RECORD, Volume 25, No. 1*

Atlanta Spring Meeting
May 24–25, 1999

Session 89PD
Internet Marketing

Track: Nontraditional Marketing, Computers
Key Words: Internet, Marketing, Provider Contracting, Web

Moderator: STEVEN L. OSTLUND
Panelists: DAVID C. FLORIAN
IAN G. DUNCAN
Recorder: STEVEN L. OSTLUND

Summary: The Internet is an ideal medium to market and sell some, but not all, products. There are particular challenges facing organizations wishing to sell insurance and financial products over the Internet. Panelists will discuss issues facing insurance companies and how they have succeeded, or not, in their use of the Web.

Focus will be on:

- *Regulatory issues facing on-line marketing and sales initiatives*
- *Security of the information provided online*
- *"Bought" versus "sold" products*
- *Receptiveness of users*

Mr. Steven L. Ostlund: I'm a consulting actuary from Madison, WI, with an interest in the marketing of Internet life insurance. I recruited an expert panel who could satisfy that interest. I will start with material to bring us up to the level of a consumer exploring the Internet, and then we will go into the more technical part of the presentation.

Second we have David Florian, who is the president of Pivot, an agency located in Columbus, OH. Pivot specifically markets life and annuity contracts directly to the consumer over the Internet. He also assists life carriers with their conservation needs.

Third is Ian Duncan. Ian has been director of insurance practice at Price-waterhouseCoopers in New York for the last eight years. He was educated in Natal University in Oxford. He is a Fellow of the Institute of Actuaries and a Fellow of the Canadian Institute of Actuaries and his practice areas are insurance pricing and underwriting. His clients include all lines of insurance from life, health, disability, and reinsurance to property and casualty (P&C). He has been a consultant for one of the largest membership society groups in the U.S. and serves as their life insurance program consultant.

We will start with a couple of questions. Who has gone to the Internet looking for insurance rates? (Most hands are raised.) Who went to the Internet actually looking to buy insurance? (One hand is raised) We only have one true shopper. I think that is a fairly typical result. Most people are just looking at the Internet for the information and trying to see if they are going to buy. They do not want to speak to an agent. Most people do not want to talk to an agent because the agent wants to sell you something. They prefer a pressure-free opportunity to compare prices.

In my expedition, I went to the Yahoo search engine and searched under “life,” “insurance,” and “rates.” Using all 3 terms, I got 201 Web sites. We can now start evaluating the offerings. Starting at the top of the list, we see a survey service. As we proceed, we are required to fill out a form. The question then becomes, are we going to get a quote or are we going to be told to call somebody? This first service requires that we submit the form. However, they do provide some guidance on what health status is required for preferred coverage.

Health Status

I had an experience before I set this up where I requested quotes for both standard and preferred rates (not on this survey, but rather one where they quoted rates online) and both rates were the same. Apparently they fixed that between March and May because when I went back and checked, prior to this session, there was a difference between rates. The preferred rate was about half the standard rate. I suspect that most consumers are led to request preferred rates by the services because they are lower.

Survey Questions

All the services require that we answer certain questions to receive a quote. Specifically, we need to indicate gender, birth date, amount and term of insurance requested, tobacco use, and underwriting class. We just discussed underwriting class. In my responses I indicated that I was born on May 24, 1949, I am male, and I am a nonsmoker. I requested rates for $250,000 for 20 years. Many of the services calculated an age—some at 49 and others at 50. While confusing to consumers, we are well aware of the use of age last birthday or age nearest birthday by different companies. The tobacco use question is the only underwriting question found on most of the forms. I wonder how many consumers overestimate their preferred health status? I suspect that competition among most companies is focused on the ranking of their preferred rates. Presumably, a consumer is not going to return to the survey to explore ranking of standard rates after they have gone so far as to actually contact a company based upon preferred rates. I also am not sure how the veracity of the tobacco question is ascertained, presumably in the same fashion as with all term products. Perhaps David will address this in his presentation.

Rating Agency

Relative to the rating agency ratings of the companies, most sites just assert that the companies have high ratings. However, most of the sites just used Best's ratings. I think that most consumers are not aware of the significance of the differences in the various rating agencies. They just want to be assured that the company providing their insurance is safe.

Type of Policy

Most of the services led the consumer to request quotes for a high limit term policy. They asked how much we want and start us out at $250,000 or $350,000. They are not talking about a $10,000 policy, although on most of the services we are given that choice. Obviously, the rate per 1,000 is lowest with the higher limits. The form asks how many years we'll need this coverage. It is unlikely a consumer will have a good sense of the difference between renewal options and conversion options. I do not have a good sense of what the most common response would be for this question. I used 20-year term in my responses.

