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Session 5PD Health Insurance on the Internet

Track: Health

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Summary: "Any company—old or new—that does not see this technology as literally as important as breathing could be on its last breath."

—Jack Welch, Chairman of GE, on the Internet

This is particularly true for the delivery of medical care services, which heavily relies on the transfer of complex, confidential information. The same is true for traditional health insurance products, although different aspects may take the forefront, such as business-to-business links and product distribution.

MR. THOMAS CORCORAN: We have two speakers today, Paul Hitchcox and myself. Paul Hitchcox is chief actuary of the Disability Consulting Group. He's also e-president of DCG Online, which is an Internet venture. He's got 21 years of experience in disability products. He is going to discuss information from a group non-medical perspective, as well as talk about work that he's been doing.

I'm a principal with Tillinghast-Towers Perrin. I'm head of their group non-medical practice and also chair of the Society's Health Practice Council. I've got more experience than Paul, but I'm not going to say how much. I've worked with some e-clients in different areas, as well. I'm going to be presenting some background information primarily on health portals and how medical and non-medical fit into

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Note: The chart(s) referred to in the text can be found at the end of the manuscript.

how we view the changing environment.

As I said, I'll be talking about e-business in general, and in particular, its application to group insurance with specific application to benefit portals or human resource portals. In terms of what's happened with e-business, clearly everybody is aware of the new economy bubble that has burst and is just now starting to recover. I think the things that identify the problems with the new economy were the speed and the extent to which change was miscalculated.

Early Miscalculations

Essentially people were looking at the potential for the Internet rather than what it actually was attaining—the indication that business fundamentals had changed, that where the eyeballs led, dollars would follow, but nobody really had a good idea of how that would happen or that company valuations were based on limited data. There was nothing like that to compare it to. So companies were afraid of being left behind in the early days of the Internet. And companies were left behind. The valuations went up tremendously.

Brand building was confused with awareness advertising. As it turns out, brand is very critical on the Internet, and most people underestimated the time that it would take to build a brand and the value that that brand has.

People were very concerned about providing their Social Security number and other types of identification that allow people to get data on them. In particular, they were very concerned about sharing health data, and there were instances of abuse where people shared health data, and then it got back to their employer or something like that, and then they were fired. Of course, the start-up failures have given the area a black eye in terms of what companies are willing to do to move forward. And this spreads to the insurance arena.

There are significant down rounds of funding. This means that when companies are looking for additional rounds of funding, their company is being valued a lot less than what it was originally projected to be worth. As a result, it has to give up a lot more equity in order to get funding. Sometimes there's not enough equity to continue the company. One of the things we're seeing now is that companies need to demonstrate their proof of concept.

As opposed to having a good idea, what investors are looking for now is a business concept that's actually in place, working, and generating revenue before they're willing to invest—which is kind of a catch-22, as you might expect. Another catch-22 is the difficulty in attracting seasoned management. Because of the lack of unlimited upside, it is difficult to move experienced and seasoned managers into e-business firms now. As a result, people are less willing to invest in them, which is again, a catch-22. Companies are being de-listed or having to scale back their plans. This also presents a negative aura.

Insurance companies have scaled back their plans or back-burnered them, but they're still developing plans. They're more cautious now. One of the things that I

think is a negative trend is that many insurance companies are congratulating themselves now on their failure to execute. So they had a plan, they did a lousy job of it, and now they're saying, "Look at all the money we saved." That's not a good strategy for the future.

Lessons

Within this, we think there are some important takeaways for insurers. New businesses have had a profound effect. There's a huge amount of activity on the Internet, and it's growing. Another perspective is that the cost to build a Web presence is just the beginning. To maintain it and grow it requires ongoing investment. So it has to become a way of life as opposed to just something you do and then you're done with.

An established brand is a huge asset and also a huge barrier to non-insurers, because name recognition is related to the product. So insurance companies have a huge lead. It'll be very difficult for anybody to impinge on that in the short term.

It's easier for established companies to use the Internet to improve what they have than it is for a pure dot-com or technology company to learn the insurance business. In particular, group insurance punishes the unsophisticated. As many of you are aware, in medical and disability cycles, almost every time somebody's gotten in the business without really understanding it, they've ended up with pretty significant losses.

Now that rational thinking is back in vogue, our clients are asking, "How do we use the Internet? What do we need to do? How do we use Web technology? How do we avoid alienating the agents? How do we integrate multiple distribution channels?" And one of the things we're seeing is that the Internet is not a replacement. It's a supplement to what you already have.

When you're doing work over the Internet and you're working with your agents or working with your customers, they want to be able to use multiple channels. So they'd like to be able to call you up on the phone while they're online and send an instant message or other types of communication.

Some Key Methodology Questions

What products should be offered on the Web—traditional versus voluntary products? What are the issues with the different approaches? Can you reinvent the way you underwrite?

One of the strategic questions of underwriting is, "Can you use new data in new ways?" It generally is accepted that the existing rating methodologies are fairly crude, that they only provide a certain amount of the information that actually will end up driving the claim cost. If people can figure out how to use new data in new ways, they can create a substantial competitive advantage.

How do they avoid becoming commoditized? I think it's pretty clear. Spreadsheets are already here, and companies can't close their eyes to it. What

functionality should they have? There are a lot of different things that are being done on the Web such as coding, rating, policy issue, billing, claims, and other services. Non-insurance services are being offered. The key question is, "How do you make money on the Web?" This has not been cracked by many companies yet.

Observations—More Than Distribution

Our observations are that the Internet is more than a distribution place; selling over the Internet is probably not even a primary tool of the Internet; facilitating sales over the Internet or helping traditional sales channels over the Internet may be a much stronger approach.

