RECORD, Volume 26, No. 2*

San Diego Spring Meeting
June 22–23, 2000

Session 8PD
E-Commerce Series: Marketing on the Internet

Track: Nontraditional Marketing/Product Development

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Panelists: KRISTINA MEYER†
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Recorder: MICHAEL L. FIX

Summary: Customer-focused marketing involves (1) identifying the customer segment to be served, i.e., the target market; (2) determining the needs of that customer segment; (3) identifying and developing products to meet selected needs; and (4) choosing the appropriate method to distribute the products to the selected customer segments. Since the method of distribution is the Internet, how are the other steps in the process addressed?

Topics to be covered in this session include discussions and presentations on:
- *What type of customer segments may or may not be Internet-literate and how they can be identified*
- *How to determine the needs of identified customer segments and which of these needs can be served through the Internet*
- *Product consideration given Internet distribution, including design, agent involvement, and regulatory/compliance considerations*

Mr. Michael L. Fix: The marketing process that seems to be most successful, and that will be successful in the future, is one which identifies a customer group, a target market; identifies the needs of that customer group; develops products and services to meet those needs; and determines the most efficient way to bring that product to those customers.

Today's panel will start with the premise that the distribution method will be the Internet. From that premise, we will address the other parts of the marketing process. We will address the customers, the products, and the services that can be provided.

The first speaker will be Larry Stern. Larry is well-known to the SOA community. He has nearly 30 years of experience in the life insurance and financial services industry. For the past nine years he has been with Tillinghast-Towers Perrin. He is a principal in the Indianapolis office, and his consulting specialties are in the areas of marketing, products, e-business, corporate management strategy, and interest-

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sensitive, variable, traditional life, and annuity product development, as well as structured settlements, cash flow, and financial projection analysis. He has also been an expert witness for client litigation.

Mr. Stern has authored many articles appearing in Tillinghast Publications, as well as articles appearing in *National Underwriter*, *Best Review*, and *LOMA Resource*.

He is responsible for planning the firm's program for Issues, Alternatives and Opportunities, and for marketing- and product-development-related conferences for client companies.

Mr. Stern received a B.S. in business with high honors from Indiana University; he is an FSA and a member of the AAA. He currently serves as Chair of the Product Development Section of the SOA.

Mr. Larry N. Stern: I would like a show of hands to get my conversation started. Everybody who has heard about the Internet, please raise your hand. Leave them up, and hopefully we'll have a lot of these hands up; I think everybody in the room has heard of the Internet.

Now, leave your hand up if you have purchased anything off of the Internet. A couple of hands went down. OK. Keep your hand up if your company has a Web site on the Internet. If you market insurance products through your Web site, keep your hands up. Not too many hands at this point. Thank you very much.

"Every second there are 70 individuals who are new to the Internet. Are you ready?" So asked CISCO Systems in a recent TV advertisement. In fact, the Internet has enjoyed phenomenal growth. In only 5 years it has acquired 50 million users, as compared to 38 years for radio, 13 years for television, and 10 years for cable. That's 50 million users in as short as a 5-year period of time.

So what are we going to talk about today? My presentation centers on what the Internet holds for the future of life insurance marketing and sales potential. If we build it, will it serve the buyer?

What does the Internet hold for the future of life insurance marketing and sales potential? According to our latest Tillinghast survey of life insurance companies' CEOs, the number one issue facing the industry is the effectiveness and the productivity of the distribution systems. This concern has topped our list of CEO concerns for the last three CEO surveys that have been conducted. We're finding that insurance companies are exploring the Internet as a viable channel for life insurance distribution. CEOs assume the Internet will provide an opportunity to incorporate cost efficiencies in the pricing of their products.

The ability of the Internet to distribute products at lower premium rates worries many traditional distributors because U.S. insurers are already starting to feel the heat from these competitors who don't have to worry about unhappy agents and other distribution conflicts, and the potential cannibalization of their in-force blocks of business.

So, the Internet as a whole provides real value to consumers shopping for financial services. It makes comparison shopping easy and convenient, and, in addition, Web sites offer interactive needs analysis and freedom from high-pressure sales tactics. All of these are advantages to be applied to sales and marketing on the Internet.

Today, most traditional life insurers have adopted a relatively cautious approach to the Internet. Studies from Conning and Company showed that about 12% of those companies actually sell life insurance products on-line. Single-company Web sites more typically provide only product information and may be used as a lead generator for agent-assisted sales. Most of the activity is initiated by third-party Web sites, including supermarket malls (which are on-line quote services), individual agent sites, and agency sites.

To some extent, one can view these Internet intermediaries as Web-enabled traditional agencies. They sell products for multiple companies; they collect full retail commissions for sales or referral fees for lead generation, and are supported by call centers staffed by employees for licensed life insurance agents.

But not all agents, however, are necessarily paid on a straight-commission basis. These Web-enabled agencies differ from traditional agencies in that their primary purpose is to draw traffic to their Web site, which is generally done by multimedia advertising or by entering into alliances with other Web sites as well.

Now, the insurance industry as part of the financial services block, so to speak, has been a little bit slow to get into the Internet Web-site game because we have seen both banks and brokerage Web sites also marketing life insurance. Even though both sources operate as a supermarket for mutual funds, such brokerage companies as Fidelity and Schwab are attempting to brand their own life insurance products, and, at present, it is unclear what direction banks will take.

Most Internet-generated life insurance sales are still completed in the old, traditional fashion, with a paper application and lots of manual intervention. After the application, however, many sites allow individual applicants to check underwriting status and make premium payments directly by credit card. They also make policy maintenance available.

To date, the few life policies sold over the Internet have been mostly term insurance. Thus, product design has not changed much for products sold on the Web.

The growth of supermarket mall sites has also exerted downward pressure on premium rates. The major players in the term insurance market offer extremely competitive rates. In most cases, the sales involve products that pay full retail commission. Many of the large-term writers have felt compelled to do so to avoid distribution channel conflict.