Summary

Do we get consistent information? Two or three companies appear on each of the services. Generally the company has to spend money to be listed, and they show the same rates on each of the services.

How do we apply? In almost all cases we're going to have to call an 800 number. There are very few companies that are doing an on-line application.

What happens then? Only one of us here bought online. I would be interested to hear what happened.

Mr. David C. Florian: As Steve said, I'm an actuary and practiced with a major term carrier. I decided that maybe term life insurance still had some efficiencies left to take advantage of and that was in the distribution of the product. That led me to start Pivot. I will talk about the different ways for us to market and maybe increase our efficiencies by using the Internet. There are a couple of different ways that we can do that.

Here are some headlines that I found. A lot of people are online either through business or their home connection. There are over 5 million Web sites on the Internet. This is a little bit dated; already I have seen some statistics that show 10,000 new sites coming online each week. Financial companies are increasing their on-line offerings. Corporate on-line spending is to surge to $200 billion by 2002. Unfortunately, I think a lot of companies are confused. This is somewhat indicative of our industry. What should we be doing on the Internet? How can we take advantage of it? Should we just be on the Internet or should we have a real strategy to incorporate that into our overall corporate objectives?

There was an Ernst & Young report that I found that goes into greater detail on financial companies being confused. Seventy percent have no plan for an on-line pricing strategy. Should it be different? Should we develop new products that are specifically designed for the Internet, or should these just be copies of the products that we sell through our current distribution channels?

Forty percent have no projected plan for using the Web in conjunction with the traditional distribution channels. Only 1% stated that their primary goal of getting on the Web was to sell more products. I guess they are there to promote their company. But they have no plan? This is an interesting quote that came from *Business Week*: "We have to get off our butts and get wired. Not just e-mail. Not just Web browsers or a Web site. I mean the big kahuna: electronic commerce. Our future depends on nothing less than transforming our company into a full-fledged e-business. Or else we're roadkill." I liken the Web to one part television, one part magazine/ newspaper, one part radio, and maybe only two or three parts computer. Ignore it at your own peril. I think the efficiencies that can be had with comprehensive strategies are real. We have examples that Ian will go into that talk about some of the on-line brokerage firms and how that has completely flipped-flopped leadership between the large, full-service brokers to Schwab, E*Trade, and others. It's coming, and it's coming fast.

What is your company's plan? Here are some of the things to consider. Why should you be on the Web? You need to have a purpose; it can be pretty small as we saw in my report. Some companies are apparently just out there to promote their company's financial strength: "Here we are. We are on the Web."

Who is the customer and the target audience you are trying to attract? It could be more than one. What should your customer be able to accomplish on your site and how will you drive traffic to your site? Just putting a site out there is not enough.

First, why should we be on the Web? The first answer is to make our current distribution systems more efficient. I am focusing on the life and annuity health industry. Let us make our interaction with our field agents, banks, and affinity groups more efficient. Second, maybe we want to sell our products at a lower cost directly to consumers. This is clear channel conflict, but maybe we have a product that we do not currently sell through other channels. Another answer is to promote our company to investors, policyholders, and other publics. I would say that is a given. I think everyone who has created a company Web site has probably done at least that. "Here is my home page; here is my financial strength. I have been in business for 100 years. We are a great company, and here is a human resources section as well."

Who is our customer or audience? There is the business-to-business side. Our customers might be our agents or our banks that we do business with. With direct-to-the-consumer products we consider doing that in-house or we can outsource it. Many companies now are using very highly trafficked Web sites to generate leads for their agents or their distribution channels. Business-to-business trading on the Web has doubled every three to four months. E-commerce between businesses is five times as great as e-commerce direct to the consumer. It dwarfs the consumer trade right now. Intel is selling $1 billion online each month.

Intel and Oracle have a year 2000 goal of selling 100% online. They are strictly business-to-business sales, and they are planning on selling everything over the Internet.

How can we be more efficient in business-to-business contacts? We can do application or policy status online. There is a tremendous number of software products out there that help insurance companies communicate with their agency force. There are a tremendous number of personnel who are employed by insurance companies to help answer agent's questions. A lot of that information could easily be assimilated online. It does not have to be reproduced online; it could be a back window into the administrative system. We can incorporate the application data and the paramedic and lab results into the administrative system for real-time access through the Web. That is important.