It offers the opportunities for significant cost reduction. The interesting thing is it is pretty obvious to see how you can streamline things, but what many companies haven't really dealt with yet is that adding functionality adds cost rather than taking away cost, because when they add functionality they still have their old functionality in place.

The real hard part is going in and figuring out what they need to take away in order to realize the cost savings that the Internet has created the potential for. Creating a streamlined version of something that you already have doesn't mean you change your internal structure. You really need to do that to just save the cost.

Outsourcing and Partnering

Outsourcing and partnering opportunities need to be reexamined. In particular, boundaries disappear with the Internet. You can have different operations in different areas, but create a virtual interface. Everybody can be looking at the same data and acting on it at the same time. This creates the opportunity for decomposition of the value chain—breaking the insurance offering up into multiple components. As opposed to having a structure where everybody is working in the same place, you can have people working in different areas. That opens up a lot of opportunities for people to, as I say, decompose their value chain.

Improving Effectiveness

The Internet provides opportunities to improve the effectiveness of underwriting using new data and new ways. For example, Progressive has come out with a new way of rating automobile insurance for fleets in which they put a GPS receptor in each vehicle and then measure the amount of miles that it travels and rate policies are based on the amount of miles driven rather than the traditional rating methodology.

The value of the e-investment must be measured in the context of the overall business goals. Basically, "e" is an enhancement. Our view is that "e" makes things better. It doesn't change the fundamental transaction.

Embracing e-business is no longer an option. We're seeing basic Internet applications that you need to deploy. In the large case market, Towers Perrin is routinely seeing Internet capabilities being requested on requests for proposal.

Strategically deploying the Internet will be how you differentiate yourself. You have to define what your competitive advantage is going to be and why it is hard to duplicate.

Evolution of The Net

The Internet continues to evolve. Chart 1 is a time continuum. You can see that on the left-hand side we have the original Internet applications—advertising sites or looking up an agent so you could find somebody to call.

As we move toward the current environment, we're seeing the use of analytical tools and online selling which is essentially a duplication of existing functionality. Moving into 2001 and the future, we're seeing the enhancement of existing Web processes and then information-based transformation, which is another description of decomposing and recomposing the value chain where information is the core as opposed to the product as the core.

When we've talked to vendors in the past, they've cited four reasons for the slow adoption of e-business. The channel conflict is obvious. I think most people are aware of that, but existing channels have enormous power and business has been built around distribution for years. It's going to take an enormous effort to change that.

And, as I said, many of the strategies are to enhance that rather than to make fundamental changes. There's internal resistance to change. Often we've seen resistance at the top of a corporation with lip service paid to their Internet initiatives. With resistance to change, the hardest part is not building the new piece but removing the old piece.

Questions About Payoff

How does the investment become a benefit? Historically, that hasn't been clear. What will the winners look like? People's Internet initiatives today are primarily defensive in nature. Recent history has rewarded poor execution. Nobody has anybody to emulate, and in the insurance business the companies' strategy is generally to define somebody who's done something well and then try to copy them or do it better.

Opportunities

We look at e-business opportunities leveraging existing functionality in three primary areas—distribution and sales channel, process improvement and operational efficiency, and new underwriting and pricing models.

Sales and Distribution

Under distribution and sales channels we look to enhance, not replace, sale channels. We try to restructure around the customer and data as opposed to structuring around the product. That would include things like mass customizing in which you focus the sales effort depending on the characteristics of each customer.

Operational Improvement

On the operations improvement side there are opportunities to leverage data. In particular relationships, and the data those relationships can bring to you, and new underwriting. You are learning and building learning systems that look at new types of data and trying to find new correlations. For instance, on the underwriting model, you may be linking with a payroll firm and looking at absence and turnover as an indication of company morale for disability insurance.

We see the new economy as the old economy with access to new technology. The ability to link activities that haven't been linked before on a real-time basis creates a set of opportunities to exploit the lack of physical boundaries. It's cheaper than almost anything we've seen before. For instance, the old definition of paperless was private network or electronic data interchange (EDI), or those types of things. Now, on the Internet, that's almost a cost-free transaction.

Finally, virtual activities don't eliminate the need for physical activities. You need to define when and where you're going to use the Internet. In some cases, a physical presence is very important to the process and you need to be able to make that available.

The key is to focus on where it makes sense, defining the value to the customer of each segment or piece of the transaction, and then linking that value back to the customers by defining which customers you're going to go after with which vehicles and how much those customers are worth.

Benefit Portals

I think benefit portals are a good example of how people will be accessing insurance and how the Internet will have an impact on that. This will address both medical and non-medical populations.

How Customers Use the Internet

Health is one of the most successful areas of interest on the Internet. According to reports I've heard, it's second only to pornography for access.

More importantly, the people that have used health information have changed their behavior because of information they've accessed over the Internet. That's making them more active consumers, which we think will have a big impact on the relationship of insurers and their customers.

Customers will be looking for more information. It will impact how they interact with the health plan and will affect health costs ultimately.

Also, employers want to use the Internet. Chart 2 is based on a Towers Perrin survey of what employers expect from a benefit portal, and some of things they have. Healthcare-related program information and administration tasks they'd like to do are the highest ones.

Electronic connections to health plan vendors, health promotion and awareness are routine. One thing we have seen is that employers take their responsibilities for the health plans seriously. One of the things that employers are looking at regarding health plans and taking some responsibility for, is making sure that the health plan is delivering quality services to their employees.

