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Financial Services and Electronic Commerce

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Summary: The panel discusses the emergence of electronic commerce and the use of the Internet and other computer technologies to conduct business in the insurance industry.

The advance of information technology is changing the economic rules:
- *Dissemination rate for new technologies is increasing.*
- *There are higher consumer expectations and shorter product lifestyles.*

The panelists discuss the successes and failures of electronic commerce today, customer relationships in an electronic commerce environment, and future electronic commerce features and expectations.

Mr. Frank Edward Walker: Teens ages 13–18 said that 67% had either researched products online or bought products online. Also, in 1997, 19 million Americans signed on to the Internet from home every day; today, 37 million Americans sign on to the Internet from home every day. So the Internet is certainly taking over our world.

I'm not an expert, but fortunately we have two experts. Terry Ransford is the president and chief operating officer of Internet broker Wingspan Investment Services Inc., a Bank One company. Mr. Ransford developed FCNIS online

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brokerage, now called One Invest.com, and he also developed a brokerage-by-phone interactive voice response system.
James Valentino is the senior vice president of corporate marketing for MetLife, and he has been with MetLife for 40 years. He was the senior technology officer, was also responsible for their interactive commerce, and chairs the U.S. Electronic Commerce Forum. He serves on the boards of and is advisor to numerous electronic commerce (e-commerce) companies.

Mr. Terry Ransford: Frank makes a good point about kids and the Internet. When I was a kid, we used to fight over who got to watch what on television, and now my kids fight over who gets to use the Internet. I want to give a high-level overview of how the Internet is changing our financial services industry. I will talk in general about how business has changed and where I think we are today. I will discuss some new terms and concepts that the industry is adopting, and some strategies for going forward.

The Internet has changed dramatically all business in America. There's an article in *The Wall Street Journal (June 16, 1999)* on the front page of Section C, I believe, that talks about the need for businesses to be available 24 hours because we're so obsessed with the Internet. The rules played by traditional business have changed dramatically, and I like to use the analogy of physics. One of the first principles of physics is time. The Internet has changed our concept of time. We used to do business from 9:00 a.m. to 5:00 p.m., and now we do business any time of the day. The expectation of our customers is that we need to be available at some level seven days a week and 24 hours a day, or maybe a little bit less than that, maybe 20 hours a day. Clearly, "whenever" is now the ruling paradigm for time.

Our idea about space has changed as well. I'm a stockbroker; however, I work for a bank. Several years ago, banks introduced ATM machines and it eliminated our need to go to a physical building to get money. When I was a kid, we used to start Saturday morning by going to the bank, getting a handful of cash, driving around town, and going shopping. You would go to the cleaners, the grocery store, the druggist, and you would always be constrained by time—the hours that they were open—and space. You actually had to go to a physical location, but now that's no longer the case. In terms of banking, you can get money out of ATM machines literally everywhere: stadiums, hotel lobbies, and airports.

The concept of matter has changed. Traditionally in the industrial economy, we made all of our money with physical plants and equipment, machines, and things that produce stuff. Now companies that you would think would make money with physical assets don't; they actually make more money in other ways with nonphysical assets. Marriott Hotels makes more money in services than they do in owning real estate. American Airlines derives a higher percentage of its net profit from its airline reservation system, which is a computer software capability, than it does from flying airplanes. It is so interesting that American Airlines is the second largest airline, it has aircraft all over the place, and the company really makes its money on the reservation system.

One thing that has not changed about the laws of physics is that, in mature businesses, prices fall over time. I think that's another thing that the Internet economy has brought to the forefront. In my brokerage business, clearly the Internet has driven prices to ridiculously low levels. Had you told me five years ago that we would actually be doing stock trades for $7.95, I would have laughed. I would have said it couldn't happen. Nobody can make money at $7.95. Now we all do it. It's a new economy and there are new rules.

The ideas that we were used to in the industrial economy—big, stable, predictable, lots of plants and equipment, long cycle times—are no longer the case. We used to build huge manufacturing plants and fine-tuned them over time to achieve our economies. This no longer happens. The networked economy means constant innovation, perpetual disruption, and transformation. All these things that we didn't like to deal with in the industrial economy are now normal in the Internet economy. What was the rule for our business yesterday is no longer the rule for our business today, and it won't stop. The rate at which we're changing and the rate at which we have to readapt our businesses will not slow down; it will only get faster. Bill Gates was quoted in Washington as telling Congress that we've only begun to understand the capability of computer-like devices. I think Bill is probably right. All of those things will continue to change the way we all do business.

Barriers of space and time are crumbling. We all are thinking in terms of anytime, anywhere, and anyway. We don't want to be bound by the physical locations. We don't want to be bound by time and normal business hours. We want to be able to do everything no matter where we are and at whatever time the spirit moves us.

The Internet, as Frank pointed out, is becoming more and more popular. A couple of years ago, it was very new and only the early adopters were involved. Now it's quite mainstream, and before you know it, you'll be carrying around little, personal digital assistant devices or these new phones and you'll be getting Web pages as you walk around. You'll be sitting at dinner and be able to tell what IBM closed at. You'll hit a few buttons and know the balance in your bank account. We're demanding more and more value as a function of all this new technology. Most disturbing, I think, the product life cycle is short. Where we all have to be, and what we all have to understand is that we're really in the mode of software companies. I know we're in Microsoft's backyard, but going forward, the ideas of upgrade or replace are the way our businesses will have to think.

I always use the example of my mobile phone. The first one that I had in the 1980s was huge. It resembled a military walkie-talkie and weighed 109 pounds. Now four or five phones later, mine weighs less, costs less, calls are 10¢ a minute, and I can call from anywhere in the U.S. This is a great thing, right? The upgrade-or-replace concept is the way we're looking at all the products that we use now, and our customers are no different. The financial services industry is not any different, I think. We're not exempt from that at all.

