Article from:

News Direct Newsletter

Spring 2000 – Issue No. 34

NEWSDIRECT

NUMBER 34 SPRING 2000

There's More Than One Way to Sell on the Internet

by Howell Pugh

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Most insurance companies want a product presence on the Internet, but many are uncertain as to the best way to go about developing one. The medium is still so new, even companies you'd think would know how to make the most of it are feeling their way around like a near-sighted person who just dropped a contact lens. The going can be slow and uncertain, but persistence and patience are sure to pay off.

It simply isn't easy for many companies to balance the needs of their existing distribution methods with the demands of this new, very different one. Should the new replace the old, or supplement it? If it's to supplement it, how? And what does that mean in terms of product development and pricing?

Insurers aren't the only ones making it up as they go. One day last November I noticed side-by-side articles in *The Wall Street Journal* about two giant organizations taking virtually opposite approaches. One announced that Toyota Motor Corp.'s U.S. unit was testing an online car-selling system in cooperation with its dealers. It had designed an Internet site to piggyback on its regional-dealer marketing associations by letting consumers browse dealers' inventory on the Web as well as buy and finance there.[1] Opposite that article was one about Microsoft Corp.'s newly formed partnership with Tandy Corp. to sell its online products and services inside 1,000 Radio Shack stores.[2]

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Chairperson's Corner

A Funny Thing Happened...

by Carl E. Meier

In July, I will be starting my 36th year as a practicing actuary. Not long enough to threaten any records, to be sure, but a significant portion of my life so far.

I started my career as an actuarial student with one of the largest debit insurers in the business and, although it goes by a different name today, that company is still very much alive as well. What's more, for all of the changes that have occurred in its operations, it's still concentrating on that very traditional method of distributing life and health insurance to consumers of modest means.

I, however, left all of that behind about 15 years ago and went off to see what was happening in the rest of the world. I learned about new and different

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If companies like these are taking radically different approaches, how's anyone to know which is best? The best I can do through this article is help sort out some of the issues and alternatives of creating a presence online. It's up to each company to arrive at its own conclusions as to what might work best, and then advance accordingly.

www.bigcompany.com

Have you visited *www.lincolnre.com* yet? It's a great place to track down *Reinsurance Reporter* articles, as well as review the breadth of our products and services, but you really can't buy there. Increasingly more direct insurance companies are making their Web sites a place to buy, however. In fact, some want to "dot-com" their company altogether and sell strictly through the Internet.

One option available to insurers, therefore, is what I call the *www.bigcompany.com* approach. This essentially involves creating a Web page to showcase your products without the glare of competition that automatically comes with other online marketing approaches.

At *www.covernadirect.com*, for example, Internet shoppers can assess their need for insurance, learn about products (term, permanent and health plans), apply online, and get a quote. The site even lists "The top 10 reasons to be your own agent," which include being able to make up your mind without pressure and to "save a bundle." Coverna is one of few companies that collect applications online. Doing so is probably the best way to collect unfiltered information quickly as well as move people into the buying process.

While the *www.bigcompany.com* approach is ideal in terms of the degree of control it affords the site originator, it's an expensive way to sell on the Internet. That's largely because it costs money to get people to your site — and lots of it. About half the advertisers on this year's Super Bowl broadcast were Internet companies, each paying a record $2.2 million on average for each 30-second spot.[3] Some dot-com companies offer sweepstakes and lotteries to attract visitors, which is like paying people just to enter a store. CBS's iWon.com attracted 4 million visitors to its site using everything from Quick-Draw Poker and Three-Eyed Bingo to $10,000 daily drawings and monthly $1 million jackpots. How many insurance companies are willing to do something like that?

Putting up a site is one thing, getting people to visit it is quite another, especially for companies without brand-name recognition.

Insurance malls

High advertising costs aren't an issue for insurers who opt for the second online approach: the insurance mall. These sites — which include AnnuityNet, Insweb, MSN Money Central and Quicken *Insurance* — are a marketplace where Internet surfers can price-shop. Many of the sites boast that they can offer lower prices because buyers won't pay a salesperson, which is true. Instead, you pay a distribution cost that often takes the form of a flat fee per lead or per policy placed, which is certainly less than agency commissions.