Ironically, though, most Internet intermediaries require full commissions to cover their costs. Given the low premium rates on term, even the full retail commission generates a relatively low-dollar amount.

As individuals become more comfortable with purchasing life insurance through the Internet, the opportunity to sell a broader range of life insurance products will also increase. A natural extension would be to offer a term product with a side fund, or what we generally would call Universal Life (UL), or Variable Universal Life (VUL).

Individuals with term insurance may wish to take advantage of the tax benefits of life insurance through the tax-free deferral of investment earnings and the income-tax-free status of death benefits to make side-fund contributions. Offering such benefits through an attractive product with lower loads, most likely driven by lower distribution costs, may also enhance the appeal of the sale of that product.

The more traditional life insurance sale typically focuses on more affluent individuals at larger face amounts, and emphasizes estate protection. Whether this can be accomplished on the Web without the services of an agent remains to be seen.

Life insurers are also experimenting with the sale of annuities on the Internet. One new venture, AnnuityNet.com, which Kristina will be talking about later, was set up to target this area directly. Often, low-load providers are also seeing more of their sales come through the Internet.

Let's take a look at some statistics that were gathered from the third quarter of 1999. Online life insurance activity appears to be quite healthy. InsWeb had approximately 680,000 completed shopping sessions in the third quarter of 1999 and 2.4 million unique visitors who came to their Web site.

Quotesmith.com averaged about 7,500 daily quotes in the third quarter 1999, and QuickenInsurance.com reported 5 million visits per month during that same 3-month period.

However, online life insurance results are not as healthy. InsWeb loses four or five customers post-application during the underwriting process. The Quotesmith.com conversion rate is 1.5%. They sold about 5,000 policies during that same 3-month period. QuickenInsurance.com does not appear to have had meaningful life insurance sales.

So, if we were to build the product for the Internet, would the people surf to buy it? In the traditional distribution of term products, highly competitive premium rates have driven sales. Term insurance marketed on the Internet is even more price-sensitive. To generate significant sales from the major quote services, the insurer's premiums must generally fall within the five best rates quoted. To remain competitive, companies should consider trade-offs on returns, or significant subsidies coming from the reduction in distribution costs, the reductions in processing and servicing costs, and the critical determination of the level of expected mortality.

The competitiveness of the term insurance market has led many major players to increase the number of preferred underwriting classes. The assessment of expected mortality is critical in the shaping of the premium rate structure.

The characteristics of the typical insurance buyer on the Internet should place many risks among the preferred ranks. Thus, as long as the mortality experience is consistent with the levels expected, price sensitivity will remain a major force.

We have found pricing prototype term products for the Internet has demonstrated that about a 50% reduction in distribution costs could result in about the same or smaller decrease in premium rates, as a comparable 5–10% reduction in the level of mortality.

With current investments and technology, with marketing and brand awareness related to the Web-site start-up expenses that are generating many losses for these Web sites, distribution costs are not likely to decrease in the near future. Hence, achieving a level of pricing mortality or better, as well as cross sales, will be crucial to the market success of these products.

The Internet may provide opportunities to reduce commissions and distribution costs while avoiding distribution channel conflict. The potential to lower distribution costs will come from a change in the Internet intermediaries—for example, the emergence of financial-planning Web sites that will accept lower commissions and fees, whose sales are generated by identified needs or the growing possibility of sales through affinity Web sites.

The developing of no- or low-commission products that are designed for insurance supermarkets and malls and the growth of Internet banking and brokerage Web sites is leading to more opportunities for cross sales through joint ventures.

To give you some indication of the offset for the opportunity to significantly reduce distribution costs, for every $100 of new business premium, pricing for the Internet distribution costs would be less than $20, whereas for career managerial distribution channels, the distribution cost is well in excess of $160. There's obviously a big advantage to being able to price a product for the Internet and eliminate most, if not all, of the distribution costs.

In addition, Internet marketing may help companies achieve certain economies of scale, leading to lower distribution and operating costs. These economies may arrive from increased productivity of lower-cost intermediaries, free advertising from articles in the media, lower underwriting costs through electronic underwriting systems, lower processing costs that issue in higher placement rates, and lower policy administration and servicing costs via Web-enabled processes.

Let's take a look at actual pricing of some term products that Tillinghast did for a client that was interested in establishing a Web site that would market products not only in the U.S., but around the world. This was a project that was done prior to the advent of the adoption of Triple X, so we were looking at not only a 20-year level-term product that had a 20-year premium guarantee, but one without a provision for Triple X. With the passage and adoption of Triple X, we also looked at a 15-year term product with a 15-year premium guarantee that had Triple X regulation built into it. That was for the U.S. market.

For outside of the U.S. market, we looked at 2 different 20-year term products offering a 20-year premium guarantee. One was developed for countries that we envisioned as being developed, mature markets such as the U.K., Continental Europe, Australia, and Japan and also for developing countries such as Central and South America and Southeast Asia.

This product was designed for a male issue age 45, and a preferred, nontobacco class using industry average pricing assumptions for the respective geographical territories.

We did incorporate first-dollar, quota-share coinsurance, and we were trying to achieve a 12–15% internal rate of return profit objective. The average size of a case in the U.S. market was $500,000 and $250,000 in non-U.S. territories.

We took a look at retail products that were competitive during the time period of June 1999 that placed their premium rates in the top 10% of retail products that were generally marketed through general agency distribution systems.

For the Internet product, we assumed that there would be no distribution compensation paid, and we also reduced distribution-related acquisition expenses by 25%.

Here are the results. For the U.S. marketplace, the 15-year term retail product had a premium of about $3.50; for the Internet, $2.82. For the 20-year term product, the retail product had a price of about $1.95, and the Internet for about $1.20 per 1,000. Outside of the U.S., in developed countries, the retail product had a premium of about $1.50 per 1,000, and for the Internet, 90¢. For nondeveloped U.S. countries, the retail product was about $12 per 1,000, and for the Internet, $2.28.