Alvin Toffler, who wrote *Future Shock* (Bantam Books, reissue edition 1991) some time ago said, "The era of mass society is over—no more mass consumption, no more mass education, no more mass entertainment," and that was actually very profound. In the Internet world, we have the capability of microsegmenting. There is not one solution for everyone.

Our businesses and financial services are going through what Henry Ford went through in the 1920s when he started. Back then every car was black. Now cars come in any color imaginable. Businesses will have to adapt dramatically, and we'll have to market all of these special interests in smaller segments.

The niche economy evolves, and we have niche production and niche consumption. For example, you can go to the Land's End Web site on the Internet where the company has built a 3-D virtual model. You input all of your particular dimensions, and it builds a virtual model of you that models the clothes you want to buy so you know how the clothes will look. That's definitely niche production and it's a great way to market that niche. We will see that more, as well as in media. Soon everyone will have video on demand at home just like you have in a hotel. It will just be a normal feature. At some point, you probably won't have to go to the theater and overpay for popcorn. You will probably stay at home, punch in numbers on a device, have your credit card debited, and be able to see the movie of your choice at that time.

I always like to talk about intermediaries. The role of intermediaries will change. The buzz a couple of years ago when people talked about the Internet was that intermediaries were dead, and they always used brokerage as an example. Why would you need a stockbroker if you could go to Schwab and trade for $29.99? What I would tell you is that intermediaries aren't dead at all, but their roles will change. That's very important in our business. Most of what we do involves intermediaries, and the people who sell our products won't be out of a job because of the way they sell and the tools that they use to sell. But the role that they'll play in the selling process will change dramatically. I've talked about microsegments and the niche players that are abounding. The Internet is a great example. There are Web sites for everything. There's really nothing that we can't afford to do in this realm now to carve out a particular segment and show our wares to those people.

The Wall Street Journal article mentioned that our time and attention have become most valuable to us. We're all way too busy; we're all likely to bank over the phone; we're likely to use our cell phones because we don't have time to sit at home anymore and call our relatives. For example, yesterday I was in a limousine where I listened to my voice mail for an hour because it was the only time I had to do that, and I'm sure you're no different. Our time and attention have become our most important commodities.

The Wall Street Journal article talked about those people who go to the Internet to access information and how important it will be to try to capture those people's attention for even small segments of time. It's our most valuable resource as a consumer, and as a marketer it's the Holy Grail—how do we capture people's attention several times a day?

The other thing that we have to understand about attention is that relationships will never be a commodity. Earlier I said that the role of the middleman would change; well, none of us will want to do without our lawyer or our accountant or our broker or our banker or our insurance agent. Those relationships will continue to be important, but how we interact with or how we treat those relationships and what we expect out of them will change a great deal. Many of those relationships and our products have to do with intangibles. The niche economy is customize, customize, customize, and remember that our customers will always want to know what's in it for them.

Kevin Kelly, who wrote *New Rules for the New Economy: 10 Radical Strategies for a Connected World,* (Viking Press, 1998) and who is also the author of *Wired* magazine, says a networked economy is founded on technology, but can only be built on relationships. He says it starts with chips and it ends with trust.

The bottom line is that you're going to do business with Amazon.com because you trust that your book is going to come right after you bought it, and that the charges to your Visa card will be correct. And you'll deal with your bank, broker, or insurance company online because you have a level of trust. And all that emanates from those relationships that we value so highly. Therefore, you can have a great online product, but if you don't have the trust associated with it, nobody will do business with you because relationships are still very, very important.

One of the vernaculars that we have to change is "products." We used to talk about product and service, as if somehow product was different from service. The people who built the product didn't service it, and the service people were always mad at the product people, and the two never met. In the new world, in the new economy, they're inextricably linked. The offer is some combination of the physical product and the service that envelops it.

I am fortunate enough to own a Lexus. One of the best things about a Lexus, in the final analysis, is that a Lexus is a Toyota with a nice trim package. The offer for Lexus is that it will do all of these other things that are totally intangible. When my car doesn't work right, someone comes to my house, gets the car, and takes it to the dealership; I don't have to waste my time. The person brings me a car that looks exactly like my car, although maybe a different color, takes my car in, fixes it, and returns it clean and with a full tank of gas. I think this is great because I don't have any free time.

Dell Computer has overtaken both Compaq and IBM in market share selling computers to corporations. I'll tell you that Dell computers are not dramatically different from those made by IBM or Compaq. They're probably mechanically exactly alike, all run on Intel chips, and for the most part all do exactly the same thing. How did Dell end up with massive market share? It combined its service offering into the product offering. It decided to do things like put ownership stamps right on the computer so that when the company gets the computer, it can record each computer's location.

If you are a regular Dell customer and a number of your divisions are buying inventory, Dell will record the cost center of the division buying the computers for you. Dell has an entire preapproved purchasing methodology that it just gives to the company, and then it rolls the data back. It'll tell you exactly where the computers are in your network and provides the maintenance records of those computers so you know who and what division bought what. That's outstanding, because big corporations spend lots and lots of money to pay people to figure all that same stuff out. Dell does it as part of the offer for selling computers. Therefore, Dell has made a tremendous advantage out of mixing the product and the service.

None of us would buy software if we couldn't call an 800 number and have somebody tell us how to use the software. That's part of the value proposition, right? You put in the new software and it never works right on the first day or there's always something cryptic that you can't figure out. You call the 800 number, tell customer service reps the error message that you received, they help you fix the problem, and then you're comfortable with the computer.

Stanley M. Davis, who is with Ernst & Young Center for Business Innovation, has written a number of books including *Future Perfect* (Stanley M. Davis, Stan Davis, and Ellie McCarthy, Perseus Press, 1996) and his new one, *Blur: The Speed of Change in the Connected Economy* (Christopher Meyer and Stan Davis, Perseus Press, 1998). He says, "Successful offers must enable distinctive customer service, improve and expand offer distribution." Meaning you're more likely to buy the Dell computer because of all these ancillary services that come with it, or you're more likely to buy the Lexus because Lexus does things that the Lincoln dealer doesn't do; it enhances customer relationships. The bottom line is, at some level, we all know that our software is not going to work right all the time and our car won't run right every day, and we accept that as long as the customer service center is palatable to us.

