turn around that issue time and even change the underwriting process with electronic underwriting decisions. That's where much of the impact of the Internet and commerce will come in. Customers are going to wake up to the fact that it is no great advantage to them generate a lead on the Internet and then have to go through the old way of doing things. Customers use the Internet for convenience and probably want to have the transaction carried out quickly and conveniently. To have a two-month issue period and go through the same administrative process that companies go through now doesn't make any sense. The Internet should be used to reduce the issue time and increase the efficiency of the issue and servicing process.

Ms. Nancy A. Manning: You touched on a couple of points that are of interest to me. You were talking about changing the issue process. One thing that I think we, as an industry, have to look at is how we, when selling underwritten term business, overcome the need for, a vehicle to get a signature into our home office to speed that process along. I don't see the insurance industry faxing information back and forth. I wonder if perhaps you've seen that because it seems like that's an opportunity for us to use the Internet. Maybe we could download an application that could be signed and then faxed back.

I have one other point to make. I'm wondering if we aren't, as an industry, reacting to the Internet by saying, We don't understand whether the Internet will be a lead generation vehicle. Will we still need an agent to take that name and go out and close the sale? We're a little reluctant to move into the world of pricing a product, as you said, with some kind of lower cost to the distribution channel. We don't understand whether we're reducing our cost or increasing our cost by getting involved with the Internet.

Ms. Smith: Let me start with the signature piece and the application process. Obviously the issue of the signature is absolutely critical in using technology to change the application and issue process. These people have printed out an application, signed it, and sent it in. If they have to receive the policy on paper, it's

going to be hard to change that process. So this is also something that the NAIC and state regulators are considering. They're also trying to figure out how they are going to deal with electronic signatures. I think 15 states will accept electronic signatures in lieu of a written signature. The problem is that insurance companies don't know what to do about this. I think the biggest problem for the industry is that it has no widely accepted transactional standards. Why can banking have electronic transactions? Brokerages on the Web are huge—lots of transactions. Part of this is that these transactions don't require signatures, and another part is that these other industries have developed transactional standards. We need standards to facilitate the use of electronic signatures. The public needs to feel comfortable using electronic signatures for insurance along with the use of digital certificates. You want to be able to identify an agent, company, and identify the person who is buying the policy. The only thing that's going to make a difference is if the industry works together with technology companies to produce signature and transactional standards. You can't have each company go off and develop its own proprietary standards. That would lead us to disaster. The costs are too prohibitive for the small companies. The big companies might be able to do it, but every company will have a different standard and the public will probably be confused. They won't have the trust and the system might not have the integrity it needs to have. If the insurance industry doesn't do it, it will become isolated because banking is going to come together to produce industry standards and so is the investment/brokerage industry.

Mr. Donn T. Takebayashi: I can't speak for my company because I'm not empowered to do that, but my personal views is that there's a tremendous issue regarding credibility of data. For one thing, we're not officially on the Web, but unofficially our rates are showing up on some of these things. I also heard, I didn't verify it, but I heard that the rates are wrong, which borders on slander. But I think that the accessibility of the Web is both a curse and a blessing. Almost anyone can create a very professional looking, very official looking Web page. Even though the industry might designate official sites, the average Web browser will not necessarily know that.

Ms. Smith: There is technology called digital certificates that are issued by a third party to help you identify the company you're dealing with.

Mr. Takabiashi: That's good to hear because the Web is catching on and people are getting much more comfortable with it, they're going to start to get fooled by some of these things. I think it could hurt us as an industry.

Mr. Matthews: We've done a lot of work with is 401(k)s with Aetna. We marketed a group variable annuities. Clients can now go into the Web site, Aetna.com, and

look at their account. On a secured basis using passwords, they can see how their account is doing; reallocate their sub-accounts, and those kind of things. Some of the service work can be done through the Web site so no one has to take the time on the telephone. They've been able to make their call structure very competitive, knowing that many people can do that. They also have a deal that can be done on the telephone with a fax. They're very automated and take technology very seriously. Aetna gives a sheet to clients listing all the ways they can contact the company. The last way is calling them. One of the things you're going to see happen in the future is that the old-fashioned telephone call won't be quick enough. Then you have the issue of business hours. The Internet is open 24 hours a day. If you went to bed last night a little nervous about your money, you could access the Web site all night and find out how it's doing. That is the kind of instant feedback consumers are demanding. It's not OK to be open eight hours a day anymore. You have to be open 24 hours a day.