Consumers are beginning to demand a much quicker turnaround time than the four to eight weeks that it may take to go through the underwriting process. If we have real time when we are sharing the data that we collected, the agent out in the field or the bank could be online as they collect the data, processing right on our Web site. Expert underwriting could be incorporated into our Web-site to give a quote. This could be shared as it is happening. Many of the paramedic companies are also entering data as they gather it and could easily transmit that data to the insurance companies to compress the time from application to issue.

Let us say that direct-to-the-consumer is our goal, and that is our audience. Our goal is to reduce the sales cost and establish a direct relationship with the customer. If we are going direct to the consumer there is no question about who owns the customer. There has always been this debate and there always will be this debate with other distribution channels over who owns the customer. In this case there is no debate. There is no middleman or agent. Who will sell well? Are we going to hire licensed agents or train an in-house staff of company agents? Will we outsource to a third-party marketer, or will we basically be generating leads for our current distribution channels? Obviously, we would hope to generate those leads at a reduced cost versus the agents having to prospect those leads themselves.

What should our customer be able to accomplish on our site? For business-to-business, hopefully we can get greater efficiencies to reduce the cost and time to policy issue. I touched on that earlier. There is really no reason why we could not involve all aspects of the policy application process through the Internet. For direct-to-the-consumer sales, they should be able to research the products, perform a needs assessment, receive a quote, apply, and then eventually buy. I do not believe any life insurance product is sold entirely over the Internet right now. For annuity products, there are a couple of sites that do so. You provide your routing number and your bank account number, and they can withdraw the money right from your account. Some states are allowing you to accept electronic signatures. However, many of the most competitive life products at least require a paramedic examination, so we are going to have some interaction on that line. But some savings can be obtained by collecting the signature and paperwork online. Paperwork is much greater on the life side.

Direct-to-the-consumer on the Web is really important. It is so easy to do comparison shopping on the Web. The information is free. You do it at your own convenience. Pricing comparisons are easy to make. It tends to move those products that are on the Web and sold over the Web more like commodities. The distance between the manufacturer and the end user becomes infinitely small. There really is no reason to have someone in between the manufacturer and the consumer when you are on the Web.

I'm going to backtrack just a little bit here. There is no reason to have a middleman, yet if you are the manufacturer of a commodity, one of the benefits of the Web and doing price comparisons is to compare your commodity price to everyone else's commodity price. Instead of middlemen, you are going to have information mediators who are going to gather the best prices, put them together, and allow you to make the decision of which one you would like to purchase.

Service is going to be very important on the Web. You do not have face-to-face contact, so many people may think that the service does not need to be as high, but actually it may be higher. People are going to expect more and more from you: "Why couldn't you have that on the Web site as well? Why couldn't I go into a chat room and get some more information there or on-line help?" or whatever it might be.

How will we drive traffic to our site? If we are going directly to the consumer, we are replacing the variable cost of paying a commission on the sale of our product with the up-front cost of trying to generate our own business. We can drive people to our site through our billing statements. We have in-force business out there who are already customers of ours. Or we can pay the search engines or try to play the search-engine games. The search engines are now starting to charge to get you on the first or second page. We can place banner and traditional ads. We can advertise on television and tell people to go to the Internet. And we can do some co-branding sites.

A lot of portals, because of their incredible valuations, are finding that they are becoming the middlemen on the Internet and are charging a tremendous amount of money to allow industries to place their Web site connections on their portals. As actuaries, we need to determine if these costs are any better or any less than the traditional channel costs that we have. There are different kinds of costs, too. The traditional channel cost has usually been a variable-type cost. We only pay the agent if they, in fact, sell a policy. Most of these other costs are up-front costs, and we are not really sure what the return will be.

I have a couple conclusions. Change is relentless, and it is happening at the speed of light. We need to develop a plan. Hire help to keep up. There are many experts out there. The idea of finding system support is very daunting in the current Y2K environment. There is always something that keeps their support from not being there.

Co-branded sites add real content immediately. I did not go into too much detail on that, but co-branding is where you will drop your site, or the pertinent parts of your site, within another site that is already up. For instance, we are dealing with SmartMoney, where we have dropped our site within the insurance quoting center, so that they did not have to develop the site at all. Insurance companies could easily do that with some partners and either allow more creative content within their own site or place their own site within other sites to save some money, build their brand, and drive traffic.

Just being on the Internet is not enough. We need to get the word out that we are there and encourage people to start using the site. Finally, I offer this warning. Many people think that the Internet is not going to touch them or affect them, but it already has.

Mr. William Henry Leslie: How long until all states will allow electronic signatures? Are there any other obstacles to actually applying and buying a contract over the Internet? If so, when do you think those obstacles will be gone?