The other big buzzword in the new economy is RTEC or relationship technology. This is the idea that we actually build value with our customers by understanding our customers and knowing a lot about them. *Information Week* has a cover story on the new knowledge software from Microsoft. The idea is that the more we know about our customers, the better we can build products that they want. It's this idea of microsegmentation—the more we understand, the better we can sell. The idea of this relationship technology is to create what the customers want. First, however, we have to understand what the customers want, remember what the customers want, anticipate what they want the next time, and then be able to change what they want. We have to understand how they think and how they use what we have. We have to be able to serve to them those things that are important.

In our business, our relationship with customers is changing. They want new capabilities and they have new expectations of their work force to do things in ways we never thought of before—for example, the 7/24 (7 day/24-hour) look-up-your-account capability. We have to remember that time and attention are the client's most valuable currency nowadays. Mostly, we have to concentrate on the exploitation of digital assets, and this goes back to that idea of relationship technology—we have to convert data into knowledge.

In the banking industry, for instance, think about this. Banks know everything about your budget because you write checks or use your debit card. They know exactly how you spend your money. Yet, when you buy a car and need financing, they make you fill out forms and answer questions about how you spend your money.

Imagine you have a checking account and a car loan, and you want to buy a house. You go to the bank for the mortgage, and it asks you for even more information. Now at some point you're thinking, this makes absolutely no sense. I do all of my financial transactions through this organization, and each time I need to tell the bank exactly the same thing. By now it should know what it is that I do and how much money I make. The bank knows that I automatically deposit my paycheck. I can't understand why it doesn't know I can afford $200 a month for an automobile payment.

The challenge of financial service is to be able to turn all the data sitting in those mainframes into knowledge about our customers. Right now, they are data. They are just a lot of stuff in a mainframe. And in the example of a bank, the mortgage legacy system is different from the loan legacy system, which is different than the banking legacy system, so we have data in multiple locations and they don't interact at all.

When we can make them interact, that knowledge becomes a value proposition. If I had a bank and when you walked in I knew exactly who you were, how you used our bank, and the extent of your relationship with us, and if I were able to say, without forcing you to fill out another paper, "You mentioned that you wanted to buy a car, how much do you need? We don't need to go through any paperwork process. We'll call the dealer for you and take care of the financing." You'd think, "This is great. I don't have to wonder whether or not I'm going to be able to buy a car that has the same payment as the one that I just sold, and there's no hassle at all. My bank is going to call the dealer and tell them I'm a good citizen because the dealers always wonder about that." (Dealers always wonder whether you can actually pay for the car.) That becomes a value proposition. If a bank were to be able to do that for any of us, we'd all think, "Gosh, this is the best. No more paperwork, they knew who I am, they just make things happen for me because, after all, time and attention are my most valuable currency, and I don't want to sit around and fill out papers that I filled out nine other times."

The ability to tie all this information together creates value for our customers. We have to be able to network all of these pieces of data into knowledge and be able to know what our customers want next. The next iteration of this technology will be that the industry will be able to give customers what they want before they ask for it. Think about that. Right now, on the Internet, you have to pull information. Wouldn't it be nice to actually do business with people who knew enough about you to feed you the data that you were interested in? All the technology is there but we haven't changed our business paradigm to accommodate it yet.

The new business paradigm becomes the strategic exploitation of network intelligence to create customer value. What that means is the more we know about our customers and the more we can show that we understand them and how they want to use the products and services that we create, the more likely we are to keep those customers and attract new ones.

This idea of "digital assets" will be a term that you'll hear a lot of. I used the example of the bank where the data in the deposit legacy system didn't interconnect with the data in the loan legacy system or the mortgage legacy system. We need to be able to integrate these digital assets.

I would suggest to you that one reason Citicorp bought a big brokerage firm wasn't because it really needed to sell stocks and bonds better, but because Citicorp was obsessed with having the capability to integrate massive amounts of information about clients in order to create a totally new value proposition, something that we're not used to today at all. As I said, over time, information changes from being pulled to being pushed at customers.

In the brokerage business, for instance, you can go to your online brokerage firm and create alerts about specific stocks. For example, alert me when there's news about IBM stock. The only problem with that is that you have to tell your brokerage firm what it is that you want to know. Now it seems to me that if you have a brokerage account and you own IBM stock, I should be able to figure out that you're interested in information related to IBM stock. Clearly, if you wanted information over and above what I might already know, we should give you the opportunity to tell us what additional information you want, but there are just some things that I should know.

If the average time of ownership for a car is three years and I know you have a car loan with my bank, wouldn't it be smart of me to start giving you car loan information at the end of the third year? But banks don't do that. We hope that you'll return to the same bank to get money instead of getting it from General Motors Acceptance or Ford Motor Credit.

Although you'll hear a bit about this in Jim's speech, future features include a change in the way we deliver service with the Internet. There will be Web-enabled call centers. They'll be totally interactive. There will be a proliferation of personal digital assistance, which are new devices like handheld organizers and that kind of thing.

What I can tell you, though, is that you'll have a device for everything and it will be portable. You'll have a little machine that can do all kinds of specialized things. A good example of this would be garage door openers. Remember the first generation of garage door openers? They were these big, bulky things that you would hang on your sun visor. Then somebody figured out that you really didn't need to hang them on the sun visor, that you could build a little compartment inside the car and hide them. And now all the new cars have these built-in devices that you program.

You don't even have to change the battery. You program the device and it knows to open your garage door. It just takes whatever digital signal it is that the garage door operates on and sends it directly to the garage door. In the future, the same device will activate the lights in the living room and the outside lights of the house. Those features aren't so far away. Some of them will be normal features offered on the model year 2000 cars.