Ms. Smith: It also provides cross selling opportunities. The best way to generate a lot of traffic to the site is to provide customer service to the site. If you're getting thousands or millions of hits like brokerage firms are for trading because people are coming for service, then you can generate opportunities to cross-sell.

From the Floor: About a year ago, I did some research trying to find anyone selling over the Internet. I went through all the closed services and everyone I found there had commissions. They weren't direct products. The only one that I think is direct is Independence Life, but I'm not really sure. I looked that the financial that came out through A.M. Best, and it had a minuscule amount of sales, I think in the hundreds of thousands of dollars for the whole year. Is anyone aware of a company that's successfully selling direct? You could increase your credit rates by 50 or 75 basis points for the direct sale, minus expenses of course.

Mr. O'Quin: Liberty Mutual does have a specific product. I talked with over 125 different companies. Virtually everyone is disappointed. There hasn't been a lot of product development.

Here's my thought on the problem that's going to exist. People go to the Internet to shop. How are they going to find your product? There are a zillion companies out there. Every agent is out there. It like a massive yellow pages directory. So what concerned me, from the standpoint of designing a product by itself, is how we're going to advertise this product through the Internet so people can find it. People are going to go to the shopper-type environments. If you aren't at the very top of this list I would imagine that the CEO will not be too happy. But everybody can't be at the top of the list. I, as a consumer, want to go to a site that has everybody. I'm not going to go to 15 or 20 different sites. So it is a challenge for a company to

design a product and make it unique. Most people are going to want to shop the product. So, even as the direct products are developed, I see the marketing companies doing the shopping still being the ones to come out on top. Again, I'm not an actuary, so I can't understand how all the companies will have their rates in one location. What's the decision? How do you distinguish yourself? It's really confusing for me.

Mr. McKernan: Michelle and I were having a conversation earlier about linking your sights to interests. I read an article about wine enthusiasts. There are thousands of sites for wine enthusiasts, and they're also interested in insuring their wine. But not one of those sites had a link to an insurance company that specializes in insuring wine. They also had a Web site out there that displayed such a product. The company sells wine insurance, but there's no link to the wine enthusiast sites. Without that type of advertising medium, it's difficult to see how insurance companies with narrow product referrals can successfully advertise themselves.

Ms. Smith: I'm seeing the convergence of Web banking and brokerage into the same site. I think we are going to see most of these sites also start offering insurance. Some of them are already doing it. The thing that distinguishes the banks and brokerages is they have the direct customer relationship. People already come to their sites for banking and brokerage services. Companies like Charles Schwab are now offering unique financial planning tools on the Web. They call them savings or retirement planning tools, and they are more advanced than anything insurance companies are offering. They can give full financial planning assistance on the Web site with these tools. That is really going to help insurance sales on the Web.

Mr. McKernan: Maybe this would be a good time to move to our next main topic, which is how the Internet might be used to automate the agent. This is a new area in the industry and some companies are in the process of developing technology to service their fields. We're at the threshold of revolutionizing the industry and how we conduct our business.

Mr. O'Quin: When I first started this company, we made no attempt to sell product, and we should have done that. We made no attempt to prospect because I still feel there are too many variables and too many problems. The Web has such a low cost of entry that anybody can participate. If you have a neat thing that does financial calculations on Thursday, I'll guarantee you that, on Friday, four other companies will have the same thing up. There's not a big cost investment to get that done so how do you distinguish yourself. There will be convenience buyers looking for the Meca or Quicken type of things, or the Quotesmith type shoppers, but I never felt that there would be a tremendous amount of sales. What I do

believe is this is an absolutely spectacular method of reducing cost. It is a new delivery system. It will be done two ways.

I'm going to show you the terminologies that have changed and gone up and down. I think the terminology is probably the *extranet*. I call one a "marketing extranet," which is a method by which to communicate with the field force. The other is a "client extranet," which is where you can communicate with the clients and give them information. Those, to me, are the two real advantages because the cost of distributing through the Internet, versus the cost of doing any kind of business any other way, is pennies versus dollars.