Mr. Florian: There is legislation that's been introduced by the federal government in Congress that is trying to bring some uniformity to on-line signatures and what is required for an electronic signature. However, that has just been introduced and is unlikely to be passed in this session of Congress. I was reading that there are 40 different state laws on electronic signatures. That leaves ten states that do not have any opinion on it. I'm sure they have an opinion on it, but they have nothing written about it at this moment. I guess that's a challenge that we always face in the insurance industry of having this fragmented regulatory type of environment. I would say, hopefully, within a year or so the federal government will step in and at least offer some guidance that the states can follow.

Mr. Ian G. Duncan: About three or four years ago I switched from doing traditional actuarial work to business-process improvement and large system implementation jobs for insurance companies. As a result of that change, I have become interested in how companies will change their business processes to take advantage of the opportunities that are offered by the Internet in the future. I'm going talk more about business-to-business opportunities than business-to-consumer opportunities.

Let me establish a couple of definitions to set the stage. First definition: Electronic commerce is the use of computer applications communicating over networks to allow buyers and sellers to complete a transaction or part of a transaction. Two models or two categories of commerce have emerged—business-to-business and business-to-consumer; each of which has a different model.

A couple more definitions: The Internet is a confederation of interconnected networks. An intranet is a network internal to an enterprise allowing communication between, for example, the insurance agents and the underwriters. An extranet is a private, secure network. Finally, Electronic Data Interchange (EDI), which those of us who have been in business a long time will be familiar with, is the transmission of data along secure lines, often according to a defined protocol.

Our friends at Forester Research have put some numbers together that I think are worth sharing with you. In 1997 they estimated that the total sales of all lines of business, both P&C and life, amounted to just slightly under $40 million through the Internet. They are projecting that to grow. The percentage of growth is going to come primarily from homeowners. A fairly significant amount of growth will come from auto and a relatively modest growth from term life. An almost insignificant number of sales will come from any kind of permanent or more complicated product. As you can see, the more commodity oriented a product is, the greater the growth.

For total sales online in 2001 they are projecting just over $1 billion, which, in absolute terms, is quite a large number relative to the whole U.S. market for both P&C and life and accident. I estimate this is something like 0.1% of the total market. We did a survey of 377 CEOs from firms in all industries. Four out of five said that they expected the electronic commerce impact on them to be significant. One out of five said it was going to reshape their industry. Now I wouldn't presume to know what they meant by reshaping their industry, but I suspect they did not mean that they'll be able to continue doing business as before by simply putting an Internet wrapper on their existing business and products.

One example is E*Trade. They are growing at a very fast rate and have a significant market capitalization. They're already something like one-fifth the size of Merrill Lynch in terms of market capitalization. Their goal is to become the clear leader in on-line financial services. They have a very aggressive strategy for growth through related financial services. They have already expanded into banking and mortgages, and are expanding now into insurance.

We did another survey of 22 of the largest life and annuity companies in order to assess where they are on the e-commerce spectrum. They were chosen, I think, just because they were large. There is no particular randomness about this, so do not read anything into the conclusions other than it is the behavior of some large companies. In assessing where they are, we tried to look at three different dimensions and rank their functions. Horizontally, there is a set of characteristics where applications can range from being generic to custom, public to private, and open to secure. Vertically, there is a set of characteristics in terms of the interactivity with the customer from being passive to being more interactive. How do companies stack up on this? The Internet provides you with the ability to do a lot of different things.

We ranked different functionality according to whether it was information display, informational queries, or transaction processing. Almost all the companies provided the ability to get information, what is called or beginning to be called "brochureware," and they will do links to other sites. They will provide private report distribution, although we were not able to get information on that aspect. We were able to see that about half of them provide customer education. Ten of the 22 allow account inquiries, and only a few of these firms allow you to do transaction processing. An even smaller number, only two, allow you to do on-line quotation, in this case for term insurance.

Are there any rules, from our experience in financial services, for companies wanting to sell on the Internet? Yes. Focus on value-added interactions and building the customer relationship. Make sure that the basics work: transaction processing, information, and fast interface. The worst thing is forcing people to page through multiple screens to try to find where they are going. Maximize the obvious opportunity to up-sell and cross-sell. Be aware of channel conflict. Collect data from transaction processing and then have a way of using it. Lots of companies collect data, but few of them have ways at this point of integrating it and using it. Your aim should be customer relationship management, not getting random hits on your Web site.