Another issue is the ability to make on-line appointments. People are looking for more functionality out of the Web sites and push technology. Push technology is personalizing responses to individual employees based on their individual characteristics. Rather than having a situation where everybody gets the same information, you're really taking information in and using that to provide customized services to your consumers.

The 'e' in 'Health'

What is the e-business to health? Clearly, e-business to health has a wide variety of definitions. It really depends on who you're talking to and what they're talking about—what their perspective is.

Defined contribution (DC) is something we hear a lot about. DC is headed towards consumerism.

What will the ultimate drivers of successful approaches be? They will be e-health, or health delivery; e-benefits, or the HR perspective on health; e-business, which I define as e-insurance; and e-commerce transactions over the Web. All of these are really different ways of looking at the business, the customer, and where you're coming from—they're all e-health.

Consumerism for Health Insurance

There are several different players and they're looking at things from different perspectives.

Table 1

E-Faces of Consumerism

<p>Plan/Coverage Buyer Consumer</p> <ul style="list-style-type: none"> • Needs assessment • Plan information • Provider selection • Financial Analysis Tools 	<p>Member Consumer</p> <ul style="list-style-type: none"> • Needs assessment • Self service administration • Provider location • Wellness/health improvement
<p>Patient Consumer</p> <ul style="list-style-type: none"> • Approved best practice providers <ul style="list-style-type: none"> • Best practice protocols • Centers of excellence • Condition research • Patient support/disease community 	<p>Caregiver Consumer</p> <ul style="list-style-type: none"> • Approved best practice providers <ul style="list-style-type: none"> • Best practice protocols • Centers of excellence • Condition research • Caregiver support/disease community

Employers

The employers, in particular—as we found in the Towers Perrin surveys—take their role very seriously as selectors or providers of information.

Employees

The employees can really be divided into two groups—the healthy employees who are looking for services and focus and the patients looking for specific issues. They want screening of qualifications. They want to know that they're looking at good providers, that there's a way to evaluate providers, and that they're getting information that they can use to become an active participant in the health process.

Patients are becoming much more active when they have information in an area that's traditionally been a pretty passive one.

Providers

Health sites build tools for providers. I think that you have to look at health and the Internet as a two-way process. Providers are getting automated interfaces so they're getting information when they need it in real time. They have better tools for accessing information that allows them to do a better job.

The Employer Role

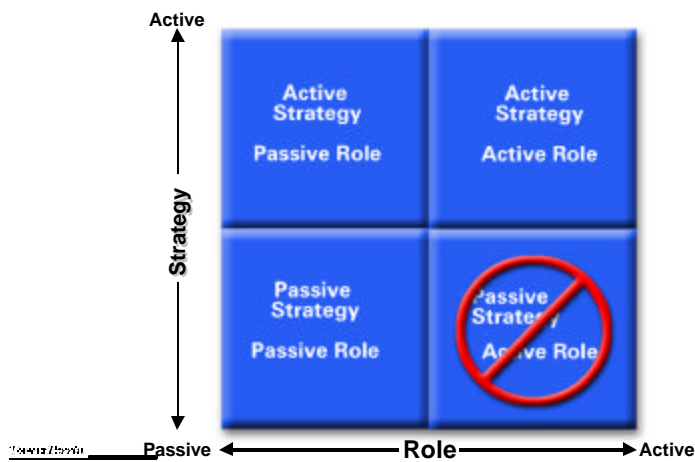
Table 2 shows employers classified into three general healthcare models for benefit portals that reflect the employer's strategy and role.

Table 2



Employers will increasingly adopt the role of “distributor”

Employers will segment into one of four quadrants related to strategy and role



תוצאות/תוצאות
BALANCING RELATIONSHIPS PRODUCING RESULTS

By strategy we mean how is the health plan going to be designed? How do they check for quality? How do they develop the content? Are they actively or passively involved in the actual implementation of the health services?

Active Strategy, Active Role

In this model, the deal fulcrum is the deal between the employer and the employees. Health insurance and how it's perceived is a big piece of the contract. For active employers, what we'd see is a situation in which the employer actually manages the interactions with the health plan. It's an employer-sponsored Internet portal or Web site. The portal is the front end. The multiple plan designs and those things are the content. That's where the employee will tend to get his or her information.

The site may be built by a vendor, but the providers are on the right-hand side. They're providing the managed care, the credentialing and quality, discounts, and network issues. This is an active strategy.

Active Strategy, Passive Role

In this strategy the employer portal is really an interface to a vendor portal. The employee accesses the vendor's Web site through the employer portal, but the vendor portal is the one that has the content and the information.

In this case, the employer is determining the alignment of the vendor with the employer's approach to health benefits. It's making sure that it has an active role in designing the Web site but not the actual implementation of the Web site.

Passive Strategy, Passive Role

The passive strategy with a passive role is really the 100 percent DC approach. In this approach the employer would give money to the employee and then try to avoid any involvement and responsibility going forward.

Our surveys have shown that there's really no trend in this direction yet. There's a lot of discussion in the industry that employers will move to a 100 percent DC approach to avoid the distraction and the cost with the health programs. We found that most employers see that as an important piece of the employee relationship, or recognize that their employees see it that way, and they want to stay involved in that process.

Chart 2 is an example of an HR portal for health insurance and really divided into four sections. This is what the employee would be logging onto and what would be on the Web on an HR portal.

The left-hand side is the data side, the personal needs assessment, the family profiles, and all the data on the employee. The second column addresses the functionality from the medical side. It's got what the health coverage is—the personalization, consumer advocacy, member services and claim status, health plan selection support, decision making tools, financial tools. These are the things they need in order to administer their benefits.