For example, we put every form Kansas City Life has on the Internet at a cost of \$8,000. That means that the marginal cost for an agent to produce a form for Kansas City Life off of the Internet is zero. The agent is paying for the toner and the paper, and there was a fixed-dollar cost of setting up a PDF file. I'm still rather pessimistic about a lot of sales being made on the Internet, although I'm learning all the time and there are things that indicate what we should consider.

Is anybody here familiar with General Life? I see a few heads nodding. General Life is a subsidiary of General American. There are 14 people in the home office. Everything else is outsourced. It is a bizarre place to visit. I've been in a lot of home offices, but I've never been in one like this, because there are truly just 14 people there. They stayed with the personal-producing general agent (PPGA) distribution system, but they require everyone who wants to be a managing general agent (MGA) to be on the Internet. This company has a very sophisticated marketing extranet. Those managing general agents (MGAs) use a passport user ID to get into that site. The applications people fax them in and the underwriting process begins at a firm in Waco, Texas, that does the calling and everything else. They are streamlining some steps, but they're still at almost the same pricing structure and still using traditional products. If you want to visit the site, it's generalife.com. They also provide information about the different products.

You can imagine the amount of money that can be saved by not printing product description brochures that most of the agents leave in their desks until they go out of date. There's a huge savings involved in this. The site can be accessed by a password and ID issued by your agent. Then you can obtain quotes for the different types of products the company has. If this were a brokerage type of a situation, it could be more than one company. In this case, it appears to be one company with several different products. You can download and print the application. Because they also did some of the work for General Life, the application can be just a preliminary form that's faxed in, sent to the people in Waco, and then underwritten. So that gives you a feel for a marketing extranet. Again that's my terminology:

marketing, meaning it is a boom to the field force, and extranet, meaning it's on the Internet and available, but behind a user-ID-protected site.

The next one I'd like to discuss is Vi Link. This is a list of policyholders and their policy numbers that can be sorted by agents or by a company. Your password would allow only you access, so an agent can come in, click the right buttons, and get the information on the policy. It may be in an underwriting capacity where it's in ending status. When you hit the button for the underwriter, it brings up an e-mail. The agent types in the e-mail address and it automatically goes to that specific underwriter and gives him information about what's necessary in order to get the policy issued.

On a policy inquiry, you put in the policy number and get the name of the insurer. This goes all the way back to the end of the mainframe. There's a lot of firewalls before it gets there, but it is done through the Internet. Vi Link sends the information down two or three times a day, and it stays resident in the agent's computer. It's sent through the Internet, but stays resident either in the agent's or the agency's computer.

There are two different ways of doing it, and both have some advantages and disadvantages. Anything that can be accessed through the mainframe can be accessed through the Internet, with some sort of link to the mainframe. It has astounded me that some of the companies have gone forward with this. There is a lot of information out there and I don't understand the security issues. There are some people who think they have problem solved the digital signature. We'll probably solve it, but it's not too common right now. As far as I know, you can go into, for example, Prudential Securities, and check out your entire portfolio on Aetna. All you need is a user ID and password. It's no more secure than that.

This last topic ties it together because this is the same thing. There are several companies that have this. Acacia has got a very good one that they just designed. Kansas City Life has a pretty good one that we helped them design. American United Life (AUL) is planning to launch one and Aetna has one. Everything would have had to have been sent out in a printed environment and every time it was out of date, it had to be changed. All changes are made at one place in the home office. It didn't take a genius to figure out that there is a huge savings potential. Therein, to me, is some hope of narrowing that gap between the direct sale product and the product that is sold by the agent, if we can get that agent to use the Internet and provide the information that the agent needs. How much does it cost to send out the commission schedules all the time? He or she can probably respond directly off the Internet directly to the person who gave the commissions in such and such case. Over a period of time, because of the universal, 24-hours-a-day,

seven-days-a-week access, no matter where that agent is in the world, the agent can access this information, as opposed to the home office trying to keep track of agents' addresses to send out the forms or product description that go out of date. They can actually get illustrations off the Internet and use them for client presentation to their clients.

On what I call a client extranet, you can allow the client in here with a PIN, just as you allow the agent in with a password and a user ID. The tremendous advantages of the Internet are cost savings, compliance, delivering content cheaper than it has ever been done before the convenience of being able to go to one place for all your forms and back-up information. And, all in one place and immediately accessible.