The Internet is just one way of communicating with the customer. Your strategy needs to integrate this customer touch point with all the other touch points and provide a data warehouse foundation to support what you are doing with the customers. There are some emerging technologies that are out there that will enable you to access and to process the data that we suggested you collect. Text search engines, filtering, rule-based matching, and neural networking provide you with increased levels of sophisticated technology and degrees of personalizing and communication with the customer.

I want to end this section with an example of one of our projects with one of our clients, in this case, a bank. We find the banks are ahead of insurance companies in this area and have done much more in terms of the data that they collect and the way that they use the data. This happens to be an example of a banking client's customer database interface. It combines customer profitability and behavioral information at the customer-service level. The interface is designed to deliver powerful information to the customer service representative through the type of information that is developed. Note that the type of information that is developed can be equally successful in other environments.

One of the components that is going into the database is information about the keystrokes of people who are accessing account information on the bank's Internet site. They are collecting this keystroke information. It is another piece of information that they put into their warehouse, analyze, and, I think most importantly, have a way of intelligently presenting back to a salesperson for use in a sale situation. As you will see, they are able to actually take that data and provide the customer service representative with early warning indicators that there is going to be some potential for action on the part of this person. The customer service representative can take action when he or she is speaking to the customer as well as presenting them with potential sales opportunities that may be of interest.

Let's talk a bit about business-to-business marketing. The type of Internet commerce that grabs the headlines today is consumer sales. They are high profile, they are Internet-only businesses, and they get the headlines. Here is another quotation from Business Week: "While the sales of videos, books, CDs, and so on have grabbed the headlines, electronic commerce between businesses is 5 times as much as consumer electronic commerce, or about $43 billion last year. In the year 2006 or so it might reach up to 40% of all U.S. business." Think about that for just a second and then you'll understand why they add "wow" at the end. If you think about all the transactions that are occurring in business today through fax, telephone, letter, and any other interaction that you have, the prediction is that 40% of that will all happen through the Internet. It really does deserve the word "wow" at the end.

There are differences between business-to-business and business-to-consumer business models. These are worth taking into account and spending a moment on, because how you structure the back office and the Internet communication to whomever it is that you're trying to sell to is going to be driven by the difference in the way that the business-to-business works. For example, business-to-business is more likely to be contractual. In other words, there is an established relationship up-front between the customer and the supplier that has been supported by the Internet. It may involve the extension of credit to the purchaser on terms that are determined ahead of time through a contract. Again, this needs to be supported by your Internet application.

Product selection and pricing are a very interesting area; it is the area where I spend most of my time. One of the opportunities that the Internet provides in business-to-business is to take some of those functions that previously were done in your back office and transfer them out to the customer's back office. For example, if you think about selling any kind of product, your salesperson needs to figure out how to supply and price that request and then present something back to the customer. Your salespeople need to configure the order to decide what it is they want and to configure something that actually meets their own requirements in their own shop. This transfers not only the work from you, but also increases the customer satisfaction because they are more likely to receive what they want sooner. The same thing applies to pricing. If you're going to provide them with the ability to configure what they want, they also need the ability to be able to price what they want.

Finally, sales processes in business often go through an accounts payable office, using an internal purchase order and a whole panoply of different processes that are there to make sure that you do not buy something you should not be buying at a price that you should not be paying. Whatever you have in there in terms of the sales process needs to be linked into your own back-office purchasing functions.

Dell Computer is an example of an efficient business-to-business process. Dell gets new customers the same way we all get new customers—by pounding the pavement, knocking on doors, and convincing the customer of your value-added. But once that sale is made the traditional way, Dell then sets up a Web site for the internal purchasing organization. The internal purchasing organization can then buy Dell computers via the Internet using the configuration capabilities on the Web site with the pricing capabilities and link into the purchases, purchase order, and accounts payable process.

Here is an example of an inefficient process from my own particular area of group health insurance. A prospect asks the broker for a quote. The broker asks the carrier for a quote. Something happens in the back office to generate a quote. It then goes back to the broker, who then presents it to the prospect. Those of us who have been involved in this process know only too well that these lines in fact become two-way and very dark because you go backwards and forwards—paper changes hands, telephone calls are made, and faxes are sent. Data travels backwards and forwards among all of the participants in this process.
There is clearly an opportunity for improvement using this new tool, the Internet. The problem is that it is an inefficient paper-intensive process. Configuration of the offer is not simple once you get away from a very simple, one-geographic-location employer. Now you are into dealing with multiple geographies, multiple types of benefits, and multiple potential internal organizations of the customer. Configuration is a problem. Rating and underwriting are clearly not simple either. ~~We do not need to go into detail about this in front of an audience of actuaries.~~

Finally, something that tends to get overlooked is that that quotation is, in fact, not the big issue; new business quotation is only about 20% of the work. You have all those existing customers who you want to keep happy and whom you have to make a new offer to every year. You have to resell yourself every year and reprice every year. Any solution that you want to offer needs to be both robust in terms of process and robust in terms of technology.