The big difference in that price structure is a result of the lapse rates that were assumed in the pricing of the retail product, and the need to overcome the cost of distribution within that $12 premium. If you eliminate distribution costs, even using the same lapse assumption, you can drastically reduce the premium.

So, to increase life insurance sales on the Internet, a company must overcome market-entry barriers, generate greater consumer awareness, and improve opportunities for cross-selling. An effective Internet strategy will require cross-selling to a certain portion of existing consumers and customers and the ability to reduce distribution expenses well below current traditional new-customer acquisition costs.

Insurance companies now collect a certain amount of demographic information on every applicant. They warehouse the data in their admin systems. Now is the time to data-mine the demographics to produce multiple sales and a larger share of the wallet. The success of many of the on-line brokerage Web sites has already demonstrated this potential.

As an alternative, a life company could expand its own Web site to focus more on selling products. This may provide an opportunity to be more innovative with product design—for example, incorporating Internet economies in the pricing, and providing services by offering needs analysis, application completion, real-time underwriting, and process follow-up.

An insurer, however, must deal with significant cost issues in driving customers to its site while managing potential distribution channel conflicts.

Here are some key questions for management to ask: Can we effectively reach out to current customers via the Internet? How does one's existing distribution system get involved? And are customers responsive to these entries?

In the end, the success of individual life insurance sales on the Web will depend on a number of different factors. No. 1: customer price sensitivity. Internet shoppers and term buyers are extremely price-sensitive. The ease of comparing products on the Web and commoditization make it essential that one offer good deals.

No. 2: consumer self-reliance. Because Internet-savvy Baby Boomers and Generation Xers are more knowledgeable about their financial needs, they need less hand-holding. Other individuals with more complex financial needs may require advice from the agents, but will utilize company Web sites for their service.

No. 3: technology capabilities. Internet supermarkets and malls far exceed the capabilities of single-company Web sites. Therefore, an insurer must have the ability to quote for a wide range of consumer characteristics and underwriting conditions, and conduct real-time, online transactions.

And last, but not least, broader product reach. An insurer will have to broaden its product offerings beyond term life to include UL, VUL and annuities, and possibly long-term care and disability income.

During the course of this presentation, 65 new individuals were introduced to the Internet. Are you, and your companies, ready for e-commerce? Thank you.

Mr. Fix: Our next speaker is Kristina Meyer, who is the vice president of Partner Development for AnnuityNet.com. She will offer us a case study that will show exactly how a product is being marketed on the Internet today.

Ms. Kristina Meyer: To kind of take off on Larry's survey of the audience that he opened up with, I'm very curious to know, by a show of hands, how many people in this room are trading or managing finances online? Great.

I'm also curious as to how many people, regardless of whether it's on- or off-line, because I know exactly who has purchased annuities through AnnuityNet.com, have or own annuities? It's always really interesting to see just how many people who are developing the product in the industry actually own one of the products that they design.

The first thing that I would like to share with you is a little bit about AnnuityNet.com and our business model. I will say that in the two years that I have been at AnnuityNet.com, our business model continues to evolve over time. It was really quite striking to me as I sat with Shane Chalke, my boss, on an airplane about two weeks ago, getting my very informal annual review and just trying to think back exactly what had occurred with AnnuityNet over the prior year. Literally, two years at AnnuityNet feels like about ten years. I had originally been at Lincoln National Life Insurance Company for about eight years. I think I've had as many experiences in my two years at AnnuityNet as I had in my prior eight years at Lincoln. It's truly an amazing and evolving and crazy time to be in this industry. It's really exciting. I think as I go through some of the history of our company, you'll see that to be in this industry, to be on the cutting and sometimes the bleeding edge, it really requires a great deal of flexibility.

For those of you who are not familiar with AnnuityNet, our business model is a little bit different from some of the InsWebs and those companies that are out there today. Our company has a boutique of products that are optimized for Web distribution and servicing.

The first fleet of products that we brought to market has been redesigned; they are very simple products, priced for direct distribution.

Currently, and this is one of the latest evolutions in our business model, we are looking at bringing on some additional products that are more suitable for commissioned brokers to sell. I will say that one of the common denominators and our mantra at AnnuityNet is that the products must always be simple products.

Our business model includes the distribution of the products that we work with our carrier partners to develop. That requires that we have a Web site that contains a plethora of Web-enabled educational material, sales content, and different and various decision tools that consumers can use and take themselves through to be able to decide whether or not an annuity is right for them and what kind of fund selection would be appropriate for them.

Because we actually distribute the products on-line, we are required to have the legal structures to be able to complete the sale, including a broker/dealer and an agency.

Thus far, we believe we are still the only company that has a completely Web-enabled application process online where somebody can actually go through and interact in an interview, complete an application, and submit that application online.

Quite frankly, in the two years that I've been at AnnuityNet, I'm shocked and amazed there hasn't been another company yet that has been able, or has chosen not to, Web-enable the application process. We certainly know that there are a lot of companies that have Web-enabled the servicing processes on annuities, but nobody has challenged us on the application process just yet.

In addition to working with carriers on developing and distributing the products, we actually have gone a couple of steps further than the InsWebs and the Quotesmiths of the world, and have actually taken on the administration of the product. The products in our store (we have four of them now, and a couple that will be coming live over the summer) are completely Web-enabled on our admin platform in Leesburg, Virginia.

We have no "Sneakernet" going on in our office. What I mean is that someone can go online and potentially input a beneficiary change, an e-mail change, or request a trade or withdrawal of funds and actually have that spit out (as it does in a lot of insurance companies that have put these functions online) a piece of paper that somebody in the administration system has to turn around and re-key into the system. What we pride ourselves on is having completely Web-enabled that straight-through processing.

Because our carriers work with us, actually bringing our products onto our administration systems, this allows them to very quickly become e-manufacturers in this space. We dramatically compressed the product design and introduction time frame. I would assume it takes most carriers anywhere from 6 months to a year to bring a product to market, but our fastest so far was 90 days from the day of concept to the day of introduction of the product on-line. We're generally seeing a time frame at about 120 days.