There will be digital assistance that can do all kinds of things. You'll have customizable page views and content. You'll be able to go to a big content provider—your bank, your brokerage firm, or your insurance company—and organize the data in any way you want. There will be whole relationship views.

The financial services industry is spending an enormous amount of energy right now (which probably is why Oracle's earnings are so high) to integrate all these data that sit on these separate legacy systems that don't talk to each other. The industry is already obsessed with taking these digital assets and turning them into knowledge about our customers. Online brokerage is what I do. By year-end, everybody, not just us, will have real-time balances and positions, intelligent alerts. We'll be able to send you information based on what's long in your account; we'll have recommendation engines; we'll learn from the way you use our Web site, the stocks you buy, and the quotes you request; and we'll be able to send you stock research and industry research based on your habits. This is the way we'll add value. This is relationship technology. We'll turn those digital assets into knowledge. We'll have tax audit information on the order screen so that, when you go to sell your stock, you can pick the most appropriate tax lot. We'll be able to update portfolio performance in real time. We'll send you automatic announcements about corporate actions, takeovers, call bonds, and those kinds of things.

Smart cards will be huge, by the way, so think about this. There will be a chip inside your smart card that will have all of your financial information. When you apply for a mortgage, rather than filling out paperwork and bringing in copies of your tax report, the bank will scan your card and know all about you. It will approve you in two seconds, you'll be gone, and that will be great. Or, think about financial planning with an advisor or your accountant. He or she will just scan your card and will be able to do your tax returns from all of your legacy data.

Mr. James Valentino: I started at MetLife in 1960. I was 17 years old; 16 when I received the job. I was a Univac One programmer. I was programming in binary on a Univac machine that had a liquid mercury memory. Vacuum tubes were coming in and we said, "Boy, is this an upgrade, a 1,000-word memory." I would start a payroll run, go inside the machine, and do my homework for three or four hours.

Fast forward 20 years. I was the chief technology officer. I had 2,500 programs in analysis. I moved over to the pension and savings operations, ran the 401(k) business, ran the individual annuity business, started pioneering electronic face-to-face retailing, became the chief marketing officer, became responsible for innovating and building new businesses for MetLife—a small business center, the trust bank—and interactive commerce.

Last month I decided that 40 years was enough. I thanked the actuaries who defined back-end-loaded defined-benefit plans, because who didn't think people would stay in the defined-benefit plan for 40 years. They work. My last day of work at MetLife will be in two weeks. I'm on the board of about 10 Internet companies, and I chair the government's U.S. Electronic Commerce Forum. I'm on the board of a company that is basically designing the equivalent of an MRI that will make a 3-D image of your body in a machine that I can't quite describe to you yet. We will maintain on file the complete 3-D image of your body to be used by all the companies in the world that want to pay for an exact replica of your body when they need it. We will build a human 3-D database in that company of everybody's actual physical attributes because everyone is going to want your physical size. They all can't do it with the same level of technology, so this is a business-to-business venture, it's an e-commerce venture.

Let me bring this back to the insurance industry. It's obvious we're not the leaders in e-commerce. I make that statement, but I'm a little proud on the other side. I'm responsible for interactive currency at MetLife. Last week, of over 8,000 Web sites, E-marketer won the best Web site in the insurance industry.

What drives 10 million visitors a year to MetLife's Web site? Nobody buys a computer and a modem to talk to an insurance company. My first premise is, having a Web site has nothing to do with having an Internet strategy. Those are two entirely different concepts. Everyone in this room will have a Web site, your own personal Web site. It will be no more important than being in the yellow pages, but what do you do about this medium? Some folks in the insurance industry have been at industry meetings where they've said, "No one will ever buy using the Internet. Face-to-face interaction is what works."

Have you ever heard that? As Terry points out, it certainly is transformational, but I'd also submit that you're at a point of critical discontinuity. We really don't know how this will impact everything, and our predictions right now are probably good for about six months in this area in terms of how fast this is moving. The power of a community of interest was simply not made possible in the past. We could put together communities of interest on demand by product without regard to geography.

Who bought a Ford Explorer last month? Please contact me and let me know how it's working. In fact, why don't I send out an intelligent agent to everybody's Web site to determine that. Consider the concept of affliction communities of interest, which are people who have children with special needs, etc. Affliction communities are building immediately. Just think about the power to replace any financial product. It wasn't possible to be in the 401(k) business without computers or the explosion of mutual funds. Or just suppose I can get access immediately and quickly send out an intelligent agent to scan everybody's Web site. Who has what surrender charges? It doesn't make sense for me to replace this policy and do the economics of this should I do it. You could start looking at replacement on a scale you never even imagined for any financial product. With or without a human advisor, preferably with, you will still need help to sort your way through that.

Where in our calculations have we assumed the magnitude of that level of intelligence and aggregation of information that are made possible? They could conceivably have more of an impact on and cause a major change to one of our health issues, such as cancer or heart.

Here are a couple of past predictions. Remember digital cash? Payroll will be made extinct. What happened? That prediction was made as recently as 1995–1996. There won't be regular PCs, but network PCs with intelligent guts, and they will be valued at about $500. What happened? Where are the network PCs? We now get full-blown PCs for $600. These are not old predictions. With respect to Internet usage, remember push technology? Everybody was buying into push stocks. What happened? They didn't realize that all of us know how to ignore advertising. Kids playing video games can have 10 things going at once and still focus on one person whom they want to shoot. Kids know how to ignore that which they do not want to see. Apple will be gone. Yahoo and Amazon will flame out. They now have market valuations of $17 billion and $31 billion. These predictions did not happen.