I want to talk about two different solutions that are out there for this particular problem. One of these is called ChannelPoint, a company located in Colorado Springs. The other is a proprietary solution that we were involved in building for a client. ChannelPoint Internet Exchange supports all lines of insurance products including life, health, disability, and P&C. They work with carriers to collect up-front all the data, the pricing, the rules, and what you need for underwriting. They support that on their own computers in Colorado. That is where brokers and other intermediaries access this information. They have a couple of challenges with this business model. One is that to be effective they must make sure that they have blanket coverage of carriers. They need to be able to provide the brokers with access to competing offerings. The carrier rules, which are often proprietary, need to be made available because ChannelPoint is now hosting them. They need to make sure that those rules are resident and available.

Finally, once you leave behind the smaller cases and start to get out to larger and more sophisticated customers, the role of the computer becomes less important and the role of a human underwriter becomes a little bit more important. But ChannelPoint is beginning to make quite a presence in this market. They provide something called “commerce broker” that connects brokers with the carriers and allows the brokers to access those rules and rates. They also provide something called “commerce consumer,” which is a Web site that can be private-labeled by the broker to put out on the Web so that the broker’s customers can then access the broker. They also provide another product called ChannelPoint Insure, which automates the processes inside the insurance company.

The other solution, which the Internet is enabling a traditional selling model to become more effective, recognizes the role of the salesforce. This example happens to be a captive agent salaried salesforce, and aims to facilitate rather than replace the channel. It is a design that facilitates collaboration, data gathering, and communication. A lot of the work that we have been doing in this area is aimed at trying to break down the barriers that separate different departments within an insurance company, allowing departments to have a common view of common data. We have integrated workflow processes and something that is important in our firm’s view of systems—it is based on packaged components. We believe that there is value in using packaged components because these are maintained by outside vendors. They are sold to the industry as a whole, not just to the insurance industry. There are always plenty of people around who are trained in their use and maintenance.

Key success factors in this particular application are that the salesforce has remote access to all the selling components—product, pricing, and underwriting through the Internet. It provides robust functionality. By that I mean the salesforce is able to access every product and build up the product and the rules inherent in the configuration to tell them if they are trying to do something that is not approved. Finally, there is connectivity, which appeals to sales management’s view of life. The connectivity insures that all the activity of the salesforce is recorded and reported. Sales management can see what the salespeople are spending their time on. It shows which products are successful and which products are not successful and where you are in the whole sales cycle on particular opportunities.

Where does that leave us at the end? What conclusion can we draw from what we have seen? First, there is no one right way. There are plenty of opportunities here for everybody. But I think one of the things that we have seen is that the Internet will change business models—you cannot do business the historical way. There are some interesting opportunities for actuaries. I think one opportunity will be new product development, specifically for the Internet consumer. Those consumers who are used to getting their products through E*Trade will be looking for something that is different from our historical processes.

The integration, analysis, and interpretation of data that will be generated are all things that are right up the actuary’s alley. However, economists and statisticians are doing this analysis currently. I think this is something we need to be careful about. If we do not take a proactive stance on the modeling, analysis, and interpretation of data, we might find that we lose out to other professional groups in this area. Finally, there are definitely opportunities for actuaries to build the kind of robust applications that are needed in the back office to do the underwriting and rating and help with the configuration of the products.

Mr. Joseph B. Krekelberg: I have a concern when I think of products on the Internet. We have a salesforce known for the advice they give. I am wondering if there will come a time when there is almost kind of an arbitrage opportunity. Will people get advice and buy their products on the Internet instead of getting advice from people who sell "expensive" products? Or will people get their advice from traditional sources and then go online to buy?

Mr. Duncan: I think that is already happening both ways. I think that some people are going to the Internet to do their research and finding out what the lowest-priced product is. Then they are using that information to negotiate with their agents to sell them that particular product from that particular carrier. What you are saying is also happening: Get all the advice from the agent, then go out and find the lowest price online, and finally buy it online. I think it is going to work both ways. In efficient markets the best ways will eventually be the dominant way.

Mr. Alan W. Finkelstein: Several weeks ago there was a news story on Yahoo involving a merger between two companies. People rushed out as quickly as they could to buy the stock only to find out a few hours later that it was a bogus story. Is there a potential for a bogus Web site where a person thinks that he or she is buying insurance but then finds that he or she has been defrauded? Has this ever happened and how can we protect against it?