Because our platform is completely Web-enabled, and there are very few humans who have to touch our processes, we have cut about 70% out of traditional administration and servicing costs. I think that when any of our carrier and distributor partners come into our offices to conduct a due-diligence review, they are very shocked, and sometimes a little incredulous, at the scale of our operation, with only 25 people in our offices.

Right now, given the capacity that we have, for instance, we can manage about 750,000 annuity contracts, and we have about 4 people who manage our operations. We outsource our customer service calls to a call center in Massachusetts. Because of all that straight-through processing, there are literally very few human touches that have to occur throughout the administrative processes.

Now, a little bit about the history of AnnuityNet. AnnuityNet was founded by Shane Chalke in October of 1997. His original idea at that time was to be able to, as he saw it, put a lot of effort into redesigning annuity products and returning economic value in the product back to the consumer, rather than to the agent or the broker.

With the onset of e-commerce and the explosion of Internet marketing and Web distribution at that time, Shane felt it was the absolute right time to start the venture called AnnuityNet. His first concept was to be able to work with insurance carriers to, again, redesign products that were simpler and priced for direct distribution, and bring these products into a Web site that he would build, that had the tools and the application processes, but have the carriers continue to administer. This market space, then, would be marketed to retail consumers as well as to the large financial aggregators as a place for them to get access to products.

After about two months of talking to various insurance carriers, he found very few that were willing to put their brand name behind this kind of a partnership with AnnuityNet. Luckily, he came around to Lincoln Life, and Lincoln Life got really excited about this project. In fact, they got so excited, they decided that they wanted to be the "proof of concept" product in bringing the e-annuity to market.

1998 was all about getting a Web site built, getting the functionality built, and bringing the e-annuity into the market space. About two weeks after talking to Lincoln Life further about this, they quickly realized that being able to take a product on its current admin system, and Web-enabling a lot of the back-end processes that consumers in this space expect (like being able to go online every day and look at their account value, to go online and trade their funds, and to hook into traditional insurance company admin systems) was going to take many months, and many millions of dollars to do. Knowing this space as it is, there just isn't a lot of time to deal with those sorts of issues.

So Shane decided at that point, to go ahead and buy a separate administration system, have it housed in Leesburg, and actually take on all the administration for the product that would be offered in this space.

At the end of 1998, the annuity was introduced into the market after a lengthy filing process with the SEC and the various insurance departments. As you might imagine, being the first product in the space was a bit of a challenge.

A lot of the insurance departments had to get comfortable with some of the precepts around the e-annuity, one of which means that there is absolutely no paper involved in this product at all. This product is a completely electronic product.

In fact, when people come onto the Web site to buy the product, it's very explicitly stated that if you're a person who is not comfortable dealing completely online, if you don't have an e-mail address, and if you're not willing to get rid of the paper, then you might as well go talk to an agent because this product is not right for you.

In fact, this product couldn't be brought to market on the price point that it was if it did have any paper involved in it. The product right now is at a 55-basis-point mortality & expense (M&E) charge.

So you might imagine that the insurance departments really struggled with the question, what exactly does it mean if a customer never gets a policy form in the mail? What do you mean that they're never going to get a confirmation statement in the mail from you?

It really took a lot of education on our part, visiting with the various state insurance departments and explaining to them how the processes work, how people would be able to actually get better access to information about their account, and how they would always be able to go online and view a contract document and be able to print it at any time. Once they started getting an understanding and got comfortable with that, some of the insurance departments got excited about it.

So, that's a little bit about bringing the e-annuity to market in late 1998. Throughout 1999, AnnuityNet really focused on beginning to build our distribution capabilities, as well as to bring other products into this market space.

As I mentioned, e-annuity views itself as a boutique, rather than as a single product store, or, conversely, a supermarket of products. What AnnuityNet is looking to do is to build a space that has a good number of products that are suitable for this space, rather than to try to bring every product online.

Throughout 1999, we really worked on being able to build our capacity to bring additional products online. At the end of 1999, we launched one of our most significant distribution relationships to date with Bank One. We have become their online annuity center.

In December 1999, we brought on two new products; one from Keyport Life, called the Stein Roe Annuity, and one from an AEGON sub called PFL, the Web annuity (which is a fixed annuity).

We have been doing some testing currently that's just wrapping up right now on some direct response advertising in Seattle, and recently introduced a Rydex annuity. I don't know how many people are familiar with Rydex Mutual Funds, but they are a series of index and contra-index mutual funds. This product is just simply a wrapper of (I think it's eight of their funds) and is geared specifically to market timers and asset allocators. It's really kind of a cool product because there are absolutely no trading restrictions on the product at all, and Rydex Mutual Funds is a company that caters specifically to those sorts of planners. It's really kind of an exciting product to be able to trade essentially without having to worry about any tax consequences.

One of the other significant things that happened this year is that we completed our second round of financing, which was pretty exciting for us, in the middle of a shaky marketplace.

Later this year we will be launching our individual fee-based planner platform, as well as launching a new relationship with TD Waterhouse.

You know we worked very hard to bring Web-based products to market, and these products, thus far, are very suitable for the first two marketplaces that we have been targeting. And that would be the Web-direct consumers, on one end of the spectrum, and to the fee-based financial planners at the other end of the spectrum.

Both of these entities are looking for products that are very low-loaded products, simple products, and can be easily understood by consumers as well as financial planners (who may or may not be very knowledgeable about annuities).

As our company continues to evolve, however, we are continuing to target what we call the financial aggregator space. By financial aggregator, we are talking about the Bank Ones of the world, the Schwabs of the world, the Fidelities of the world; entities that are continuing to garner massive market share in the financial services industry. These are the kinds of companies that are going to be commanding consumers' attention, and continuing to dip into customers' wallet share for sale of product, whether they manufacture it themselves or whether they look to another entity for a suite of products.

I guess, a new venue for us will be looking at how to take the platform that we've built, which is again, entirely Web-enabled, and bring that, with a couple of additional components of function, to the actual commissioned brokers.