If I had to sum up the current state of the insurance industry quickly, there are probably about 8,000 insurance and insurance-related Web sites. Most of them are basically aligning with quote engines, distribution companies, Quicken, and IntroNet. We'll go public shortly, then we'll have one heck of a valuation. Fidelity bought 10% of Quicken last week. Does anybody understand how significant that could be? Quicken is a major portal, and Insure Mart, which is their insurance portal, is growing. Berkshire Hathaway is the site that can sell simple, direct products. To my knowledge, only Lincoln National has designed a product for the Web, so this is the current state of the art.

Humans basically use voice, sight, and hearing in a transaction and, up until now, you've been limited to one or two of those. Most of the products you see on the Internet tend to be informational or commodity based. When you start moving up the curve to more complex products, where trust starts to matter, you may want to see the people with whom you're talking. It's not as important that they see you. The 401(k) companies are signing up, some insurance companies and brokers are signing up. This is not where the video will happen; it will happen as broad band is deployed, cable, modems, DSL technology, and even without it, and that fundamentally changes the distribution systems. In that case, we are bringing every single type of expert to one place. The dilemma is nobody wants to talk to one carrier. The solution requires multiple carriers, because you're talking not necessarily one-stop shopping; you're talking about availability of best in breed.

Remember when the insurance industry was frightened of one-stop shops? Whatever happened to that? We saw some research that showed only about 13% of the humans in the world are willing to transfer to a one-stop shop. Best in breed is a different story and it's enabled by the Web. The issues we have, you're all dealing with them: face-to-face; is it do-it-yourself; shrinking margins; the electronic integration of sales and service, where most of the insurance companies are, at least at this time; commoditization; and the fact that the Net's influence on sales is greater than the actual sales made by the Net.

If you look inside some of the insurance systems, the dilemma is that essentially the back-end legacy systems were designed on the premise that there was an agent and an intermediary, and that impacts lots of the systems that are in place. Although the number of full-time agents is down, I'm not as concerned about that because the number of financial planners is up, and you'll see all the carriers rapidly increasing the financial planning training of their people. Current predictions show traditional Internet service for customers will go from 13–31%, and we're talking about a discount of approximately 5% in cost in your company. You multiply those numbers and you can fund an awful lot of technology as a result of that. The quantity of e-mails were astronomical, and we really were not prepared initially to deal with that level of e-mails.

Let me discuss insurance sales. If I take a look from Forester and insurance sales, it's not a lot. It goes from about $400 million to about $4 billion in a few years, and it tends to be the commodity products: auto, home, and term life. Take that technology and think about trying to sell second-to-die on a commodity basis. No one would know what you're talking about, but if I could add a trusted advisor to the process, it fundamentally changes that marketing event in that moment in time.

I think these numbers will be meaningless once we add direct video. Even without assuming video enters the picture, which is not a question—it will—the impact might be $4 billion in premium bought online, but net influence sales will be even greater. The idea that people go in, shop, get information, and then purchase offline looks to be approximately $11 billion. You have to remember that the predictions I gave you before about digital cash and everything else turned out to be woefully inadequate. So are these. And it's not about the agent going away. There was one small, high-end brokerage firm that told us its stockbrokers were afraid of the Internet. We said, "Are you crazy? We'll put your stockbrokers on the Internet so they can see their clients at the same time."

I use a set of constructs because I don't think of the Internet by itself. I think of it as a piece of a human-centric continuum. It ranges from complete anonymity (I can get on the Net, be anonymous, get information) to face-to-face. I call that the intimacy dial. The difference is, in the future, consumers will be in charge of that intimacy dial. They will choose to be anonymous, or if you give them a reason, they'll choose to give you some information.

Watch the technology that's evolving in the adult content businesses. They did half of the commerce that was done on the Internet last year. They drove the technology from VCRs to 900 numbers. They're driving some of the technology here because it's basically everything we know about transactions. It's not about whether it's good or bad.

I spoke earlier about communities of interest. I refer to them as just-in-time communities. Take this simple scenario. The salesman recommends that I buy this mutual fund. I'd like another opinion in the next hour from anybody else who bought that fund, dealt with that salesman, or is in the situation I'm in. You were never able to do that in the recent historic past. There was no way to connect because we were not wired. I'm suggesting that the ability to create a just-in-time community fundamentally changes the equation, and we don't know how significant that really is and will be.

In the design of our Web site, I used three concepts, one of which was content. You had to have something of value. What's the context within which somebody is looking at it? Let's look at the financial industry. I'll use Forester's definition of open finance, which is where the world is not, but where humans would like to go. It is the ability to aggregate account information, sell the product from many financial companies, get comprehensive advice, and then do something about it. There are very few companies you can do that with. Certainly, you can't do that with the product companies. Insure Mart and Schwab would like to get there, but the components of that means I have to be able to get on the Web. I need some way to figure out what I own, how I am doing, execute a transaction, and get advice.

Very few companies pull all those pieces together. In an analog world, a company is not even organized properly to pull this together, yet you have some folks starting to talk about an open finance model. Within that model, you have to start thinking about the disparity between a one-stop shop portal or a best of breed. And if best of breed shows up, how are you positioned to work in a best-of-breed environment? For instance, the one-stop shop says, "If I sell my customer an in-house product, I don't take the hit for selling an outside fund." In my branch regions, it's in-house funds and sales targets, so you get a lot of transaction-driven advice. You tend to have more proprietary products and fewer nonproprietary products.

If I say best of breed, I'm talking about the forces that drove rack-fee programs. While best of breed is now possible, it's possible with or without the help of the carrier and with or without the help of an agent, but you can now move to a provider best of breed. I would bet on best of breed because it will be enabled. If best of breed emerges and if consolidators emerge, and they will, what institution would you rely on? The defense rests.

If you think about the implications of that, you're looking at some carriers in many cases becoming niche product portals and others people becoming broader-based portals. I would equally bet on the fact that just because the Web is there, it doesn't change the fact that humans need help. We all get into these philosophical debates about whether people will buy this way or that way, as if people can be that easily categorized. People cannot be that easily categorized, and I'm saying that as a marketer responsible for market segmentation. People will need more help and there are drivers behind that.