Mr. McKernan: Where does it say, as an insurance company that you can keep track of how that's being used and who has been using it? I imagine to some extent, you'd actually be able to start getting a better feel about the efficiency of different aspects of your products and forms or even software, if someone is running illustration software. Are they able to drill down and understand what's being used in the software and what's passé?

Mr. O'Quin: Our site has two-and-a-half gigabytes of sales support material. That's like 75 pounds of stuff. We can tell you, based on reports that come back to the home office, that we have a passport user ID. We can actually track that person everywhere. If he or she did an estate planning calculation and backed it up for a group term carve-out, that can be tracked. Think about the savings from a training standpoint because a company can keep up with where that person is. The user can go in and get the remedial training in a certain area. Continuing education is another thing that you'll see on the Internet. Again, it is a new method of delivering information. The incredibly exciting thing is I can go to this computer and have everything I need to operate my practice, perhaps with the exception of products and certainly with the exception of prospects. It's going to be hard to get them off of there. In any case, it does have the capacity of putting everything at that agent's fingertips in a very inexpensive way.

Mr. McKernan: The illustration regulation requirements as they evolve over time, you're able to get out the information out to the field or just tweak various elements of the software. As part of the sales process, you're creating an audit trail. You can see what that agent did with his or her client. You can see how much time agents spent on different features of the products and how the application is filled out. Ultimately, the agents are aware of this and they are going to be a little bit more diligent in the sales process. I imagine the company is going to be much more comfortable knowing what has taken place in the field.

Mr. O'Quin: One of the advantages of the Internet is making changes very easily, which relates back to, compliance. The trail is probably a little bit off now because there are not many people. I have not seen a way for the agent to sit down and make the presentation directly over the Internet, but that will come. And the trails will be there. If you have something that's out of compliance, you can make the change very quickly. Another advantage is the software download. When I was with American General, we would have to send out huge stacks of disks. Now we can download that through the Internet. That's why General Life, doesn't sell disks. If you can't come to the Internet and get the changes, you don't get the updates, so you can't use it. This is another cost savings.

Mr. McKernan: The field force has been using paper for years and years and this is how they conduct business. How do you see agents evolving to the point where they are going to a paperless business?

Mr. O'Quin: I don't think they're going to do it very soon. What has amazed me is how the cost of technology is always going down. I don't know where the bottom is, but no matter what it is, it starts here and goes down. Too many companies have their field forces at a low level and the technology is at a higher level. They run out and grab this technology and these guys don't know what they're talking about. If they wait long enough, two things happen. First, the field force starts to understand the technology a bit more, and the second thing is the price of software starts going down. I truly have seen companies purchasing software for six digits, and six months later they could have bought it for five digits or maybe even less. You've got to be careful.

I think the first step would be to move to faxes. There's a company called Fast Forms that does a very good job and is now moving into some electronic applications. If people can just get the form off the Internet, it saves a lot of printing cost. Faxing the form in is a huge step forward. Kansas City Life has made some attempts and the pilot is working out fine. It is doing some electronic signature gathering. Lincoln National has made some attempts at it, but neither is that pleased with the results which relates to where the agents are right now. I think you've got to get them to want this first. If they can at least get accustomed to going to the Internet to print something out then maybe they can throw some other things in there like General Life is doing. Then, you could make some progress. I don't think it's going to happen soon because it depends upon the type of distribution system. Some companies are doing a better job of it than others.

American General Life and Accident has a pretty good electronic application capturing ability, and it has total control over the agents. They have good machines similar to the ones used to check in rental cars. Success depends upon

the type of agency force you have and other factors. The first thing to do is to get accustomed to getting the applications faxed. One company we worked with printed 3 million applications to get 30,000 policies in one year.

Mr. Mathews: In 1993, we made a determination to have all of our 14,000 field force agents get laptop computers. We manufacture our own CD-ROM that includes all of the software and our multimedia presentations, which are all National Association of Securities Dealers (NASD) approved. You can't change them; they're on the CD, and they don't come off. We have a NASD-approved client sales video and some recruiting information on there. You take this thing, put it in your computer, and you're in business. It also has software to help you study for your securities license. You might wonder what happens 30 or 60 days later when things change. We have a link to our Internet site so agents can go in and get the CD updated. In fact, if they put the disk in and it's more than 60 days old, it won't run. It'll tell you to log on and it'll update itself and make sure you have the most current interest rates and proposal software. Those kind of things have given us quite an edge. From a leadership and supervisory compliance point of view, we haven't had to worry about someone using something that's old or about being accused of not supervising. We know they have the latest stuff.

