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E-term:

Channel Management and Other Implications

by Steve Konnath

Many interesting trends are occurring in the insurance marketplace with respect to e-term insurance. It is especially interesting to notice how these ventures have impacted or worked with existing distribution systems. I'll cite a couple of examples below and talk about some emerging trends.

For the purpose of this article, I'll define e-term insurance as term life insurance that is either Web-influenced or completely fulfilled using the Web. This is a broad definition, but it should be noted that there are really only a couple of companies that are truly doing everything, including contract fulfillment, on the Web. Most companies are using the Web for lead generation only. The most common practice is the use of Web aggregators for lead generation and off-line processes for fulfillment of contracts.

Companies are trying nearly every conceivable combination of processes, but a few of these paths appear to be more successful than the others. When companies use Web aggregators for lead generation and their face-to-face distribution systems for fulfillment, results have been poor or mixed. The hypothesized reason for these poor results is that the consumers who start this process on the Web really do not want an agent in their home.

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Another path some companies have pursued is to use Web aggregators (e.g., InsWeb, Reliaquote, Quotesmith) for lead development and their own telemarketing departments or outsourced tele-agents to fulfill contracts (e.g., Producers America and Matrix Direct). This model appears to be one of the successful paths bubbling up to the top. Most of the aggregators actually do this themselves by providing both the lead generation and contract fulfillment services wrapped together (e.g., Reliaquote and Quotesmith). Both of these paths present channel management challenges since they essentially eliminate the use of face-to-face representatives from the fulfillment process. Many agents and brokers have complained that these processes take customers away from them and food off their tables. I'll challenge this view later in the article.

True, full-blown e-term insurance is really being done by only a couple of companies. Inviva, using their recently acquired American Life Insurance Company of New York, is one of them. Inviva offers complete, start-to-finish Web-based term life insurance offerings. With their Web-based processes, a consumer can apply for coverage and the company can actually fulfill the contract completely online. *[Editor's note: see article "American Life of New York Binds Insurance Using Expert Underwriting" on page 11.]*

Channel management comes into play when these products are being priced. Do you price your term portfolio using the cost structures of face-to-face distribution systems and make it available on the Web? Or, do you price for Web-based processes and make it available to your face-to-face distribution systems? Clearly in real life this is not necessarily an "either/or" type of question. The answers can fall anywhere along a wide spectrum of solutions. As always, the market will answer these questions for us.

John Hancock developed its new term product portfolio to be sold both online through aggregators and face-to-face through its producers. The portfolio differs only in policy fee and conversion period. Hancock uses a tele-application/tele-underwriting process backed up by off-line underwriting and policy fulfillment processes. "Term insurance sales have increased steadily over the last several years both through our direct and face-to-face channels," says Michele Van Leer, senior vice president, Retail Product Management at John Hancock. "Having one of the most competitive term products in the market increased the value proposition that our producers could offer to their existing and potential clients."

Western-Southern has a process very similar to John Hancock's. They offer Web-based quoting and application processes and follow-up with off-line underwriting and fulfillment processes. Western-Southern has taken a very creative approach to channel management. They recently made their e-term products available to their face-to-face distributors, but in an innovative way. "Our agents can offer our e-term products," says Harry Lyons, vice president and senior financial officer, "but they must refer the client to our Web site. On the Web site, the client can then indicate if a particular agent referred him to the e-term product and the Web site, and then we pay the agent a referral fee. We have also made our e-term product available to the agency force of one of our affiliated companies in a similar fashion."

It is likely that over the next decade or so, more and more companies will be moving slowly toward models similar to the ones mentioned above for a wide variety of reasons. Here are a few important trends observed in recent months that fuel this speculation:

- Term insurance is gradually moving from a product that is sold to one that is being bought by a significant number of people (though still only a minority). The agent will never be completely disintermediated by the Web, but more and more consumers are trying to "do it themselves" using Web-based processes.
- Tax-preferenced investing options grow almost every year, eating away at the value proposition held by permanent life policies. In addition to all of the existing retirement vehicles including the Roth IRA, 401(k), etc., we now also have tax-preferenced education savings vehicles with the Coverdell IRA and the state-sponsored 529 plans. The old axiom of "buy term and invest the difference" gains strength almost every time the tax code is changed, especially for middle-income households. Permanent life insurance contracts will always have market appeal to more affluent customers unless the IRS attacks the inside build-up of these contracts.
- Insurance agents and brokers are transforming from representatives that sell insurance products into financial services professionals offering financial planning advice. Those representatives that are betting their personal financial futures completely on just selling products, with little advice offered to clients, should take a quick look around to make sure that there are no tar pits nearby.
- Web aggregators recognize the power that customer expectation has on lead close rates by increasing the amount of up-front qualification and filtering. More and more aggregator sites are pre-qualifying lead prospects by asking health questions before they give a quote. In the past, they simply quoted the best rates available without any health questions. That led to dissatisfaction and low close rates.

All of the above trends support and fuel the growth of e-term sales. Companies will have to manage and educate their face-to-face distribution systems about the changing environment and use these forces of change to their advantage. The days of an agent making a living on just term insurance sales are likely nearing their end. However, a highly competitive term product is a great door opener or lead for agents/brokers. They can use it to get in front of clients and offer financial advice for more complicated products. The biggest challenge for insurance carriers is working with their face-to-face distribution systems to convince them that Web-based or Web-influenced term sales are not a threat, but a new opportunity if managed properly. As a matter of fact, there is some evidence that the do-it-yourself consumers are not doing it correctly. Even after the purchase of a term life policy, they are often underinsured. Here is one of the many future opportunities for the face-to-face distributors. Their value proposition for the future has to be one that revolves primarily around sound financial advice.

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