The third column represents the services being provided. We've got the online health benefits. We've got making appointments, case management, disease management, a 24-hour service center, centers of excellence, and the actual services delivered by the health program.

The last column represents content issues such as health risk assessment, health diaries, healthy lifestyle issues, disease, and communications. This is a health store where you can actually buy health products and those types of things.

This is a setup for how people would be accessing the medical insurance and, as you can see, it's quite complicated and comprehensive.

As you know, health insurance is the gorilla in terms of the group benefits. It covers the vast majority of dollars and is the most complicated. When you build a site like this there are certain implications for the nonmedical coverage. It makes a lot of sense for nonmedical coverage to fit into this type of model as opposed to trying to duplicate a self-standing model.

You might see that the nonmedical coverage would be linked into that second column, which helps answer questions such as, "How do I decide what I need?" "Where do I sign up for it?" It has a needs analysis that creates a different set of dynamics for people who are thinking about nonmedical Web sites and what their role ought to be.

Employers also need to decide if it is more important to partner or to build. What do you need to do to fit in?

Decomposition

The bullets below are an example of a decomposition. Looking at the health care value chain, what are the pieces of the value chain, what are the values, and who's involved in those?

Role of the Health Plan in the Future

Offer multiple plans and coverages to meet diverse needs

- Improve communication among patients, care providers, pharmacies and facilities to reduce errors, improve quality through knowledge of evidence based medicine and improve patient compliance
- Improve member convenience
- Improved provider convenience
- Provide each member with a web site that offers useful relevant health information, reminders, and management tools including disease management and medical records
- Manage pharmacy and medical costs with full disclosure of rationale available based on member/provider interest
- Improve value of collected data for employers. Tailor wellness, education and disease management programs for specific employer populations

Right now we're looking for capital. We're actually burying the pure risk. Besides insurance companies, there are reinsurers that can be financial service organizations. The government is involved in many cases. The underwriting expertise, how you manage the risk—there are actuarial firms that do that. There are data warehouses that are independent of insurance companies, expert systems that are being developed.

The three medical management categories are the contract networking and the health plans; the medical management or acute specialty vendors; and care management, long-term care, or chronic specialty vendors. We're seeing people who are specializing in each one of these areas, and, as a result, the medical continuum of service is being broken up or decomposed.

And then you have customer services. In HR services, we're seeing aggregators, HR portals, and professional employer organizations. Employers themselves are taking over some of those services. In what has traditionally been a continuum service that's been built around the product, people are now seeing it being broken up. I think the same thing would apply to the nonmedical lines where you see people coming in.

In disability you see claim managers that are independent of insurance companies. You can have underwriting services. By looking at the business in different blocks you can get different conclusions.

As a matter of fact, one of the things I've seen is a reinsurance company that is looking for assets to invest, reinsure the tail of group long-term-disability claims. An insurance company that was looking at it was saying, "We're not in the business of managing the tail of a disability claim. We're in the business of selling insurance, administering insurance, and administering the front end of claims, but when people go on LTD, it's not something that we're going to make our money at. We'd just as soon give it to somebody else."

Reinsurance Differences

The reinsurance company has a different angle. The reinsurance company is doing it because it's in the investment business and there's a big pool of assets there.

They're probably going to hire an external manager to manage those claims. There's not a lot of movement on them. All of the sudden you see a value chain that's taking a traditional product and looking at it in a different perspective.

I think that when you look at this and recognize that the Internet makes it easy to destroy physical boundaries—to really link up people who have not worked together before—a payroll administrator can take on administration of benefits and do it with hardly any additional cost.

You may see people linking up in those types of formats because over the Internet the boundaries just disappear. In particular, I think that people will need to define where they're going to provide value, where their expertise is, how they're going to

differentiate themselves, and not only that, how they're going to differentiate themselves in a meaningful way to create something that's hard to duplicate.

MR. PAUL HITCHCOX: I work for DCG Online. DCG Online is backed by a company called ERC. ERC is the major contributor into GE Capital. GE Capital is a major contributor into many businesses. I thought it was very apropos that Tom, without any input from me, chose Jack Welch, who's the chairman of GE, with his profound statement that equates technology and the Internet as being as important as breathing.

Now, just to tell you, I don't quite go that far with this. My life is definitely tied to the Internet. I am e-president of DCG Online and all these slides will be available at www.dcgre.com.

I'd like to go over some of the advantages and disadvantages. My background is more in disability life. It is not in medical.

Some of the themes are things like, "Know the customer." Make sure you know who you are going after when you're dealing with the Internet.

I want to touch upon some innovations that are out there that I think are exciting. There are a lot of traditional monoliths around various companies that we are either part of or deal with, and there's no question that if you're going to break out of some of these legacy systems, the Internet is—to me, at least—probably the best last chance to build something fresh.

A few months back there was a show on technology, and Boston Consulting Group went around and interviewed a lot of the CEOs from major Internet companies, and it was interesting. The first question was asked about their compensation, and obviously it was tied to the success of the firm. The second question was, "What's your personal investment in the firm?"

"Well, I've got 10 million shares."

"Well, no, you were given 10 million shares to be CEO of this Internet portal or whatever. What's your personal investment?"

Does anybody know what the answer was? Not a penny. You had CEOs worth hundreds of millions of dollars who really hadn't put a lot of money into what they were trying to sell. Now, nothing against Boston Consulting Group, but as I draw these numbers and show you this tremendous growth that's taking place, I'd like to know how much money they have actually invested in what can be some of these future numbers. These are mind-boggling numbers, but I guess only in Congress does billions and billions actually add up to something.

