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Outlooks for Using the Internet in the Distribution of Life Insurance

by Robert L. Smith

Editor's note: Bob Smith is the senior vice president responsible for special markets (including direct marketing business) and New York Life's Internet strategy. He is also a member of New York Life's Executive Management Committee, which directs the management policies and procedures of the company. Under his leadership, New York Life has attained the leading position in direct-mail sales of life insurance in the United States. Bob recently addressed attendees of the Society's Spring Meeting in Colorado Springs on "Using the Internet for Insurance Marketing." This article is adapted from his speech.

In 1999, I opened a New York Life Executive Management Committee meeting with the following quote:

> ***"The Internet will affect everything…***
> *Despite the hype, the Internet will prove to be the most powerful driver of change across industries in decades. Affecting everything in our business means: sales, issue, service, communication, education, marketing and branding."*

I still believe that, but the much-hyped "new economy" of the Internet never emerged.

- The Internet bubble of 1999 burst.
- The giddiness over new visions and millions of site visitors faded as sales and earnings didn't develop to levels expected.
- People ultimately realized that companies with no earnings probably weren't worth more than Ford and GM—and Internet stocks crashed.

Which brings us to a 2002 re-statement of the 1999 quote:

> *"The Internet is a powerful new business tool, offering previously unimagined opportunities to:*
> *• Improve service and communication, and*
> *• Enhance efficiency of producers and employees."*

But those opportunities will primarily be in supporting, not replacing, current distribution.

Let me start by stepping through a short history of New York Life's Web activity:

Pre-1999

- Initial New York Life site launched in 1996.
- 50+ product and functional sites by 1999.
- No company-wide strategy.

1999—Internet Mania

- Assessed general market and industry trends
- Reached certain conclusions:
  - It wasn't about technology—it was about changing the way companies communicate and interact with their customers and producers.
  - The Internet would be a disruptive technology that would change business models.
  - Other industries were beginning to set our customers' and producers' expectations of us.

We felt the Internet would prove to be a tremendous enabler. Many things that would have been impossible a few years ago have become not only possible, but practical and efficient. There are few things that you can't figure out how to do better, faster and cheaper with the Internet. The Internet and its use by other industries were raising customer and producer expectations of us for convenience, responsiveness and personalization.

We also believed that the Internet posed some clear threats for our industry:

- Readily available information on products and prices and the activities of aggregator sites will tend to commoditize our products. This will lead to increased pressure on prices and profits.
- We believed we would see new competitors emerge. Aggregators—one form of new competitor—would attempt to disenfranchise our agents and diminish the value of our brand.
- And, in the long term, we have to be concerned about generational shift—how will today's children and young adults, growing up in the Internet environment, expect to purchase and access service for our products in the future?

Developing the Internet Vision

We developed New York Life's Internet vision within this environment to:

- Project a cohesive, "one company" image/brand to all of New York Life's diverse audiences. Enhance and project the brand online.
- Focus on world-class capabilities in:
  - Communication (retail, producer, employee)
  - Service (retail, producer, employee)
  - Education (retail, producer, employee)
  - Lead generation (supporting agents).
- Prepare for the possibility of e-commerce.

We did not expect a big movement to Internet sales, but we wanted to hedge our bet in case we were wrong or the next generation came to purchase differently. Our main thrust was to be supporting sales and service. Our Internet goals were:

Service

- Provide clients and agents with information and self-service capabilities:
  - Improving customer service by offering it in a complementary new medium;
  - Strengthening customer relationships and loyalty;
  - Reducing costs (long-term) by encouraging client and producer self-service on the Web.

Communication and Education

- Provide prospects and customers with:
  - Online information and planning tools;
  - Company and agent communication.
- Provide agents with:
  - Product information and training tools (NYLIC University);
  - Company and customer communication.
- Provide employees with:
  - Job information and job training tools;
  - Company communication.

E-commerce

- Support agents sales with online sales tools.
- Support online sales for our direct businesses (e.g., the AARP Life Insurance program).
- Support the online sales of mutual funds and securities.
- Support lead-generation and cross-selling opportunities.
- Prepare for broader e-commerce, should market conditions dictate.

Why did we not have a greater belief in direct Internet sales of insurance? After all, much of my career has involved direct response marketing. New York Life is the number one writer of direct response life insurance in the United States. Well, I believe most people buy on the Web for convenience, instant gratification and low price. Even with intrusive media-like direct mail, only 10 percent to 15 percent of life insurance purchasers buy through direct response—so what were the prospects of a passive medium, in terms of percentage of total sales from all channels?