This is a little bit about the AnnuityNet architecture. We have a user interface—whether that's for the customer, the planner, or the broker—and the Web site which contains the educational content, marketing content, etc. On the other side, we have the back end, which is our admin system, supported by LifeCAD from NaviSys. In the middle is the proprietary stuff that we built in-house to help manage all the straight-through processing.

We talked to various insurance companies about how long it normally takes them to bring a product to market and what it costs them to actually administer business. Sometimes I'm a little shocked and amazed at how much insurance companies are supportive of the admin systems and the processes that they currently have. I'm really often surprised that insurance companies are continuing to build a bond with admin systems that were first developed in the 1970s or even the 1960s.

I do want to talk a little bit more about each of our distribution strategies. The first is our retail distribution strategy. While it has probably been one of the most controversial of the distribution strategies out there for annuities, it's also been a very important venue for us. It's really been a great place for us to be able to experiment and to bring the proof of concept to market to consumers. To be able to bring an annuity product to market that absolutely does not use the U.S. mail system, and is completely paper-free, is a really extraordinary thing. The cost for a typical mutual fund is about 130–140 basis points for fees and expenses. That's how the product pricing in our store evolved. We looked at that and said, we want to be able to bring some products to market that a consumer can look at and ask, do I want to buy my mutual funds on a taxable basis, or do I want to buy them on a tax-deferred basis? Our rule of thumb is that the M&E as well as the fees for the funds should not exceed average mutual-fund expenses.

As I think about what is going on in the financial services industry, it takes just a second to look at some of the current sales statistics for annuities in the marketplace. I don't know how many people are aware of what Fidelity has been doing with their annuity sales right now, but closing out last year they sold just under $2 billion of annuities in the Fidelity distribution channels. That figure includes everything from educating people online about annuities to getting those people to contact their call center and get into their branches to consummate the sale. I think today that they actually consummate annuity sales both in their direct-marketing call center, as well as in their branches.

So far this year, I believe the first quarter number for Fidelity annuity sales was just under $1 billion, which I think is just truly an amazing number and a real testimony to the power of financial aggregators.

For years and years, insurance companies have always developed products around what their distribution systems would sell, essentially looking to their independent agents and broker/dealers to be able to acheive that. I think now, insurance companies are really, unfortunately, at the mercy of the large financial aggregators.

At the National Association of Variable Annuities Conference in Palm Springs, a First Union representative got up and said, "You know at this point in our space in annuities, we are going to be whittling down the large number of annuity plans that we currently sell." We currently have about 28 products that we offer through our channel, and we're going to be bringing that down to eight, which is a more manageable number. We're going to be telling you what the products are that we are looking for, and how we expect them to be priced. We also are expecting them to be able to be serviced through the National Securities Clearing Corporation (NSCC) platform. If you are a provider that is not interested in those kinds of parameters or in dealing with us, then don't bother sending in a request for proposal. We see this thing going on over and over again with financial aggregators as they continue to garner more power in financial services.

I think right now, about 30–50% of all annuity sales are consummated through the wirehouses as well as the banks, combined. Our strategy for delivering products to the financial aggregators is to bring them a package solution—essentially, one integration point, multiple products with product choice, and integrated front and back end, as well as approved and tested content and tools.

Depending on the financial aggregator, we will implement one of several different aggregator models, as far as how we interact with the financial aggregator in their space. That could mean that we completely private-label the AnnuityNet Web site, its content, and its tools.

We may choose to co-brand it, to keep some of the AnnuityNet brand there, as well as potentially just providing an affiliate link to a financial aggregator.

Some of the marketing partners that we currently have include Bank One, as I mentioned, and OnMoney.com, which is a subsidiary of Ameritrade, which is just one kind of a new breed of financial aggregators that are popping up. OnMoney has a very interesting business model. It is not associated directly with Ameritrade as a transactional space, but, rather, it builds itself as a completely objective space, where a consumer can go to conduct a series of transactions that will feel somewhat like Quicken desktop software, along with Quicken.com. You can go there to learn a lot about financial services, product, investing, and retirement.

At the same time, you can also input some information about yourself, and be able to go out and pull in from various banks and brokerage firms your information about your brokerage account or checking account, and be able to manage your reports from OnMoney.

This is really a very new kind of model that has emerged, and I don't know if anybody saw that Chase Bank just recently announced a service that is going to be quite similar to the OnMoney method but will extend even beyond what OnMoney does. Chase Bank announced that they would be a complete one-stop-shop space for all of your aggregated information online, including everything from being able to go out and pull in other checking account balances to being able to pull in your frequent flyer miles from United or American.

Whether or not this particular model is going to survive will be very interesting to see over time. It is certainly beginning to push the bounds of what being a financial aggregator is all about.

Financial aggregators want to exercise considerable control over products and procedures. As I mentioned, the First Union people have stipulated what kinds of products they are going to be bringing to market and that they will be working with them on an NSCC basis.

Financial aggregators are also thinking about how to give consumers access to their account information online in the same kind of a look-and-feel environment as when you log on to that very first screen at Fidelity—for instance, where you get to see an overview of your IRA account holdings and your brokerage holdings, and to be able to provide your annuity holdings on the same screen. That means a couple of things from a technology standpoint, including integrating with the log-on process and the authentication process, and being able to quickly feed back to the carrier any kind of account view information, as well as consolidated statement information that can be combined either online or in a paper statement.

For financial aggregators, this poses a lot of problems, as they continue to look at product suites that they themselves don't manufacture. If they are working with companies on the outside and they want to have multiple products within the same product set, they may need to look at building these kind of links for the post-sale servicing multiple times if they are going to have multiple products in a category.

A lot of financial aggregators are also looking at how they could continue to bring more and more of the functionality into their house, if you will, to be able to provide this kind of integration with their product partners. Another alternative for them is to look at partnering with companies that are already doing the consolidation for the products.