I can't tell the difference between a number of the financial institutions; I now have many product choices. More and more companies are allegedly customizing their products. I have channel choice. I have more asset allocation decisions to make than I've ever had to make in my life. And it's now going to be easy to search for and obtain replacement products. All of our actuaries are designing finer shades of products, and Generation X is investing a ton of money. I'm suggesting the need for help will increase, and it's not just electronic help or human help; it's both. The challenge will be to integrate both in that arena.

Humans go to Amazon.com because they are very transactional. Yet those same people probably meet their accountants face-to-face. So are people transactional? The answer is we're both, it varies, and it continues to change over a life cycle. I leave you with this point. It's not mutually exclusive. It's true even if the Internet did not exist, so why should there be an argument because the Internet is now available? And since when does it mean, when I go home, the first thing that I do is check a search engine. How does that make sense?

MetLife has built 70 different Web sites that service different components of MetLife, ranging from investments to corporate. This year we will bring in 10 million visitors. In 1998, there were 5 million visitors. I'm not even going to mention what's going on with e-mail at this time. The concepts there are multifold. It's enabled by technology, but it's not about technology.

The driver of our site is a life-event database. We built the largest life-event management database in the industry. Most information in the world is organized by topics. Humans manage their lives at the level of events. Very rarely do you say, "Let me think about my whole life." You might say, "Let me think about my daughter's wedding," and that's a fundamental disconnect.

We built a multimedia multichannel across the entire company, just like the Met strategy. There's a fundamental driver. There's the ability to talk with your peers. I separated the advice information from the product information because if you mix the two, consumers understand that and then their filters and their biases show up. But it's all tied into that particular set of Web sites to support our customer service representatives. We have a large agency system, and so it's used as an engagement strategy, it's not a buy strategy.

Regarding our intermediaries, I cut a deal with Insure Mart and InsWeb years ago to start learning how to drive traffic to our site. What do we do? Should we quote? And we've been quoting property and casualty. We're about to start quoting life, but we don't sell life over the Internet. We use it to support our sales representatives, and now we're building Web sites for each of our sales representatives. For those of you who work in that field, and this is again Terry's point, think about the traditional lead process if you have a representative out there. You use direct mail, print, etc., which you use passively, to ultimately generate a lead. If this works, your lead department does something, delays it, eventually gets it out to a representative—I call that commerce interrupts—and eventually he or she may call you. We had your interest right here and we couldn't do anything about it. Now you can, because I have you here online. I have enabled you to take action, and if you'd like to see somebody, that's fine. You can make a video call and our person appears. That's what will happen in lots of different companies in terms of being able to integrate the person immediately because you're there.

I believe the fundamental drivers are human needs. Do you remember learning about Maslow in school? Down at the bottom of the hierarchy of needs were sex, food, and oxygen. If those things are not there, you'll never think about self-actualization. And before you get to self-actualization, somewhere in the middle was the need to get control. Think about the opposite way. Would you like to maximize uncertainty in your life and be more out of control?

All of the portable devices such as PCs, personal pagers, and personal copiers had one common attribute. They gave humans the ability to exercise more personal control of time. Eventually, if you decide to give control away to some financial company, the company has to earn your trust first. And even in giving it away, you're in control of the give-away process. Just ask, is the system, the process you're implementing giving you control or taking control? If you're taking more control, I don't think I'd bet on your stock.

You need to start thinking about the role of portals in your life. If you're a product supplier, are you going to be a product portal? Are you going to work through other aggregation portals or are you going to be a destination site? I built the MetLife Center as a destination site for useful stuff, but it's also a subportal. Maybe you buy insurance, maybe you don't. It's not the portal that's similar to Yahoo.

There are insurance portals being built, such as InsWeb. You can go there and get any form of term insurance you want. InsWeb is trying to expand that now to life. You have to start thinking what will you be in this place.

Quicken is a little scary. It is making some great moves. We're one of the founding members that joined the Quicken portal and Insure Mart. They've been signing up relations, and this is a company that Fidelity now owns 10% of. They have a preferred relationship with America OnLine. That's a big deal. They don't manufacture any products. How long do you think it will be before they go to some carrier and say, "I'd like a piece of the profit stream. I don't consider myself a regular reinsurer, but I'd like to participate in the back end of this." It's coming. These are people whom you never thought you'd have to work with who are going to come in and ask for a piece of the back end. I'm advising them to do that.

Just some quick statistics about the people who are buying over the Internet. I can't give you the numbers of sales they're making, however, just some interesting statistics. The statistics show that they are 80% male, 20% female; their average age is 42; the average term policy is 10 years; the average coverage requested is $400,000; the average purchase is $366,000; and 60% earned more than $50,000 a year. That's not a bad demographic. If anybody thinks this is a low end group and a bunch of kids, etc., it's not; it's going mainstream. The day of the early adopters is over. Think "America" because that's who's on. Where are these people coming from? The bulk of the visitors come from Quicken itself.

Remember I mentioned this idea of the power of community? I helped a woman in the apartment across from mine. She had serious cancer and had lots of advice from doctors. She was tired of hearing from doctors. She told me that she really wanted to talk to another woman who had the same cancer to find out what the treatment was like. Think about how hard that would be to do in the analog world. It's not hard to do in a wired world. We found another woman who happened to live in Montana. The two women started chatting. It wasn't about an e-commerce relationship. We found her using e-commerce, but then it became a phone relationship. In fact, they even visited each other once.

Take the same idea and expand it. Whether it's communities of two, communities of many, communities of interest by topic, by time, by affliction, whatever community you would like, you can now create it. As a carrier or a financial company, you either have to understand it's happening and work with it or create your own.