We saw several inhibitors:

- The Internet is not intrusive—it is passive. Direct response is primarily an impulse purchase in "direct response" to an intrusive piece of mail or advertising.
- We cannot underwrite online, which eliminates the instant gratification of many Internet transactions.
- The client faces the difficulty of sorting through and interpreting the oceans of information on the Web. Who do I trust? How does this fit my situation?
- Most people don't have the skills or patience to fill out more than a very simple form on the Web.
- There is still no real enforceable e-signature.

These inhibitors led us to focus primarily on supporting current distribution with the Internet.

We developed Internet sites for each of our primary audiences: customers, distributors and employees. Dividing into these audiences may make it seem simple enough, but if you look under the covers and drill down into the sub-audiences served, the need for personalization and complexity accelerates quickly, as Figure 1 shows on page eight.

(continued on page 8)

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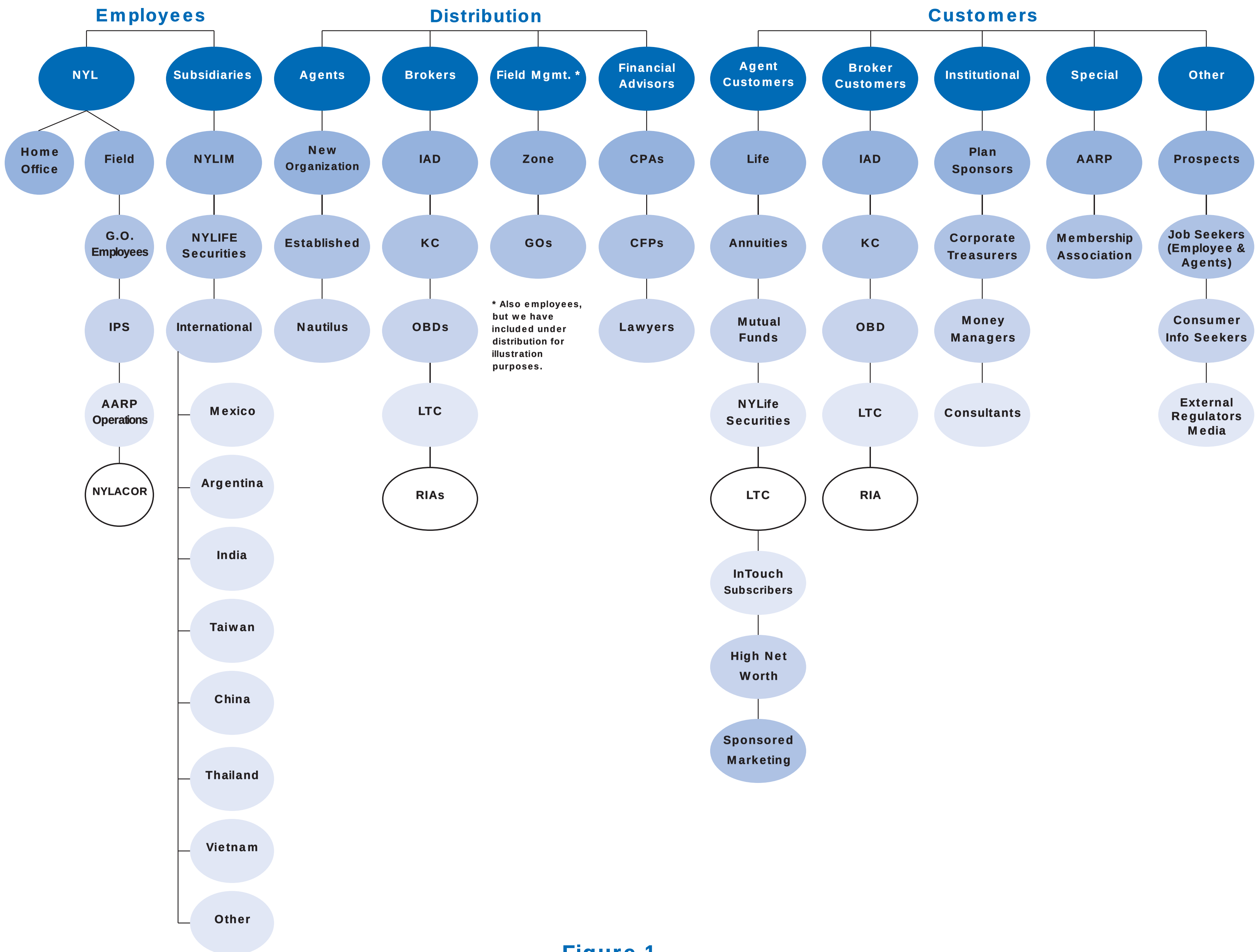
Employees
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Home Office
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G.O. Employees
IPS
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NYLACOR
Subsidiaries
NYLIM
NYLIFE Securities
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Mexico
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China
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Vietnam
Other
Agents
New Organization
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Nautilus
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OBDs
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RIAs
Field Mgmt. *
Zone
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* Also employees, but we have included under distribution for illustration purposes.
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OBD
LTC
RIA
Institutional
Plan Sponsors
Corporate Treasurers
Money Managers
Consultants
Special
AARP
Membership Association
Other
Prospects
Job Seekers (Employee & Agents)
Consumer Info Seekers
External Regulators Media