They have an estimate that e-commerce in general will grow to some spectacular number of \$2.8 trillion in the next couple of years. Then, they broke it down by industry and insurance and mortgage are sitting at less than one percent. Now, I

assume everybody in this room has had an Internet transaction. You've gone onto the Internet, bought something, maybe even sold something. But would you purchase insurance on the Internet?

They were estimating that something on the order of 15 to 28 percent of the transactions will take place within insurance, and, just roughly speaking, about one quarter of the people in the room said they'd be willing to negotiate insurance over the Internet.

Credit cards are obviously huge. So are banks. I don't know about you, but I'm going to check back with Boston Consulting Group in a couple years and see how well they did. The point is, I think there's tremendous potential to this. They narrowed it down to insurance Internet growth itself approaching something on the order of \$4 billion in the next few years.

There is access out there. There is a tremendous amount of potential out there. The market that I particularly am interested in is the disability end of the world. It's amazing to see that in the market that I deal with, there are 60 million employees not covered.

I don't know about you, but if you could get one percent of a 60 million employee marketplace, you would be in pretty good shape. It's a tremendous market out there. Whether or not Boston Consulting Group is right or wrong, I'll guarantee you that the potential is amazing.

One of the things that is exciting is being the first mover. Who is the first one in on some of these opportunities? Tapping into a market obviously is a scary proposition and it does involve a lot of investment. That will be my caution at the end. When you hear presentations, it's consistently all around streamlining the traditional process.

When we were doing our first Web site we were amazed at the costs that were associated with tying back into legacy systems, and it wasn't too tough a decision to say that, for DCG Online, we do not tie into any legacy systems.

All of a sudden, we had incredible savings in terms of administration. Distribution was that much easier. We're an industry that gets excited if we can have a 10 percent close ratio. We send out 100 quotes. Ten come in. We think that's fantastic. We did the rating 90 times, collected the census, put it together in a nice package, put out the proposal, send it to several brokers, and did whatever we had to do. Ninety percent of the time it doesn't work. They said, "Sorry." We sell 10 percent of the time and we think that's fantastic.

To me, that just smells like the greatest opportunity for efficiencies is in the distribution. Let the brokers come to your site. Let them decide to ask for this plan or that plan, this rate or that provision. Let them print up all the paper they want. I guarantee you that at the end, you put a lot of what had been traditional

distribution costs on their shoulders and then you'll be very happy to have a 10 percent close ratio.

Customer Satisfaction

This is always a tough one because this seems to be a question of who designs the site and who does a good job of really making sure that you know the customer. At DCG Online, we have a simple premise, which is: you better get to an answer within three clicks. So, if you're on, maybe you've asked for a little information, but by the third time you're clicking that mouse, you should be seeing some response to what you're looking for.

I have been amazed by the number of sites that are out there on which you go from page to page and you fill out more information, and at the end it says, "I'm sorry, but it's not available in your state." So, the key role in customer satisfaction is, without question, the design of the site.

Customer Retention

Ultimately, we're hoping that customer retention is a big deal. If you're able to do something a little bit different from the competition, if you're able to provide services online, and if you're able to make that customer appreciate why you're there, it has everything to do with retention.

I live in the world of disability. You know, \$200 a year covers a great disability plan. Customers do not move because you can find that product elsewhere for \$190. The medical might move because it goes from \$5,000 to \$6,000, but for the LTD, a 10 percent break in the price in and of itself does not necessarily cause customers to move. So if you create links in and keep it at a low enough cost, I think you're going to have tremendous retention in the end.

The Traditional Process—Overview

Here's the traditional, paper-based process, and I'm going to go through each one of these steps, starting with the request for proposal (RFP), faxing it in, and entering the census manually.

You've already got the two or three days it takes to get through that, to print the RFP and to fax it back out. The broker is doing a good job of spread-sheeting it. Now we're maybe three, four, five days into the process, right? There's a decision meeting, and that might loop it back as they decide on a different type of plan. You have enrollment meetings that might take place if it's contributory—a voluntary plan. You get my point. It goes on and on and on.

We added it up. Something on the order of five to seven factors are involved. You have keying steps, three to four FedEx shippings, and mailings. FedEx may be the one most affected by this. But with quote processing and order processing, you're easily talking about a process that takes 35 to 60 days, and that's no stretch.

Now, there are a lot of companies doing a fabulous job of making that far more efficient, especially on the small-case end of things. So, this is drawn out for effect.

But I don't think any one of us can deny that we haven't seen a case like this that dragged on and on, and you kind of wondered at the end of the day, "Did I make any money on the case?"

Forget whether or not you priced it right. You probably did. Did you ever cover the expenses that were three times what the premium was? That's the type of efficiency that we're hoping takes place on the Internet.

What Can Be Done Online

Put some of that control into the employer or the broker's hands. They can enter the census as well as you can, or they can download it through e-mail, and you can input it.

There is not a lot of sense in taking what electronic data is at their end—employee data—and putting it onto a piece of paper so you can mess it up when you type it back in. Why not leave it in electronic form?

Online Application

What do you want for coverage? What are you looking for in a plan design? It's all proposed back to you online, quite often in real time. A decision can be made right then and there. Is that the plan design you were looking for? Was that the price you were looking for? Was that the company you were looking for?

Online Payment

Going further, you're getting into online payment. We actually have a process established by which the employer keeps track of his premium and all the payments are going through, skimming the electronics. Immediate processing and policy issue are so easy once all that information has been put in.

How many times, when you finally got around to issuing the booklets and everything else, was there one more form when the employer has to fill out some more information about how you'd like the booklet printed? There's just not a lot of logic to that.