The benefit of this approach is that the site originators have paid for the advertising and built the alliances that ultimately drive shoppers to their sites. Internet surfers at a mortgage loan site, for example, can click through to Insweb, whereas a collection of personal finance sites pave the way to Quicken*Insurance*.

Insurers at these sites get the advantages of the links, along with the disadvantages of not having much say over content — that's pretty much determined by the insurance mall originators. Most limit the number of insurers they'll represent to fewer than 25, so this isn't an option for everyone. In fact the last time I checked, Insweb was at full capacity.

Insurance malls aren't the place to market permanent plans, because most don't feature them. In fact, there doesn't appear to be much product innovation going on for Internet-marketed products. Most insurers are using existing term products, partly because term is popular and partly because complexity and customization haven't been brought to the Internet much yet. I do believe there's a place for that, however, and will discuss it later in this article.

For now, most sites are designed around price because Internet shoppers are believed to be price-driven. Unless a product is priced low enough to appear on the first screen that pops up, I wonder about its chances of being purchased.

Brokerage sites

The same could be said of the third, and most prolific, approach to online sales: brokerage sites. There are a lot of these, most likely because the Internet is a variant of term brokerage distribution. What brokers have done traditionally and what they do on their Web site isn't all that different: they steer consumers toward companies with the best rates. In fact, the Web could be perceived as a more efficient, more direct method of brokerage distribution.

Brokerage sites are similar to insurance malls in claiming to add value to insurance shopping. They tout such advantages as price, company ratings, responsiveness, quoting accuracy, and underwriting fairness. Many offer permanent products, unlike the insurance malls.

In relation to Regulation XXX, some sites are careful to emphasize guarantee periods as much as premium. It would be wise for other sites to bring this important element forth, too, to give consumers informed choices.

It's unknown as to whether consumers pay attention to guarantees or conversion features. In the past, agents have always desired convertibility for

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the chance to resell permanent insurance in the future. Does a product gain a competitive advantage on the Internet by being nonconvertible? As a result of Regulation XXX, the industry will be testing whether consumers want lower prices or longer guarantees. The Internet can make consumers aware of the distinction.

It will be interesting to see just how important price will be for Internet shoppers compared to brand name and financial security ratings. Will the market move to some type of auction system? One new entrant to the Internet is trying to find out.

New auction alternative

One of the newest online services is ebix.com, a site launched in September with the tagline "Insurance was never like this before!" It lets consumers define insurance policy coverages (auto, home, life, health, dental and vision) and seek competitive quotes from insurance companies, agents and brokers in a timeframe defined by the shopper. It's an interesting experiment put together by software provider Delphi Information Systems Inc. and Hewlett-Packard.

The concept, called an "Internet Insurance Exchange" in press releases, is the closest thing to the priceline.com approach to moving unsold airline tickets, except the driving forces are clearly different since a plane seat unsold is gone forever. Ebix appears to be getting takers, however, for it has announced agreements with carriers such as The Hartford, Principal Financial Group and Midland. How well it works remains to be seen.

Impact on product design

What the approaches being used indicate is our industry's perception of the Internet as a medium for the masses where sellers compete only on price. I wonder if companies aren't missing opportunities to really benefit from this new distribution method because they're accustomed to focusing only on the entire market rather than sections of it, and competing only on price and brand name instead of product design. There just might be a better way.

It's possible to stratify the term market in a number of ways: by policy size, age, smoking status, the buyer's household income, and preferred underwriting criteria.

Back in the early days of the Internet — say, about nine months ago — the central idea was that it places consumers in control. The Internet is more than just a distribution outlet; it's a way to make customers aware of choices and prices. Professor C.K. Prahlad, who co-authored the best selling *Competing for the Future* with Gary Hamel, considers this a shift in power to the consumer. In one sense, the customer is now a competitor because of this new knowledge. Just as good marketers know what other competitors are doing, your customers now have ample access to product information and can easily sort through prices and product options.

A company that can co-opt the customer will be on the way to truly tapping the distribution power of the Internet. This is where I feel that companies should look to build complexity and customization into their products. Look not at the mass-market level of the medium, but at the very atomic individual level. And the way to access each individual is through the Internet.