I'm working with a company. We're trying to design strategies for the company to create its own communities of interest. For example, a guy sells T-shirts and caps with college logos on them on the Web. He found that alumni would ask for them and, before you knew it, he created alumni communities. Under his logo, alumni from different colleges come together. They not only buy merchandise with their own school names on it, but they get to talk to each other about other alumni. He created a broad-based portal for alumni. There's no such portal, but I'm using that as an example. If you were not easily able to stay in touch with the rest of the folks in your school, there was no way to do that.

Here are my conclusions about the current insurance industry. Carriers are not convinced. Some are taking baby steps, some are transformers. I mentioned $4 billion in 2003, which I think is low, but the influence sales are much larger. Whether you are specializing or not, you will. Right now, the applications that are driving it within the insurance industry tend to be service and lead generation systems, engagement strategies with some exceptions. For auto insurance, the majority is a commodity, followed by home insurance and then followed by life insurance. As you move in that direction, you have to start dealing with cross-channel orchestration.

The distribution channels in your company won't be able to exist as independently as they always have. I may come in on one channel, but you'll have to switch me to the other channel and let me go back because we are multichanneled humans. It's not just about multitasking. You have to learn to orchestrate across channels, and that's not easy because most channels are fiefdoms. Channel managers are a fiefdom (that's *my* customer inside), and if you don't have a customer database that cuts across all channels, how will you be able to orchestrate across channels? That's why you see the growth of these software suppliers that are trying to build customer relationship database support systems for you to do that.

Solutions provide choice. Humans want choice. Remember what I said about Maslow? Without choice, how could you be in control? There are ways to keep the agent in the loop. Even if you have an electronic transaction, that's good because it's a starter relationship; you can still involve an agent where appropriate. If you don't, you will have individual agent Web sites. There's more to it than worrying about customers buying a simple term policy online; you need this database I spoke about. Online service will happen, and you have to think about interacting with that person at the same time. They're there, so don't delay it any further.

The next level of e-commerce is not too far off. You have to start thinking now because everybody is going to put broader bandwidth inside their homes. Internet service providers are going to do it; telephone companies are going to have to sell you DSL compression technology; Time Warner wants you to buy its cable modem, and you will. There are about a million homes with this today, and there will be five million within a couple of years. It enables full-motion video. Humans will be fully integrated on both sides of this transaction, and consumers will dictate when they want it and if they want it.

I have some information on the companies that are video-enabling. Just to give you an example, last week in the House technology room of the U.S. Congress, I watched them bring up the White House Web site and place a woman in the corner of the screen who said, "Welcome to the White House Web site. I'd like to take you on a tour." The White House never changed its software, never even knew it happened. They brought up the Bell Atlantic Web sites and the same woman appeared. It was the same woman, but she was in Charlotte, North Carolina. She said, "Hi, welcome to Bell Atlantic. I guess you're interested in one of our cell phones. Let's talk." Then we brought up a financial company, and Bell Atlantic never touched its Web site, didn't even know it happened, but it could certainly be the back end on it. You could pick up pieces on that.

Mr. Walker: Bill Gates is correct in saying we're just at the beginning, or at least the insurance industry seems to be bringing up the rear. Are there any other companies that you represent that are taking any steps in this direction, or are we all watching somebody else?

From the Floor: Regarding banks taking risk and your talk about Quicken taking a risk, you see the banks with 64% of customers starting to put their money there in terms of insurance. Do you see a situation where the banks will take a lot more control of their underwriting profits over a certain period of time? Right now, they are kind of backless vendors with insurance companies putting a whole strategy together, taking a lot of that risk, and becoming the real risk takers. Maybe the insurance carrier is becoming more of the intermediary?

Mr. Valentino: I started bank financial services at MetLife. The intent was to distribute insurance products through banks. When I spoke with big banks, they wanted complete control and underwriting profits without taking any risk. When I spoke with small banks, all they wanted was a 6% commission. They are two entirely different markets, but the larger banks see themselves as having control of the customer. I think, in some cases, they don't understand that they're at risk in an open-finance model. Quite honestly, I haven't seen, to date, any bank that has been truly successful on a significant scale selling insurance products. Although they are moving from term, several banks that I speak to want to know when we can get them long-term care. They couldn't sell term, now they want long-term care. Try selling long-term care over the Internet. You can't, because it's a face-to-face sale.

From the Floor: To what degree does this basically change the cannibalization of a certain book of business by one company or one company against another, no matter what the product? And what are the indications of that having profitability?

Mr. Ransford: The question was to what extent will this trend lead to, if I can paraphrase it, the disintermediation of the existing distribution channels?

Mr. Valentino: No, just the replacement of the products, I thought, the cannibalization of the products.

Mr. Ransford: I don't know the right answer for that question. I will tell you that smart companies are starting new companies. Soon you'll see a number of major national corporations spawn absolutely new companies owned by the same holding companies without any of the baggage of the original legacy companies to compete in this arena. There are two reasons for this. First, they really believe that you have to start with a clean sheet of paper, because you can't teach the old dog new tricks, which I would agree with. Second, they're willing to commit a substantial amount of their own assets to be in a business that can adapt to the changes that are upon us. The traditional, as I call it, industrial-economy-centric businesses can't change that rapidly. I think there will be huge disruption in all of our markets. It will be a normal part of the way we do business. That's the real world now. The smart companies will play in both worlds. They won't abandon the existing world, but they'll play in the new world.

The best analogy I think I can make is, if you think of the traditional business school S curve, where the new businesses have a very high slope in terms of growth, and then at the top of the S curve it gets relatively flat. I think smart companies will take the profits from the top of the S curve and invest them all in new divisions at the bottom of the S curve, which will ultimately experience growth, and, at some point, replace those products and distribution channels offered by the legacy company.

Mr. Valentino: If you don't cannibalize yourself, your competitor will. I assume that's going to be a given. You can function in a lower margin environment if three things happen: (1) if that's where the cannibalized block goes, (2) If your brand power enables you to charge a premium for the product, and (3) if you don't have multiple channels and facilitate the cannibalization, but here you run the risk that your whole channel and the product line will become cannibalized because the system commits the spreadsheeting of the world that also says you have the price of advice built into the product.