The point is, if it really works right, it will create the efficiencies. Not all of this is going to take place instantaneously, but at least some of us are getting awfully close to this model.

Strategy Pointers to Consider

If you're establishing an insurance e-strategy, here are some things to consider:

I think it's kind of exciting that, when you're dealing with a customer, you are dealing with them one-on-one. It's a tough environment to be in. But they are getting service at their end of the connection. You really are eliminating a lot of touch points, faxes, and mailings.

It's tough not to argue that you are reaching an enormous market. Channel conflict always comes up as an issue, and yet I'm a little stuck. If there are 60 million

employees out there who do not have at least disability coverage, that's a tough argument when I hear from a sales rep who says, "You know, I'm really annoyed. If an employer can go direct or the broker can go direct, it kind of cuts me out of the equation."

When that rep brings me in the other 50 million employees I'll gladly appreciate the fact that I somehow lost and created a channel conflict. But if there are 60 million people out there who are available, I think that's a heck of a market that we could tap by some other nontraditional methods.

I believe, in the end, it does simplify sales and service. And at the end, it will reduce your cost. Now that's kind of a leap and I don't want you to take that blindly. The amount of money that can be spent on Internet processes is astounding. There is a reason why there are a lot of very successful Internet providers out there. I'll leave it at that.

Barriers to Online Progress

Distribution seems to be the biggest barrier right now. You will have channel conflict, without question. There are companies that are trying to go direct. They're going to run into the fact that this is a rare industry that uses brokers the way we do. You obviously do not want to upset a broker, yet how do you get across the fact that there are other ways of doing business and that the Internet is a reasonable approach for both the brokers and the employers to get into the insurance company, deal with the insurance company directly, and yet at the end not lose any service that the broker could otherwise provide?

Product Complexities

If you go through a typical LTD product there are elimination periods, benefit amounts and pre-exes. What type of definition of disability are we dealing with? There are about a million combinations.

Now some of that excited us when we were actuarial students and we were dealing with underwriting manuals and rating manuals. That is probably our biggest problem right now as far as selling products via the Internet through insurance.

I'll put it to you this way: We have short-term disability. We have long-term disability. We have worker's comp. We have long-term care. I've always wondered that if you ever hired a product manager and asked him to develop these products for you and develop the concept of replacing income, and he came back with that as a model today, you'd fire him. You wouldn't allow that to take place, and yet that's what we've allowed to take place.

So you wonder when you take this traditional product and sell it on the Internet, will it work? And isn't it our own complexity sometimes that's been created?

Let me take you through a few of the components that I was thinking of, some of which we pulled off DCG Online and some of which are coming soon.

Life Insurance

If you're providing group life insurance through the Internet to an employer, you have a list bill product. You know who is being covered. I think it's terribly morbid of this industry to require that in order to get that life insurance claim, you've got to send in the death certificate. The widow who has a lot of other things on her mind is not necessarily in a good place to say, "Oh, by the way, I've got to file this paperwork." Wouldn't it make a lot of sense, with the way things work these days, that you would know from contacting an employer that Joe died last Wednesday?

As opposed to having a traditional product that had to wait to make the payment, why can't that payment immediately start, say, replacing the income? So, just like a disability product, a life insurance product could start paying immediately via the Internet. But you've got to trust the employer. You've got to wait for the paperwork and still let everything else flow, but it makes a lot of sense not to put the burden on somebody who's already going through a burden to get the protection that they bought years ago.

Short-Term Disability and Long-Term Disability

If you think it's a funny combination we have right now, with worker's comp, short-term disability (STD), and LTD, I think it's even a funnier combination that STD is paid weekly and LTD is paid monthly. There is also a pre-ex that you might not be able to satisfy for the LTD. That doesn't make a lot of sense. The average consumer does not care. They want replacement of income and they want it for legitimate reasons. Why not have the STD and the LTD paid in the same cycle as the paycheck? Why do I have to go from paying my bills every two weeks then get this paycheck weekly because it's STD? Then I've got to starve for three weeks while I wait for the LTD to show up! It doesn't make a lot of sense.

There's a whole cavalcade of ways of taking the Internet process itself, turning it to these products and saying, "Look, there's an easier, smarter way that we could sell business. It won't necessarily be what we've seen in the past, but it does make a lot of sense going forward."

One caution is that we had one quote when we were doing some of the early work that was \$1 million basically to design a Web site. We thought that was reasonable. We then had a proposal come back to us that was in excess of \$6 million, and that was the one that said, "Well, if you want to connect into legacy systems and everything else here's what it will cost you."

This is a scary area, I think, for a lot of companies putting a lot of money into the Internet. Let me quote a Tillinghast report on e-business financial benefits:

About half of the respondents said that they had not quantified their e-business financial benefits. We tried to probe in this area, but the respondents were either reluctant to provide a specific forecast or were unable to project a reliable forecast at this time.

Let me just ask you if this would satisfy any one of our bosses in any other environment. How many of you went through planning in the last few months and had provided that as an answer? Would that have been acceptable? It's very simple. There is nothing bizarre and nothing actuarial about it. A lot of money can be spent. A lot of money has been spent. There are ways to make this technology work for you. There are ways to lose your shirt at it.

To me, that's the neatest part of the balance here with trying to take an insurance product, bring it to the Internet, make it sell, and make it work for all of us. The balance is where you've never had so much money that could be spent wildly and sent out to a lot of experts and, at the same time, take a product that could be very simple and straightforward and make it available to an enormous population that is looking for it. I think the potential is there and I think it's real.

Some of the underwriting that we've actually been doing online has been simple. We've been amazed by the amount of information that is available from sources.