Figure 1

Newyorklife.com, the retail portal site, illustrates elements of the tactical implementation of our strategy (see Figure 2, below):

1. Persistent banner branding
2. Persistent navigation bar
3. Persistent product bar
4. Service center
5. Education and planning tools
6. News sections
7. Call to action: Consult an Agent (by 800 number or Web form)

NYL.com has 35,000 visits per week, from 20,000 new and returning visitors, and the average visitor views four to five pages and spends approximately 14 minutes per visit. The sections most frequently visited are:

• Customer service and Fund values	38%
• Products (Life Insurance, Annuities, Mutual Funds, LTC)	21%
• Careers	18%
• Education center	12%

Figure 2

(continued on page 10)

Figure 3

All of this activity generates only about 1,000 leads/month that we can track; we currently have no way of knowing how many visitors call a local agent after using Our Agent and Office Locators.

The producer portal has similar look and feel. Content is different, including Customer contact management functions, performance and compensation and new business development tools (lead management, illustrations).

Our employee portal also has a similar layout but has information and functionality designed for this population (see Figure 3, above).

How do employees use the site?

The sections most frequently visited are:

- Work life and benefits 40%
- Workplace news 25%
- Promotions/retirements/ obituaries 15%
- Training and company policy 10%

This site also gets about 35,000 visits per week from 7,500 employees with access, with an average of three pages viewed per visit.

Managing these sites is like running a large publishing enterprise—it's a real challenge to keep thousands of pages of content fresh and current.

Our efforts in developing these three sites over the last few years have been rewarded with numerous awards from organizations that evaluate our industry's Web sites. This is something we're proud of, but admittedly we don't measure ROI in terms of awards or millions of dollars invested.

How have internet sales developed?

Our experience over the last three years supports the view that Life Insurance is sold, not bought, (it requires the intrusion of the agent, mail and/or advertising).

Today, New York Life is the nation's leading direct marketer of life insurance, yet:

- <10 percent of total life sales are direct.
- <.1 percent of total life sales come through the Internet.

Our AARP Life Insurance Program (direct-marketed) alone generates on average 7,000 applications per week, yet only 25 of these are from the Internet. Most people are using the Web to gather information. The next generation may be more comfortable buying insurance actively on the Internet, but the best prospects for Internet sales remain products that:

- Have high perceived need, or are mandatory (auto insurance);
- Are "simple";
- Are price sensitive;
- Require limited underwriting;

How about return on investment?

The Internet imposes an additional layer of expense. We have found that the Internet requires significant investment in Web infrastructure, in linkage to legacy systems for data and transaction processing and for security. Today you are expected to support your business with a solid Web presence—it's become "table stakes" to be in the game. Sales through the Internet channel, either directly or through leads for producers, will only pay a small portion of these costs for most companies. In the longer term, we expect that significant efficiencies and cost savings will be recognized through communication, education and service, for customers and producers, if Internet investments are made wisely. But right now, ROI is TBD.

2002—Where are we going?

We are continuing to implement our strategy, adding breadth and depth to the topics covered on the Internet. We are adding increased personalization to customer, agent and employee sub-segments. And we are integrating more elements of our consumer and producer sites. More generally, we are gradually migrating processes to the Web in ways that will support traditional processing and transactions. We need to merge legacy activity and the Internet for long-term economies—we cannot continue to maintain two sets of systems!

In conclusion, our experience has reinforced our views that:

- The Internet is an important new business tool.
- The Internet provides new opportunities for enhancing:
  - Communications and service;
  - Producer and employee efficiency.
- The Internet supports, but does not replace, existing distribution.
- While it was once viewed as innovative, customers, producers and employees now expect it.

Developing a strong Internet presence has become critical for most companies. But it can be complex and expensive to do so. Invest wisely in ways that support your brand and distribution.

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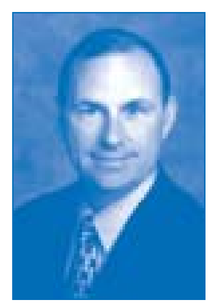

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