In some ways you have to think about unbundling advice from the product. The brokerage industry is going through that right now. It's wondering that, if trades can be made at $7, what value is the stockbroker? The stockbroker does have value, but you have to start thinking about unbundling. Most insurance products have the advice bundled into the product. You have to be ready to deconstruct that product.

From the Floor: How does that last statement coexist with your advice to keep the agency system?

Mr. Valentino: No, I didn't say keep it. I said the agency system supports the need for advice. I believe the need for advice will continue; there will be humans who provide advice. There's a buyer and a seller. People will need advice. Is it the agency system in its current form? Is it financial planners? Is it agents who can sell both on a bundled basis and an unbundled basis? It doesn't change that there will be a number of humans who need it.

I think the agency system will go through a metamorphosis, whether more agents become financial planners, whether more will have to sell nonproprietary products. They have to take a broader view of what they do. The agency system will change, I think that's a given, but there will be opportunities for agents to work in that environment. If I can buy term insurance on the Web, there's more to my life than that term insurance policy. So if a company sold it, why don't they turn that relationship over to some human to take me to the next step, because maybe I also have a child going to college and I don't know how to plan for that. The carriers have to understand that the same human will access multiple channels for multiple products. How do you work in that environment? It doesn't negate the agency system; it says it will change, but there's a role for humans because this world is more complicated, not less.

Mr. Ransford: I agree. I think the best thing to do for all of us in the financial services business is ask ourselves, what is our value proposition? I ask that about banks all the time. What is the value proposition of the bank on the corner? The answer is that nobody knows. We all pick banks because they're convenient, because our company has direct deposit there, or because there's one on the corner or five in our hometown. When you selected your bank, did you ever look at how they priced their checking accounts versus the next bank or whether or not their loan rates were categorically better than those of the next bank? It was a product you bought for convenience.

The world is becoming so much more competitive by virtue of the fact that you can get products and services from anywhere in the country with a few clicks of your computer. You don't have to be limited to the bank on the corner anymore because we're not constrained by space. That was one of my original points. Space doesn't matter anymore, and for that reason, now we need to determine in the financial services arena what our value proposition is. Why would you choose to do business with me versus somebody else? The list is very short. Among top 10 banks, I couldn't tell you the difference between Citicorp, Bank One, and Bank of America, and that's a sad statement. I'm in that industry. If I can't figure it out, and I sell it all day long, then the rest of you can't either. We need to be awfully quick in defining that clearly for our customers so that they have a reason to do business with us, and I think insurance is absolutely no different.

Mr. Valentino: Dell is interesting. Dell sells electronically and one could say that they've eliminated the salesman. Yet look at the size of the help line inside Dell. Now they help you figure out the purchase if you can't do it by yourself. I submit that's a salesperson. There's a person integrated into that sales transaction. If somebody says, "What happened to the salesman? I'm saying they changed. I don't know how to compensate them, but they're in that equation. That help line is almost a sales system.

From the Floor: With Metropolitan, have you seen a change in your product design and the complexity of your product offerings with this sales approach?

Mr. Valentino: Not yet. Most of the products are, for the most part, designed in a way that we still assume people will need help in making the purchases. MetLife has not yet designed products for this specific channel. Now let me reverse that for a second. If you've been in the group business, you have, in effect, lower load products. Many of those products, if you just file them in individual contracts, could easily move over to this environment, should you choose. The problem is, you're moving lower-margin contracts that have to be sold one at a time. It reminds me of the same dilemma IBM had when PCs were emerging. IBM knew they were coming and how, but they didn't know how to live in a lower-margin world. They made big margins on big machines. They couldn't get over there fast enough to live in that lower-margin world.

The insurance industry has been dealing with that just with the broker-savings products, and they are all struggling because the margins aren't there on annuities and mutual funds, are they? They're not there. We're learning very rapidly, and those margins are going to get pushed down one more level in the e-commerce arena.

Mr. Ransford: We're doing lots of mutual funds for 15 basis points. When I started in the business, it was 500, so that's compression.

Mr. Valentino: Now the question is, will people pay for advice? The most recent study I've seen on this issue questioned whether people were willing to pay for advice when you unbundled it from the products. Or should you bundle the price of advice inside the product? It came out 50–50, so you had better be prepared to do both. I would not prognosticate on that issue. There are some people who just won't pay for advice, and the Web gives you a lot of advice at almost no cost. That means you will have to have the commodity. There's a big market segment that says, "I don't care, I'm not paying for the advice, just build it in, I don't want to pay a financial planner $2,000." My best advice at this stage would be to be prepared to do both.

From the Floor: What about the products you sell over the Web. Is there persistency? Have you seen different patterns versus the same patterns?

Mr. Valentino: That is basically a salesperson selling to you. That's a customer service representative with an insurance license.

From the Floor: So when I hear you say, no difference, that means it's still the high lapse rates in the early years?

Mr. Valentino: We haven't seen it. We don't have any statistics that indicate it is any different. It is just a more convenient way to buy. Now we're going to hear the hospital saying, "It is real interesting that, if I'm an employer, I have products from lots of carriers, right?" They don't want a piece of gear that only provides for this carrier to have its products. They want that gear to provide for every product that the hospital employee has. So that means they say, "We want you to put UNUM on. We want you to put EGG on. We want you to put everybody on." Well, that's not our business, others will do that. That's about to happen, so the question is, if you see you have to survive in a multiproduct world, you have to open this stuff up, and that's a major philosophical challenge for some companies to think through. How does one do that? And it doesn't matter if you do it or not, because the Web will do it for you in an open-finance model. You have to think. That's a distribution model. In fact, putting those types of devices in, why would you want to be a carrier? You want to be Home Depot, a distribution company, because products come and go.