Given the platform that AnnuityNet put together for direct distribution of annuities, it was a logical extension for the product suite to be able to be available to the fee-based planners. Really, this meant that we needed to build two additional components to our platform that would allow planners to be able to have a planner-centric view of customer information, and to be able to take customer reporting information and download it into their consolidated reporting systems, like Advent.

Given that I am just about out of time here, the last thing I think I would like to wrap-up with is that these certainly are exciting times in the new economy. I think we'll continue to see a lot of exciting things emerge, as companies really start to understand how a lot of the Web-based, e-commerce platforms can be utilized throughout not just the direct-to-consumer distribution channels, but through other distribution channels as well.

Mr. Edwin R. Schrum: Kristina, I'm interested in your comment about being paperless and how that played with regulators. When you say paperless, do you mean that you e-mail confirmations of everything, or did you really beat up the regulators and manage to go "upon request only"?

Ms. Meyer: What we did, is on the back end, in the "My Account" section (which is where all the legal documents reside and where consumers can go to transact business), there is something called the personal file folder. When somebody goes through the application process and we actually deliver a contract, we send an e-mail notice to the consumer that says, "Your contract documents have now been placed in your personal file folder. You can go here, log on, and view all the documents."

Likewise for quarterly confirmation statements, or any other transaction statements. We don't actually e-mail those out because of privacy concerns, but they are, instead, resident in your personal file folder.

For the regulators on that point, it has been interesting to see the response. Some states love the idea that all of this information is there for posterity. People can log on, look at it anytime they want, and print off documents any time they want. Other regulators are still just in love with the idea of paper. It's really been a little bit all over the place.

Mr. Schrum: This is a follow-up to that. Can a customer delete or get rid of anything that's in there?

Ms. Meyer: No, they can't. No, it's sitting on our servers and backed up, and it's impossible for them to delete.

Mr. Frederick S. Townsend, Jr.: I'd like to ask Mr. Stern a question. What's a small- or medium-sized life insurance company to do? Forget the Prudential, the Met, the Hancock, AIG, or General Electric, who spend a ton of money on advertising. Somebody decides they want to sell life insurance on the Web, and they have a choice of developing their own Web site or going to an aggregator. I assume that the cost of developing their own Web site, the cost-per-customer development, may be higher than their traditional methods of selling life insurance. Yet if they go through an aggregator, if they don't have the most competitive product, they probably will have a low closing ratio, etc.

Is there an opportunity there for a reasonable cost for a small- or medium-sized life insurance company to sell life insurance through the Internet? And if so, which way would they be going—their own Web site, or through an aggregator?

Mr. Stern: I think that's an excellent question. One for which I probably don't have a really extensive answer, but off the top of my head I would say for the smaller- and medium-sized companies, their attack may be through an aggregator, or through some other joint venture as a group of companies coming together and manufacturing a product or products, and then sharing that cost to market those products via the Internet.

There could be other avenues through joint ventures and also affinity sites where you might be able to advertise or go in with some other financial service organization, and have a product that might be geared to a certain marketplace.

Mr. Stephen J. Rulis: I have a question for Kristina. I wanted to pick up on the paperless aspect. I was curious how you have overcome the need for signatures. Is that something that is completely online, or is there any paper exchanging hands?

Ms. Meyer: Unfortunately, we do, at the minimum, require a faxed signature on the application. For any of the other transactions, say surrender and a change of owner, they are without signatures. Fortunately, we're very pleased now that the electronic signature bill was passed last week in Congress. We're watching that closely as it goes into law and hopefully we'll be able to be the first to react to that.

Mr. Sanford B. Herman: The question I had with your paperless online system is, what was the reaction of the regulators to the whole issue of security, in terms of both privacy or the ability of the hacker to get in and do some damage?

Ms. Meyer: With the SEC, thankfully, the first pass at approval for the products was really pretty much a nonissue because they have been very Internet- and

Web-savvy, having the E*Trades and the Schwabs of the world going first. A lot of our systems in security were modeled after what the online brokers are doing.

The state insurance departments, on the other hand, really required a lot of handholding through the process. And, literally, a lot of us visited various insurance departments and demonstrated the site for them. We explained to them how the security worked, and helped them to get comfortable with it. I won't say that it was easy.

Mr. Paul A. Schuster: I have a question for Larry. This is a life insurance, not an annuity question. Over the last 6 to 9 or 12 months, the company spent a lot of time talking to people who have experimented with Internet life insurance with term and life insurance sales, and their experience was pretty similar to what you were showing—lots of Web sites, very little in terms of sales. They are just not ready to explore new ideas. They basically said, "We're giving up on this. Life insurance still needs to be sold, rather than people buying." What is your view of that, as you've been around the business? We're not aware of too many people who have had a great deal of success generating large volumes of life insurance over the Internet, and I would appreciate your views.

Mr. Stern: I think the reason why there haven't been a lot more successes in the actual sales is the fact that it is still performed in the traditional way; the application is taken on paper, a lot of times through quote services. It's more of a lead generation than anything else, and someone either calls or comes to visit the individual to actually take the application, and then it goes through the normal channels for underwriting, etc.

I think until the processes can be done in real time through the Internet, that we'll not see advances in a larger amount of sales being conducted. Now the people who are Internet-savvy have shown that they are willing to purchase a commoditized product over the Internet and right now term insurance seems to be the main game as far as life insurance is concerned. And I believe that someone who does have an interest in getting on a Web site to view the rate structures will be interested in going through the entire process if that process can be shortened to their expectations of their other experiences on the Internet that don't take a lot of time.

I'm working with a client who is establishing his own company, like I said, to market a term product around the world, and he plans to do everything in real time—the underwriting process, the admin process, everything. And I don't think until you get to that point you will actually increase the likelihood that people will buy the product.