From the Floor: One of my concerns, as a consumer, is I go to the Internet and after a half an hour of browsing for something, I forget it. I'll call them up, have them send me a brochure, and a day later I can look it over. I get 10 times more information that way than I did in that half an hour I spent on the Internet. It seems like there hasn't been enough content and speed in getting things from the Internet. Getting software downloaded sounds like a great idea, but try printing a 10-page form off of the Internet. Are agents really going to pick up that kind of thing. The CD-ROM sounds a lot better to me. You don't wait 20 minutes for it. In terms of the distribution, do you think agents are going to want to run off the mainframe. In Connecticut, it takes them two hours to access it. Is it going to be too slow?

Mr. O'Quin: I mentioned that there are two systems. In one system, you can stay online and do it that way. Vi Link has its marketing exponents set up to download periodically, similar to what they are doing on the CD-ROM. They are using the Internet to keep the CD-ROM up-to-date, but it is resident on the computer, which is a tremendous help.

From the Floor: Does it take eight hours or four hours to download all the data that needs to be transferred?

Ms. Smith: The one that I mentioned had a lot of information for three or four different companies. It took a half an hour to download everything that was in there.

From the Floor: Will agents be willing to do that?

Mr. O'Quin: Remember that's the first download; after that, you would only be downloading changes. Vi Link sends a little piece of software, and you keep it inside your site. The first one is huge, just like the CD-ROM. You can make all the changes as it happens, rather than in the current scenario where we save up all the changes and send another massive mailing of disks out to them. With the environment of updating via the Internet, you don't need to do that. You just send out what needs to be changed. So it's a little different. It's more of a burst of information.

From the Floor: I want to be sure I understand your CD-ROM. Are you saying that when they install it, there are a select set of files that are put on the hard disk, and when they call for the updates, it's those files on the hard disk that are being updated.

Mr. Mathews: That's correct. It needs those to run. There's something else we're working on right now. The distribution controls that kind of stuff. We have more than 100 different carriers we market a product through, and every single one had a different software proposal made by a different software company. It became difficult to make sure we had the latest software. We've worked with one company and said, "If you want to do business with our marketing company's 100,000 agents in all 50 states, you need to use this company to do your proposal software." Now that we have one basic engine for our proposal software, you pull up that engine and see multiple companies and their products. It created a unique system just for us, even though it's multiple companies. To my knowledge, it has never been done before, and we feel that getting our people to stay updated will give us an edge. If you've ever done any work with multiple companies, each proposal software is so different that it became a challenge to become proficient at any one of them. But if you had the same basic engine it doesn't matter what the product or the company is. You can go in and do your own sorts and searches. That's our answer to the multiple company, multiple product issue. All of it is CD-ROM, based with updating done through the Internet.

From the Floor: Regarding these systems, what you see on your computer screen looks real nice, but I imagine internally linking to all these different systems within the insurance carrier could be a big nightmare. Is there a long lead time to develop these systems?

Mr. O'Quin: I'm probably not qualified to answer that because we don't link into the mainframe. We don't do that, but we can. It seems to be fairly fast. Aetna now has its data available through the marketing extranet, and the agent can get in. I know you can get the policy status in underwriting. I'm not sure about the rest of it. I think Aetna's system is fast too. I can't tell you for sure how hard or easy that is to do, but that is what Vi Link and General Life do.

Ms. Smith: I think it depends on the carrier systems and infrastructure. The bigger the company, the more legacy systems you have, and the products are different. Then it becomes much more difficult. It can be very time-consuming because there are so many different systems and many are not integrated at all. Every different system has a different data format and even different labeling, which makes it complicated.

Mr. McKernan: Let's move on to our next subject area and that's a different form of the extranet. How are end users or policy owners able to tap into the insurance carrier to see how their own products are performing to enter transactions or other inquiries?