One of the first interactions I had was when I was looking for some employment information. I was trying to do some analysis by industry. I happened to talk to an economist in Washington who said, "Well, you can get the 1997 report. We're publishing it this week."

I said, "Well, gee, at this point it's the year 2000. It would be nice to get something more recent." And his answer was, "Well, I can give you this address, and with that you can get '98, '99, and a preliminary report on 2000." It was kind of neat that he was thinking I was still trying to get a paper copy, that I could type all those numbers back in, and yet here it was immediately available online. That to me was a pretty good indication of making use of the Internet for its pure form.

Another point is almost every local paper is now online. We're always looking for layoffs and worried about what's been the latest thing happening with the companies we are trying to underwrite, particularly in disability. There is no excuse nowadays for not getting online, doing a search, and just finding out more about that company. Dun & Bradstreet is not going to be your source. You actually can get to the local paper that's had some information about that company and know that much more about it.

Those are just a couple of examples where I think underwriting by use of the Internet is a big deal going forward. This is an area where we really have not had that available to us traditionally.

We have a question about the fact that the model itself really does speak more to the small end of the market, the small-case market, and I have to agree entirely from the perspective that at least access to the fundamental information of the proposal of the rating does make a lot more sense where the volume is down there at the low end.

I'm a little stuck that it's not the same transaction that's taking place with the larger

cases, but I think all of us have gotten to the point where we're e-mailing proposals back and forth. You know, it's almost to the degree to which nobody even thinks about it anymore. That's just the way business is done. But most of what we've been speaking about takes place in the small market, and, quite frankly, it makes a lot of sense.

I would make a declaration that nobody makes money today in the current 50-life group market. You may think you are, you may be more efficient and maybe do a better job of it, but I'll bet at best you break even. The expenses, if they really could be allocated to the small end of the market, are just staggering at times. An underwriter comes back with a question on a 50-life group, and it takes a few days to work through that question, and the profit on that case just went out the window. So, a lot of these things that I've been speaking about do apply mostly to the small end of the market.

MR. CORCORAN: To add to that, clearly, the small cases are much more highly leveraged. The expenses are a bigger piece, so everything you save is proportionately much greater.

I think other issues would affect the middle- and large-case market. For instance, service becomes a much bigger issue the bigger the case becomes. So it's different differentiation points as opposed to the Internet working in one place and not working in another.

FROM THE FLOOR: How is DC different than, say, a flex funding approach?

MR. CORCORAN: I think the difference is the degree of employer involvement and sponsorship. In most flex funding approaches, the employer is still choosing which health plans are going to be on the site. The bigger the employer, the more diligence they do on who they're going to allow to be on the site. The employer is determining standards of what benefit packages are to be offered. The employer generally is sharing in the cost. As the costs go up, the employer contribution is determined by how much they want to subsidize as opposed to just making a pot of money available and freezing that pot or shifting all the responsibility onto the employees.

So I think that in the 100 percent DC, the definition I was referring to is where the employer makes some money available and then divorces itself from the process because there they're not having an active role in determining any quality of the plans that are being provided, that are being made available to the employees.

In some cases, the way DC has been described is the employee is just going to the marketplace. It's not a fixed menu of choices or that type of thing.

The difference I saw between the passive-passive and the active-strategy passive role would be that the passive-passive is essentially the one I just described a minute ago, which is, "I don't really have anything to do with it other than making money available to you."

The active one would include screening and providing a quality buffer or taking responsibility for the health plan because the employees see that as a very valuable thing.

The employees don't feel they're able to choose vendors very effectively. So I think that's how I would describe the active strategy passive role, which is, "We've done the basic screening, so you're not going to make a huge mistake choosing one of these vendors. We have asked the vendors, for instance, to provide content for you to make intelligent choices. They're not going to mis-sell their products, misrepresent their products, those types of things."

FROM THE FLOOR: There are two things that I may have missed. One is, how do you handle this huge array of product features under disability income on the Internet? How does a consumer understand exactly what he or she is buying? And the third thing is, why do you think there's going to be a high close rate from a sales point of view?

MR. HITCHCOX: The real answer, number one, is we've cut down. At least DCG Online has cut down on the complexity of the product, without question. It does not make a lot of sense to the consumer to offer eight different elimination periods. They're just simply trying to put STD together with LTD or a vacation plan or a self-paid plan together with a longer-term plan. We've cut down on the number of elimination periods and the benefit percents.

You don't need to explain residual and partial if what you're really trying to sell is a two-year own occupation disability definition plan. I'm not sure that I would make any claim about the close ratio, for instance, being all that dramatically different. We have plans that are around a two to three percent close ratio. We do expect a lot of people to be coming online, getting a quote, seeing a price, and maybe checking with their broker. I just think that, from an efficiency standpoint, I have no problem with them calling up any hour of the day, ordering up as many plan designs as they wish, printing them out or not printing them out. They could do that, and it literally costs me nothing at my server to let them generate that. So to me, a three percent close ratio done online is a far more efficient and far less costly proposition than even a 10 percent close ratio done the traditional way.

MR. CORCORAN: I think it's generally accepted in the industry that a huge amount of the complexity of insurance products is created by the insurance companies in the distribution in an effort to differentiate themselves in essentially what's becoming a commodity marketplace. It's self-created complexity, not something that's inherent in the products.

FROM THE FLOOR: Do you offer a price differential?

MR. HITCHCOX: The cost differential that's there is because of the system that's being used, whether it's an employer coming in or a broker coming in. We don't differentiate that price. The broker and the employer will see the same price.

MR. CORCORAN: Well, I think one of the things he's asking about is you don't have an alternative. You're all Internet.