Mr. Duncan: I know that it has happened, but I do not know if it has happened for life insurance. There is now this group within the federal government that is like the Internet police. They are constantly going through and trying to find fraudulent Web sites and shut them down. I also know that there are places on the Internet where you can go and get ratings or rankings on the products and services that the Internet sites are selling. But I do not think you are ever going to be able to completely stop it. Just as there continue to be telephone scams, there will be Internet fraud.

Mr. Finkelstein: In other words, buyer beware. I guess it is up to each of the companies to be aware that someone has put a site out somewhere that is bogus and to warn customers to stay away from them. Say, for example, someone has cleverly cut and pasted the Prudential logo onto a site that they have through a link.

Mr. Duncan: Yes, I would agree. I think you hit on more than just "buyer beware" from the consumer standpoint. It is also business beware. Having a strong Internet presence with the obvious dot-com domain name I think helps to minimize that risk. But if you are not on the Web and you are a large company, there is a real danger that someone can use that to portray itself as, for example, the Prudential.

Ms. Norma Y. Christopher: I have a hard time understanding how someone is going to get money from the credit card vendor using a bogus site. The name of the company where the money would be going to would be the name the person thinks they are using. In our example, the credit card transaction would be for

Prudential. If the money goes to someone else, the credit card vendor is going to know to whom it is going. I don't see how that can really happen.

Mr. Finkelstein: Years ago, when banks had a night depository box where you could drop in your money, there was a Canadian bank where someone cleverly put something up on the wall and people put in their night deposits and then the box was removed. So it can happen.

Mr. Duncan: It does raise an issue for the portals. I would think they must face significant potential liability. What kind of due diligence do they need to perform on the companies that they are in some sense sponsoring through their Web sites?

Mr. Florian: In my opinion, it would be a terrible thing if the portals became the policemen of the Internet. I touched on it in my presentation. They are already taking what could be the most efficient delivery of financial products and turning it into a less-efficient process because of the bounty that they are requiring large companies to pay to be on their site. It would be bad if the portals began to also be the police force so that you had to go through the portal to feel that you had credible companies on the Internet.

Mr. Ostland: Dave, please explain that a little bit more. When I went to 200 Web sites I did not find Pivot. Is that because you chose not to pay Yahoo to have your site there?

Mr. Florian: That is true. We do not pay any search engines. We have over 10,000 unique visitors each month. Most of our contacts are coming from co-branded sites that we have set up with very populated on-line magazines like *Smart Money* and *Parents.com*. We work with sites that are dealing with personal finance or the birth of new children—pivotal times when you might purchase life insurance. We do not pay bounty and we do not play the search-engine game. At least we try as hard as we can to naturally work to the top, but that is not an easy task.

Mr. Ostland: Earlier we were talking about $10 million for somebody to be branded on a site, so it is not small money that is at stake.

Mr. Joseph Paesani: Ian quoted some data about increased use of business-to-business versus business-to-consumer. Is there any supporting data that would break that out by either business size or industry type? Or is there a feel for which types of businesses are utilizing it more than others?

Mr. Duncan: Off the top of my head I cannot think of a source. I remember reading that there was an early entrance into this field for very common purchasing functions, such as how you buy your paper clips and office supplies. But is your question trying to distinguish between real commodities like paper clips versus a financial product like insurance?

Mr. Paesani: No. Is a smaller two-person entrepreneurial-type business more likely to do commerce over the Internet than Xerox? Or is a manufacturing firm more or less likely to be out there as opposed to a professional firm? My question deals with who, rather than what.

Mr. Duncan: I work in a practice that implements financial software such as SAP or PeopleSoft. We are implementing and automating, say, the accounts payable function. You have to be pretty large in order to be able to afford to put in this type of software, and there is a natural extension from that to being able to use such software through the Internet.

Mr. Philip J. T. Cernanec: Much of what you are talking about are access issues. How do I get information? How can I process an application? What are the dynamics of the actual buying experience? That might be an invitation to hear from Scott Claflin about his buying experience using the Internet as a source of financial services.

Mr. Scott A. Claflin: Basically, I started using it for comparison shopping, but the whole transaction was completed by mail. A 1-800 number initiated it and then it was closed by mail. A paramedic comes to the house and all that, but there was not a lot of information, just quotes. I was in New York, so I did not have that many companies to choose from. I think it actually went through an agency somewhere downstate, but I was buying at the end-of-the-term fire sale in New York. I wanted to get one before they were gone.