Why not design a product around your company's core competency? If your underwriters have special knowledge and understanding of males ages 51 to 65 who have had bypass surgery, then you can design a product that best fits that market. In the quoting services, your niche product should compare well for ages 51 to 65 and compare lousy everywhere else. But you have the opportunity to gain a significant market share by choosing the proper niche or collection of niches. While this strategy would be costly or impossible to do with agency distribution, the Internet makes it both affordable and feasible because of the medium's one-to-one-marketing capabilities.

Consider marketing one-to-one

Companies looking for quality e-interaction should consider giving up the mass market to mine an Internet niche. Focusing on fewer people can be both efficient and profitable, and it's very doable with the right links between sites.

First you must identify the relatively small number of people who comprise your target market. In the car rental business, for example, the percent of U.S. adults who rent a car 10 or more times a year is only 0.2%, or 500,000 people. Yet, as a group they account for fully 25% of all car rental transactions, with each generating $2,000 or more in car rental transactions annually.[6]

The second key is to figure out where these 500,000 people are most apt to be found online, and develop Web experiences that are "seamless and intrinsically enjoyable," according to Donna Hoffman and Thomas Novak, directors of an ongoing Web marketing study at Vanderbilt University called Project 2000.[7] Creating links that facilitate movement from other sites to yours should be designed to increase consumer learning and create positive associations with your company.[8]

It can be done, but it requires a very different mind-set than what most insurers are accustomed to. Then again, we're not accustomed to the Internet either.

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Ending Credits

1) "Toyota to Team Up With Dealer Network To Sell Cars on Web," The *Wall Street Journal*, Nov. 12, 1999, p. B5.

2) Don Clark and Carlos Tejada, "Microsoft, Tandy Announce Internet Partnership," *The Wall Street Journal*, Nov. 12, 1999, p. B5.

3) Katie Hafner, "If It's the Internet, Down Must Be Up," *The New York Times*, Feb. 13, 2000, Section 4, p. 3.

4) Austin Bunn, "Starved for Attention," *The New York Times Magazine*, Feb. 13, 2000, p. 20.

5) C.K. Prahalad & Venkatram Ramaswang, "Co-opting Customer Competence," *Harvard Business Review*, January - February 2000, pp. 79-87.

6) Don Peppers and Martha Rogers, Ph.D., *The One to One Future: Building Relationships One Customer at a Time*, (Currency/Doubleday, 1993), p. 60.

7) Don Peppers, "Go With the Flow: The Seamless Web Experience," (cited Feb. 26, 1998), available from Error!

8) *Ibid*.

Editor's Corner

by Joseph E. Brennan

This is a special issue of *NewsDirect*. You will notice a special supplement to present a proposed credit disability morbidity table. The lack of a recognized morbidity table for reserving has long been an issue for credit insurers. The publication of this table is a major step in getting it accepted for use by the NAIC and state insurance departments.

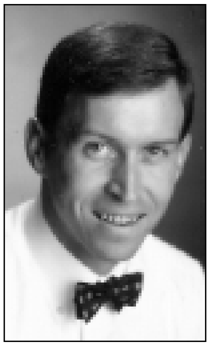
Also in this issue are two articles on marketing on the internet. If you are attending the SOA spring meeting in San Diego, you have probably noticed the five sessions dedicated to e-commerce.

Very shortly you will be receiving Section Council ballots. The NTM Section will be presented with the problem of choosing from a large list of excellent candidates for its Council seats: Tom Bakos, chief actuary, BISYS Insurance Services; Steve Cooperstein, market developer, Steve Cooperstein & Affiliates; Ian Duncan, vice president & actuary, CDMS Inc.; John Kerper, actuary, Protective Life; Steve Konnath, Physicians Mutual Insurance Co.; Jonathan Pollio, associate actuary, Assurant Group; Theresa Resnick, Combined Insurance; and Kurt Wrobel, director, HealthMarket

On November 10, 2000, in New York, David Shepard will present one hell of a seminar regarding the mathematics of direct marketing. David is a very well known author of a direct marketing text and has delivered his seminar many, many times.

This seminar is a must for any actuary who wants to understand the mathematics of marketing — particularly direct marketing. David's materials are invaluable for learning about risk selection and maximizing response rates.

If you are planning on attending only one continuing education event in 2000 and you are interested in direct marketing, this should be the meeting. Actuaries will benefit from the seminar if they have an interest in better understanding the mathematics of marketing. And, anyone attending the seminar will receive a copy of David's book, *The New Direct Marketing*.



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