MR. HITCHCOX: Yes, we happen to be all Internet, but we represent Aetna, for instance, and Aetna is one of the companies on our site. So, Aetna can also go through brokers or they can find a pretty good price through the Internet.

If we can provide that product and cut expenses from what Aetna can provide on a traditional basis, it's up to the consumer to decide which model they want to come through. Obviously if they're looking for complexity, if they've got some unique cost-of-living feature or something that we're not willing to provide, then they need to go through the traditional channels. Passing the savings on and not charging for it is pretty fundamental to capitalism, just to be real dramatic.

We have a pricing war—competitively, anyways. So you've got to search for new and better methods of delivering those products. If you can do it in a better method and can charge less, then the consumer is the one who benefits at the end. Regardless of whether or not brokers are vehemently against it, at the end of the day, that's got to be the way to sell business.

MR. CORCORAN: I think that it is a commodity environment. There are ways to differentiate yourself so that you're not viewed as a commodity, but I think what I was talking about is that there are real ways to do it through a real service differentiation. There may be ways to differentiate through a real underwriting differentiation or use of data. I think the Internet sales strategy is that you're going to differentiate yourself through a price differentiation, which is, of course, the best solution in a commodity market, because what you're doing is you're changing how the administration is done to reduce the price.

I think the key is, you've got to identify what and how you are going to bring value to the equation in a way that differentiates you in a commodity marketplace.

There are a lot of different ways to do it. You could be better at determining risk. That's where the decomposition of the value chain really makes a difference. You can look at it and say, "Well, where is it that we really think we're good or we're better?" Traditionally it's been done with a company's distribution force. They say, "Our distribution force is the best, and we can go out and sell. Our salesmen are more effective."

In many cases, especially in the disability environment, that's been true, because disability is a complex product by its very nature. You can make it simpler, but you can't make it simple. So when a disability agent, a specialist agent, goes up against a property and casualty (P&C) agent who's trying to sell a disability policy, he can almost always come up with some arguments that the P&C agent finds very difficult to refute. The companies that have been successful in disability so far are companies that have specialized in disability producers.

MR. HITCHCOX: And, if I may, a lot of this just has to do with choice. Charles

Schwab was successful because it broke that service connection and said, "If you know the stock, you know what you want to buy, how many, we'll take care of that transaction."

Quite frankly, disability, just to stay on that theme, it's a three-out-of-a-thousand chance. You hope never to use it. You don't want to turn it into a service issue. You would like to think of it as something you can buy. It's protection. You put it on your shelf and hopefully never call upon it. In a lot of ways, the consumer is the one who's divined it as a commodity. They can go to a broker for additional service. We provide three agents, for instance, who will answer questions just like a broker will. So it's not completely turning it into a commodity, but it's really allowing the consumer choice and saying, "Fine, if you'd like to make it that simple."

I spend 100 percent of my time dealing with it. Consumers want to spend, 0.1 percent of their time with it. I should be able to give them that choice.

Chart 1



Cyber Citizens

- 50% of Internet users search for health information
- 70% believe it empowers them
- Projected 60+ million on-line health users by 2004

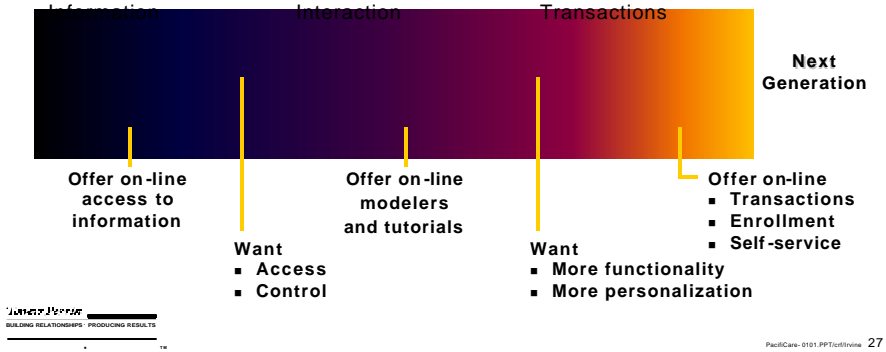
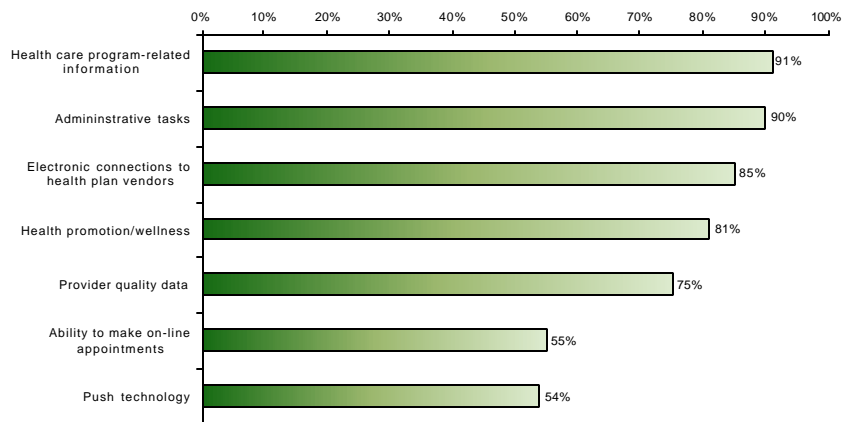


Chart 2



Employers want "it"



BUILDING RELATIONSHIPS - PRODUCING RESULTS

"E-health" means different things to different people

Chart 3

A vision of the future: Employee-facing