Mr. Florian: For the fully underwritten product that was just described, I know of no Web site or Internet site yet that you can purchase this kind of product without going through the mail or the telephone or obviously having the paramedic come out to you. The paperwork is quite immense during the application process. Even though fixed annuities are a fairly simple product to understand, the application process is quite tedious.

From a financial services standpoint I think the E-Schwab process works wonderfully. They had the brick-and-mortar already in place. You go to a Schwab office and give them a check and start trading. There is a little preliminary work that needs to take place. I think Ian was pointing that out on the business-to-business process. But that also helps to reduce the fraud issue as well because you have some contracts already in place. In addition, backdoor passwords are provided, which allow access into the business-to-business transaction part of their Web site.

Mr. Duncan: I am interested in this from a business-to-business perspective coming from a group background rather than from an individual background. There are some companies like MetLife, for example, that will sell their voluntary products to employers. First, somebody pounds the pavement, knocks on doors, and signs up employers. Once you have made that sale, you can sell whatever the employer wants to allow you to sell to the employees. If the employer allows you to solicit the employee through the Internet, that seems to be a reasonably efficient way of making that solicitation. MetLife is the only one I can think of off the top of my head. There are probably others, but if they were able to do that solicitation through the Internet that would certainly be a more efficient way than their current call-center approach.

Mr. Terence R. Narine: What are some of the issues related to litigation or best practices in terms of sales in this new medium? You are selling without an agent interface, so are there going to be issues with people buying insurance without full consultation or advice?

Mr. Florian: I think it's a real issue. In my organization, everybody is a licensed agent who is licensed not just in the state of Ohio but in each of the 50 states and Washington, DC. I think that there are a number of organizations out there that are taking shortcuts; they do not have a licensed agent. That put aside, what happens when you finally do have a transaction that does not involve an agent? Obviously, there is not any consultation of an agent involved in that process. I do not think that the state regulations have caught up yet with that sales process. I am not sure how they will handle that.

Mr. Duncan: But we have been selling group products that way for as long as I can remember. We have a model that exists and works.

Mr. James Paesani: I wanted to respond to Ian's comments about work-site marketing because I work in a work-site marketing company. I think you are right. I don't think that there is any work-site provider that, on a proprietary basis, does ongoing sales and marketing to employees. What is happening is we have some independent noninsurance entities that are providing aggregator type of shopping services. What they offer to the employer is Internet shopping servers, which will allow the employee to shop for a collection of products at no charge to the employer. And then you have this third-party aggregator that is making agreements with insurance companies to be the product providers for things like auto and homeowners. These are probably the most prevalent insurance products, followed by mortgage refinancing.

Mr. Duncan: Do any of them do that over the Internet?

Mr. Paesani: Yes. The target audience for this is a very large employer who can make investments in things like this and is willing to have an intranet put in. It would be an employee-flagged intranet. For example, it would be a Xerox intranet service. There would be a button that you, as the employee, could just start surfing through if you were willing to put in information. It only takes you to the point where you can put in the information and you'll get back the three best quotes. Then if you want to go to the next step, you hook into the provider. Then you leave the domain of the intranet at that point.

Mr. Florian: Is it set up as supplementary coverage to the group plans that the company offers?

Mr. Paesani: It may or may not be because this third party may not be an insurance company, so they are looking at a series of financial services. For example, in the case of a mortgage refinancing, that could be considered a primary benefit to an employee, but supplemental to, say, the base medical coverage. The lines get a little blurred here because they are looking to mix products beyond insurance products.

Mr. Duncan: It sounds like sort of an intranet portal-type service. Are you aware of anybody who allows these people to actively solicit their employees as opposed to waiting for the employee to say, “I am interested in something?”

Mr. Paesani: No. I understand these aggregators to be passive as opposed to proactive. I do not believe they are proactively trying to sell or communicate to employees. That is an issue we run up against with employers. Are they willing to actually let us proactively go to employees as opposed to simply making things available?

Mr. Duncan: I think there are developing privacy concerns about how much you can actually push at people.

Mr. Ian David Bancroft: What would the benefit to the employer be for offering this extra service? Are preferred rates provided to the employees? Why would an employer care to offer these extra services in this kind of arrangement?

Mr. Paesani: My understanding is it costs nothing for the companies that are doing it. It allows them to provide a shelf of benefits at no cost and no risk to them. Because the companies are not underwriting anything, they have no risk and they have no cost.

Mr. Duncan: And the employer does the due diligence so that you do not get irresponsible providers.