I think with something like term insurance, that is a commodity product similar to annuities or mutual funds, those who are wanting to buy it will buy it; and the Internet will give them the opportunity to do it by themselves, without the need to be hand-held or given any other advice that an agent would provide. With the more advanced applications of life insurance for estate-planning needs, there's still a question in my mind whether someone can go through that entire process without the need for additional advice. If there is some way the Web site can have interaction with the customer during the buying process, the purchase decision, and to have some dialogue on a give-and-take basis, that might help improve that kind of a sale. Right now, I think term insurance is for people who wake up at midnight and have nothing else to do and say, "Gee, I think I'll go surf the Web for some rates on term insurance." For that person, I think they should be able to buy it and be able to get the policy within a short period of time.

Mr. Schuster: I think that in terms of people we've talked to, they have explored all ends of this—leads, the fulfillment at the tail end; keep it short, keep it simple, much like AnnuityNet. Very, very simple. Maybe it just takes people a while to get comfortable. I really don't know, but most of the evidence points to people doing a lot of research at their own speed, and then calling an agent.

Mr. Stern: I think that's all that they see is available to them right now; to be able to do their own research, and then call upon an agent. If InsWeb and Quicken.com and all the other quote services could actually get a policy into your hands in less than 100 days, I think more people would be buying on the Internet. It's the fact that it takes 100 days. I tried myself to buy a policy through one of these quote services, and after 100 days I gave up and said I'm not interested.

Mr. Fix: I would suggest as well, that as an industry we're still in the process of learning how to use the Internet, and ultimately it is going to be based on what the customer prefers. I think there will always be a segment of the population who really wants to have that personal relationship that Jim Benson talked about in the General Session. And there will also be a segment of the population, probably a growing one, that really wants to explore on their own, as Larry said.

Ms. Meyer: Actually, I have a small comment on that, too, because one of the things that the large financial aggregators that we talked to have really learned about themselves is just how much power they have to help shape a need for the consumer.

Products like term-life insurance so far haven't had a large context online in which to be sold. They have quoting engines. The purpose of going there is to just say, OK, you already know that you need a product, how much do you want to buy, and how much is it going to cost, rather than reinforcing that this product category is right for you, that somebody is putting their name behind it. I think that we'll see the financial aggregators become much more sophisticated in their ability to help push the product to consumers, and help become engaged in the selling process.

Mr. Stern: Just a final note, too. A lot of people who go to the quote service may not be able to qualify for the best rate that they're getting a quote for. So, they may get a quote and then when they actually go through the underwriting process they're going to find out that they're not going to qualify for that low of a rate, and will turn the purchase decision off at that point, too. There has to be a better way of matching it in real time, I think.

From the Floor: First, a comment. Just recently I was at a Cisco Internet Business Seminar, and the question arose about what a small company can do to get involved in this type of process. I would recommend going to a site like Cisco and signing up for one of their Internet business strategy meetings. A lot of the vendors that are available out there for the expertise you don't have to outsource can bring you up to speed in real time.

This question is about InsWeb: I have a question regarding what AnnuityNet.com has done in terms of identifying why those customers are leaving their site. Take a company outside of the insurance industry such as Lands' End, for example. Lands End had four or five people coming to their site for every one person who bought. They're putting items in those shopping carts that some of you might have seen if you go online, but then they would abandon them, and Land's End said, "Why are you doing this?" So, they put real-time chat capability on their site, so anywhere you were on their catalog, at any point in time, in the buying process if you had a question about a product you clicked on this button, and someone was there in real time, ready to chat with them, who also knew where they came from, and was instantly looking at the same page in the catalog with them, and would talk to them about products. Then, they use push technology to actually show what would happen if they changed a certain part of that product. If they wanted to see it in red, boom, here is red.

What have you done to actually keep up with technology for that customer to make it more interactive and to keep him from walking away while you actually have his attention?

Ms. Meyer: And your question was specific about what is AnnuityNet doing in that realm?

From the Floor: Yes.

Ms. Meyer: The sales cycle for the product is quite long. From the time that somebody first hits our site, it is probably around 8 to 12 weeks until they actually enter the application process, so they do come back and read a lot of pages on our site. They will typically come back 4 to 6 times during that 8- to 12-week time period, download pages on a Saturday morning that we suspect they probably print off and digest. Probably about 50% of all the people who apply for an annuity or complete the application process, more correctly, have some interaction with us; 90% of it is via e-mail.

What we are continuing to do is make sure that our site has fresh content on it, so that as people come back you know there's something continually interesting there. Although a lot of the content by its very nature has to be static (you're not going to update the section on wills and trust, or beneficiaries at any particular given time), we have added things such as newsletters that people can sign up for. We send out monthly retirement planning tip newsletters, and tax-planning tip newsletters, so those are the sorts of things that we are engaging in.

We have not had a volume that warrants instant real-time chat because what that means is you must have customer service people who are sitting there, always ready to go, to respond to chat.

As it turns out, chat customer service is every bit as expensive, if not more expensive, than phone customer service. So at this point, I think that's definitely the way to go in the future; we just don't have the volume to do it. I think some of the other things, to continue to keep people engaged as they continue to digest all of this information about this very kind of esoteric product category, are really important.

Mr. Philip J.T. Cernanec: I just want to reemphasize a couple of points before I get to a question here. Not only are organizations learning how to use the Internet to market in different ways, but customers or potential customers are learning how to use the Internet to buy. The experiences and expectations of some of the early adopters and purchasers are not necessarily the ones that are now coming to the Internet anew, and the expectations are changing. As we have worked with organizations globally, the expectations that were built up, and what people were looking for six weeks ago may be in fact different from what they are.

Trying to keep pace with that means keep your foot in the water and watch it, because that's where the real experience is. Find someone who can do that. What customers look for is advice, price, and some aspect of personalized service.

This question is for both Larry and Kristina. Larry, in your train of thought, the Internet is driving down costs of the product and driving down the price to the consumer. Are there ways to differentiate in that space so that the requirement of being the best five or within the best price is something that is there?

And Kristina, with regard to your value proposition and your model, you are obviously tracking the previous contact with individuals. Are you doing any contact management or mining of that instead of being reactive, actually, proactive, reach out, or personalization of that information?

