



SOCIETY OF ACTUARIES

Article from:

News Direct Newsletter

Spring 2000 – Issue No. 34

Who's Afraid of the Big, Bad Internet?

by Mark L. Trencher

Editor's Note: this article is reprinted with permission from the March 1999 issue of Conning Commentary.

Insurers are expanding their Internet presence. Just about every large carrier — and most of the midsized ones — have put up Web sites with varying capabilities. Most provide company, product, and other insurance-related information, while a handful have transactional capability where people can actually buy products online. In addition, there are Internet “malls” offering consumers the ability to shop for the best price among many companies’ offerings.

Much of the discussion relating to Internet insurance sales has focused on the perceived threat to agents. The Internet clearly represents a major change in how people buy, and change often is perceived as threatening. But, while some carriers are selling insurance direct over the Internet — just as they have already been doing via direct mail, phone, etc. — many Internet sites are run by agents seeking to expand their business. Even some of the Internet malls are run by agencies, expanding their reach and market nationally through technology.

One person who recently bought life insurance from an Internet site characterized his buying experience as “very good...they called me back several times and the agent was very helpful...the whole thing took about a month.” This underscores the fact that the Internet still is the front-end of a sales process. Because many insurance products are complex, they need to be described to customers; the sales process often requires human expertise and action.

When we say that people are “buying insurance through the Internet,” we may forget that the Internet today is more correctly described as a “door-opener,” aimed at a particular type of consumer. Most of

the insurance Internet action today involves lead generation, and the contacts made and/or price quotes obtained through the Internet are the start of a process that takes time and people. One agent recently commented that the Internet should not be included in “alternative sales,”

because most of the use that he sees is what he called “integrated” — agents integrating technology into their practices as a way to reach customers more effectively.

This is not to say that the Internet cannot be used to sell direct; a few companies are doing so. But behind the slick front-end, people need to be involved in the sales and servicing of insurance. After all, when shopping online, it is an “agent” who calls back. Ultimate satisfaction depends as much on the agent’s follow-up and smooth sales process as it does on finding the best quote online.

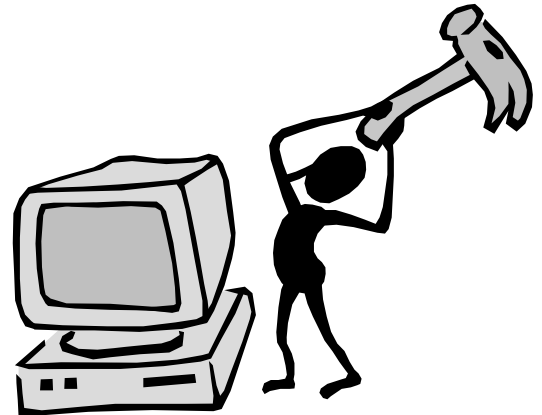
Life Insurers’ Views and Plans

Will many people actually shop for insurance over the Internet? A recent Conning survey of life insurance carriers attempted to shed some light on this issue.

Specifically, we asked carriers what percentage of consumers they think will use the Internet in five years to research life insurance companies and their products, to get comparative quotes that help them make a purchase decision and/or to actually buy life insurance online — i.e., complete the application and make the purchase.

The results show that carriers expect a significant expansion of consumers’ Internet activity over the next few years.

Admittedly, not every type of consumer will buy through the Internet, nor is every type of product appropriate for sale through this channel. But with 20%



to 25% of consumers expected to shop for insurance on the Internet, its potential as a lead generator and door-opener for both agents and carriers is significant. In fact, one carrier in four felt that 40% or more of consumers will be using the Internet to shop for insurance in five years!

Given this view, it is surprising that there is, at best, lukewarm agreement among life insurers that they will need a significant Internet presence in order to succeed.

For some companies, this might make sense. Perhaps they think their target market and products warrant less of a commitment to the Internet. But even some customers of full-service broker Merrill Lynch are clamoring for Internet access to their accounts. This proves that some high-net-worth customers will be unsatisfied with no Internet account access.

One wonders if too many insurers and agents still view the Internet as a threat rather than an opportunity.

Conning’s recently released study, *Life Insurers’ Distribution Strategies — Testing the Waters*, explores in depth use of the Internet and other distribution channels in selling individual life insurance.

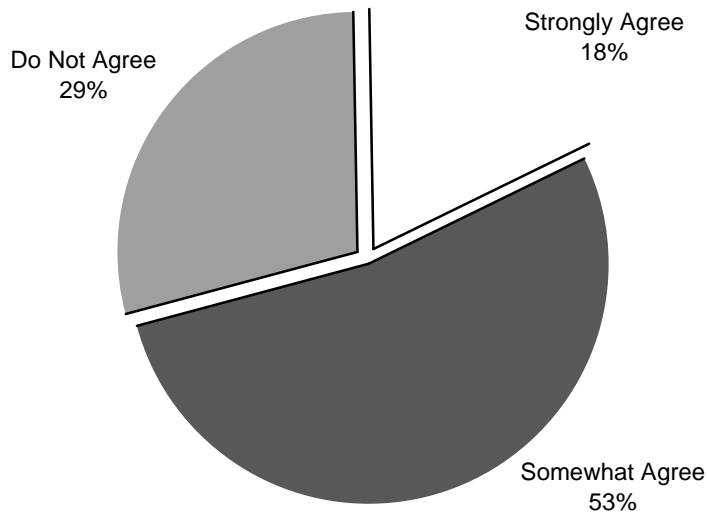
How Insurers Expect Consumers to Use the Internet

<i>% of consumers that will use the Internet in 5 years to ...</i>	Median %
Research life insurance companies and their products	25%
Get comparative quotes to help make a purchase decision	20%
Actually buy life insurance online	10%

Source: Conning Life Distribution Survey, 1998

Internet's Importance to Insurers

(Agreement that: "An insurer will need to have a significant Internet presence in order to succeed")



Source: Conning Life Distribution Survey, 1998

*Mark L. Trencher
Vice President, Conning & Company*