Ms. Smith: On the Schwab home page, if you are a customer, you can log on and get whatever kind of service you want. You can do trading of mutual funds, buy stocks and bonds, or whatever. I think the customer service piece is very important on the Web because it gives the company direct contact with the consumer. Many insurance companies don't have that. It's a way for the company to have direct contact, and that is likely to generate direct selling and cross-selling opportunities from the servicing site. Schwab has adapted very well to the Web because it already had that direct relationship and it is very customer focused. Let me give you an example. You come in through the mainframe page with a user ID and password. Then you get your current account balance and positions in different accounts—cash—accounts, brokerage accounts, option accounts — and other information. Then you can drill into your current information on stock funds, and individual holdings. These things are a dime a dozen on the Web. There are so many ways to get quotes. Then you can perform a trade on the Web—buying or selling —by specifying how much you want to buy, what the symbols are, and the desire price. Check the trade, make sure that it is what you thought it was, and then place the order. A stop transaction will be executed as soon as you've got the right price. Buying a mutual fund takes about a day to execute. If you want to change something before that transaction goes through, you can do that. You can look at a complete transaction history, what you bought, when you bought it or sold it, what commission you paid, and what price per share you paid. Then you can specify whatever period you want and look at that transaction history and the current transaction status. There's a lot of company and market information on Web sites.

You can get more information by being a Schwab customer. And you can also get a lot of information on the mutual funds. There is a database of mutual funds, online prospect uses, and various ratings.

I've used the asset allocation engine several times for my account and what happens is that a JAVA applet downloads and you see exactly what your current asset allocation is on that day. Then you fill out a form asking questions about your goals as an investor, your profile, and your risk. It shows where you should be based on those goals. On the same page is your current asset mix and where you want to be based on your goals. Therefore, you get a better idea of where to invest and how to readjust and realign the portfolio to better match your goals and needs. These brokerage funds get a lot of hits to their Web site for trading some statistics. Discount brokers get about 10,000 trades a day through their Web sites, which is quite a lot considering this is a fairly new thing. Last quarter, 36% of all Schwab trades went through online trading and I think more than one million of its customers used online trading in the past year. Considering that the site has been up since 1996, those are amazing numbers. They're generating opportunities to cross-sell because they're getting so many hits for the servicing end. At the same time, the customer comes in and sees all these financial planning tools, and he or she can get a lot of assistance investing. Some companies provide more sophisticated systems and better disclosure on their financial planning than others.

Schwab has interactive retirement planning, college savings planning, and general financial planning applications. On the main page of the Schwab Web site, you can go straight into your account or into the mutual fund database to get information on tax or insurance financial planning. The college savings planner provides calculation and Schwab discloses how these calculations are done. You enter your child's name and age and whether you're going to send him or her to a private or public school. Then it comes up with the amount, \$142,000, based on certain assumptions that are disclosed on the page. To reach that goal, you can invest \$500 up front and then \$1,066 a month. Or you could invest \$40,000 up front, if you have that much money saved, and then invest \$500 a month. It helps to figure out what kind of investment you're going to need according to your risk profile and your child's age. In this case, the child is between 8 and 13 years old so we end up with a conservative growth fund. Finally, it helps you select between a brokerage account and a custodial account. If you don't know the difference, it describes the differences, the advantages, and the disadvantages of each.

If we select custodial, then the last two things it is going to bring up are the two summaries of what we've just been through. Schwab is leading you into a product. On the home page, they're not trying to sell anything. They are leading you to products based on answers to certain questions.

I'd like to get back to what I was saying before about the type of banking and brokerage. Most of the big brokerage firms now are saying that within the next few months they will have Web banking at their sites. They'll have bill payment from your money market account. You'll be able to go to the site and check your brokerage and bank accounts. All the transaction history will be in the same place. Security First is a bank that plans on doing that as well. I know there is Web banking and they're also bringing in insurance distribution. Everyone is talking about convergence of financial services, but the Web is something that can really make it happen a lot faster. I think that there are opportunities for insurance companies to hook up with this kind of functionality at a bank or brokerage site, and it could be one of the carriers that is selected for distribution of products through these sites.

Mr. McKernan: They almost need to develop allegiances with these other institutions be able to deliver product.

Ms. Smith: They are. Schwab already distributes variable products and term. To be the carrier for Schwab or one of these other firms is a good thing.