Mr. Stern: Only Phil would ask a question for both of us. My feeling is that companies are using the quote services to make their products available. It has to be a price-conscious item. Then there's no other way that they necessarily can differentiate, unless they can get that buyer to come to their own company Web site, where they could maybe offer other things, such as needs-analysis planning; online, real-time underwriting; application servicing; and all that other stuff. If you're going to run a product on the quote services, you're not going to get much success unless you have a price in your premium structure that is going to get you to the top of the list. Because that's what the people are going to the Web site to do—to research the lowest price.

With term insurance being a commodity product, there are not a whole lot of other things you can do with it in a quote-service-type environment. I think there are other ways that you can differentiate yourself, if you can actually get them to come to your Web site and buy from you at that Web site. I think you have more control over the buying experience through your own Web site than you do through a Quotesmith.

Ms. Meyer: To answer your question about being able to be a proactive marketer online, I think that everybody is pretty aware that it is a very touchy thing to do. Because people online are still very concerned about privacy, they are still very concerned about their personal information. To be able to push any kind of marketing information proactively to a customer really requires a very explicit consent by the consumer that they can be touched whether that be by phone or by e-mail.

Whether you e-mail or whatever, it requires very clear opt-ins to any marketing endeavor. These are the reasons we think that financial aggregators, and being an able partner with them, makes a lot of sense because they already have customer relationships, and they are already engaged in cross-marketing with their customer base. So, to the extent that a kind of stand-alone space, where you don't have a present relationship with somebody, it's really tough to reach out. So far, we've not seen a lot of companies who haven't been hit with negative PR about spamming, or something of that nature, and that's certainly something we don't want to be known for.

From the Floor: My question is for Larry, again related to the issues of needing to be in the top five companies in order to be competitive on the Internet term. First of all, do you have any statistics regarding the market share of the five most competitive companies, and, secondly, relating back to Phil's question, are other factors, such as the financial ratings of the company or even just the recognition of the name of the company factors in deciding whether or not somebody chooses one company over somebody else's? Is it strictly the top five companies, or are there other factors like that?

Mr. Stern: What I saw a statistic from, I think, was on InsWeb. It showed the top ten most popular companies on the Web site during a three-month period of time, or something like that. And yes, the brand awareness does have something to do with it. The names of the companies on that list were not any of the fly-by-nights. They were pretty much large companies that had good reputations, but also had low-cost term insurance products available through that Web site.

Also, I think these Quotesmith or supermarket malls may have some requirements with regard to ratings and financial strength of the company in order for them to feel comfortable about advertising or putting forth that product information.

I know that in the term marketplace with the proliferation of preferred risk classifications, the best way to have the lowest price is to come up with another risk class so that you can segment the target market even more. That becomes a little bit more difficult with the XXX-factor determination.

It's still a key to being able to get your name at the top of the list. Companies that are competitive and have a market share in the term marketplace are changing their rates on a three-to-four-month basis; the terms change over that quickly. So once you get leap-frogged by somebody else, you come in and change your rate by doing something, and you're back out again. I think that has some degree of importance in how companies are managing their position within a supermarket mall.

From the Floor: Do you have any information about what the market share is for the top five companies?

Mr. Stern: I don't have anything specific.

Mr. Craig Blumenfeld: I'm with a company called Arkidata Corporation, which probably no one has heard of. We deal with intelligent information integration and real-time processing, and this question is directed toward Kristina. You mentioned the financial aggregators and you developed your own system. Are all of the partnerships that you develop able to access your system and integrate it with their own? Was that your end goal when you developed your system?

Ms. Meyer: Do you mean from the aggregator side, or from the carrier side?

Mr. Blumenfeld: Both.

Ms. Meyer: On the carrier side, all the products that we have are administered on our platform. We own the processing, but the carriers still own the data and they own the customer relationship.

Mr. Blumenfeld: Have they integrated with your system?

Ms. Meyer: Yes. There are just a couple of thin pipelines that have to be built for them to integrate. Unit-value feeds come to us nightly, then we run the batch processing. Then we send back an aggregated buy-sell order, as well as a general ledger fee. They get all the customer information, by item, to feed their GL. We have that pretty much down to a science.

The aggregators are dealing with this issue even internally between their own business units. You see a lot of big initiatives underway at the big banks and brokerage firms and they are trying to get, even internally, at a bank, their retail checking services, mortgage services, and their credit-card services to all line up and feed into one log-in process, as well as all of the customer account information. It's definitely far more challenging than the carrier side.

Mr. Blumenfeld: Thank you.

Mr. Fix: One final question that I would pose to each of you, and it too has two parts. For a company that is trying to get into marketing on the Internet, first, what would you identify as the single most important consideration on getting into marketing on the Internet? And, second, what would you say is the biggest pitfall that we should avoid?

Ms. Meyer: I think having worked at an insurance company for a long time, it was very easy, even as I worked on an e-commerce project at an insurance company, to put together a plan that made sense from an insurance company standpoint. It made sense to the executive of the insurance company, but maybe didn't have as much relevance for online consumers.

I think that online consumers think of insurance companies quite differently than insurance company executives do. I think that the biggest pitfall, and the biggest, most important thing that anybody could do, is really to get involved in online financial services as a category rather than to get in online insurance as a category. To be able to really understand who it is that online consumers are—that is, people who are transacting business through multiple channels with the financial services institutions—and how they are consuming these products is probably the single most important thing to do. I think insurance companies have a view that hinges on products being sold in the same way that they've already been sold, which is through insurance company captive agents. I'm not sure consumers think about it in that respect anymore.

Mr. Stern: I would echo what Kristina said. If I were advising a client about getting on the Internet, first they have to have some kind of a business strategy that identifies who their market is and what the value proposition is that they are trying to get across. That applies to whether they are distributing on the Internet, or distributing through career agents, or going through direct mail. I think first you have to identify who your market is and what your value proposition is, and have a strategy on how you're going to reach that market. Then, design the product around it and keep it as simple as possible.