From the Floor: Don't you think there are fundamentally different products or maybe even processes, in terms of the complexity of the products?

Ms. Smith: I think there is already competition from the brokerage industry and the mutual fund companies for investment products. There are many people who will understand these products too. Investment products are fundamentally different. One is a lot more complicated than an other. The distinction is tax deferral but I think that these are a threat to investment products of insurance companies.

From the Floor: I kind of understand that, but I still am wondering if I told the bank I want to transfer \$3,000 or to buy 7,000 shares of AT&T, there's not much that's going to go on, other than the bank is going to do it. If I say I want \$100,000 of life insurance, and I'm a preferred risk, they're going to call me back tomorrow and send out a doctor. There is more involved in the process.

Mr. McKernan: It also lends to the design of products for the Internet. I think some companies have actually headed down that track where the insurance product itself becomes a transactional-oriented product. So it does fit well with other investment vehicles. They say I want to move x amount of dollars out of my insurance product or into it.

Ms. Smith: When you do your financial planning, do you want to think of the banking products as being totally separate from your insurance products and mutual

funds? You want to integrate those products so that you understand your whole financial planning strategy. I think that's where the brokerage firms have helped with the financial planning view of distributing insurance.

Then there is the servicing issue. Who wants to deal with three different products? You like one, trust it, feel comfortable with the service, it's a lot more convenient to deal with one account number. This is something that Security First National Bank is planning. A customer will come in, and regardless of the fact that all the different financial companies are manufactured by different companies, they get service in one place. On the asset side, short-term checking and savings and on the liability side credit cards, all were the bank's products. Then you're getting into brokerage, which is in the longer term assets and liabilities section. Then there is life insurance as well. You can get into mortgages, which could be through someone else and auto lines through another carrier. If you want, you can drill into more detail on any one of these products. You end up getting service on all of these products in one place. If consumers see how that all fits together in one place, they will eventually want this. It just makes life easier.

From the Floor: I can see the appeal of it. I'm just wondering about the future. Do you see VUL products or equity-indexed products on a list of mortgages. With Fidelity, I just say, "Give me \$5,000 worth of equitables." Do you see that happening in the future? Is it the kind of thing where it's going to be sold because people aren't going to be savvy enough to buy this?

Ms. Smith: I think for a product to be sold on the Web it has to be a lot simpler than a VUL. With some of the simpler products, like variable annuities, I think you'd find brokerage firms already doing this.

From the Floor: I've got one more question on expenses. Is there any evidence that expenses are really lower in banking transactions? For example, I've looked at some online billing services and they don't seem too much cheaper than doing it by hand.

Ms. Smith: With Security First, it's free to the consumer. If you can get security sorted out. The banking industry is joining together and forming associations to sort these things out and spread the cost of commerce solutions across the industry. I think it is much cheaper. To process a check across the banking system is several dollars and to process it electronically, it's a few cents. There's a huge difference in the cost of the transactions.

From the Floor: Do you see it just being built into the product prices and the savings from it being reflected in lower prices? It can't be completely free because it does cost money to do on some order of magnitude.

Ms. Smith: If you are a Security First customer on the Internet, you do pay much lower fees. You don't pay anything for bill paying at all. All bill paying is done on the Web. I think that's probably going to happen for everyone. You can go to your proprietary software and then you'll pay \$7 a month or whatever for that service.

Mr. McKernan: I also think it's a long-term strategy. You're taking a client, who historically has been very transaction-oriented. He or she went to the bank, cashed a check, and could always move the account down the street to the next branch. As these customers become more and more married to these sites where they have all their services vested with one entity at one site, they're going to be doing all their business there. There might be an up-front investment to garner that client, but after time, they'll reap the rewards.

Mr. O'Quin: The insurance product is too complex and this convenience thing worries me. One reason it worries me is because there is nothing an insurance company can do to get the kind of hits that a security or a bank is going to get, because of the service. You're not going to get people coming there all the time to see what their account balances are or to roll over to another investment. It is a bit alarming that if this convenience thing does take off, I don't know how we are going to remain an organization. How often do you want cash value quotes? You might own variable, universals, and annuities, but you still don't have that daily input of writing your checks, checking all your stocks, bonds and securities. People will continue to come to the site. I think that's perfect because there may be a bigger impact on direct sales.