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## Direct/Tech: The Emerging Taxonomy of Insurance Distribution Channels

by Mark L. Trencher

**Editor's Note:** This article is reprinted with permission by the Conning Commentary. Mark L. Trencher is vice president, Conning & Company, Hartford, CT.

Insurers continue to struggle with the issue of distribution. While agents provide a level of advice and service that many customers demand, insurers are effectively using direct approaches—which may or may not involve an agent—in certain market segments to meet customer needs.

Some insurers view a combination of distribution channels—those aimed directly at the consumer, with less face-to-face involvement than traditional agent-based channels, and drawing upon sophisticated communications and data-based technology—as a way to attract consumers into a “virtual” and less costly buying environment than the traditional agent channel. We call this combination “Direct/Tech.” It comprises a mix of old and new techniques, including direct marketing, the Internet (both online sales and offline sales following up on Internet-generated leads, with the latter currently representing the vast majority of total “Internet sales”) and toll-free quote services.

Target markets for Direct/Tech channels include a hodgepodge of overlapping segments, based on demographic and attitudinal factors such as age, education, level of financial and technological sophistication, income and assets, price sensitivity (the extent to which people are “shoppers”) and the extent to which agent channels are meeting their needs (e.g., the growing middle market gap for individual life insurance). These target markets are growing in size at the same time that the Direct/Tech distribution channels and their underlying techniques are coming into their own as legitimate ways to meet certain consumers’ needs.

Conning’s November 1998, survey of life insurance companies illustrates the scope of the current shifts in distribution. Our survey found that the largest insurers expect their

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## Chairperson’s Corner Year in Review...

by Carl E. Meier

The Society of Actuaries Annual Meeting marks the start of a new year, not only for the SOA, but for all of the special interest Sections as well. As a result, Ed McKernan, who served so ably as chairperson of the NTM Section this past year, has moved on to other challenges, and I have inherited the reins. Luckily, I will have the support of an enthusiastic Section Council consisting of Vice-Chairperson Jim Smith, Secretary-Treasurer John Yanko, and Members-at-Large Mike Fix, Grant Hemphill, Nancy Manning, Steve Ostlund, Mike Presley, and Howell Pugh. In addition, Joe Brennan, who was editor of *NewsDirect* for the past year, will be staying on in that capacity for another year.

As I write this column, the level of Section activity continues to be strong. The sessions we sponsored at this year’s annual meeting were both well-attended and well-received. Articles touching on aspects of several of these presentations will be included in the next issue of this newsletter.

Jim Smith is serving as our representative on the committee that is putting together next June’s SOA meeting in San Diego, and he has a terrific program lined up. Besides a presentation on how the credit insurance business is likely to be affected by the passage of HR10, there will be five sessions devoted to different aspects of e-commerce as they apply to the life insurance business. You’ll definitely want to mark your calendar for this one.

Mike Fix will be representing our Section on the planning committee for next fall’s annual SOA meeting in Chicago. Now is the time to contact him if you have a particular topic you’d like to see covered in one of the sessions at that

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## Direct Tech: The Emerging Taxonomy of Insurance Distribution Channels *from page 1*

Direct/Tech sales of individual life to grow from \$4.4 billion in 1998 to \$11.7 billion in 2003—an average annual rate of 21%, faster than any other channel.

On the other hand, while the agent channel shows the slowest growth on a percentage basis, agents will continue to represent 68% of individual life sales in 2003 (down from 79% in 1998). Our survey results forecast that this channel will grow by \$11 billion during this period, a larger growth in dollars than any other channel.

But these agent numbers do not tell the whole story. These figures obscure the often-overlooked fact that many “non-agent” channels continue to include agents who are selling through these new platforms and technologies. This point was highlighted recently by an agent who had targeted business cards. He first handed out his insurance agency business cards. Later, he showed us his stock-brokerage and financial services business card. They all had e-mail and Internet addresses. This agent talks about his distribution channels as being “integrated”—not “alternative”—because he integrates other entities (stockbrokerage), platforms (worksite marketing) and

technologies (the Internet and direct mail) into his insurance practice.

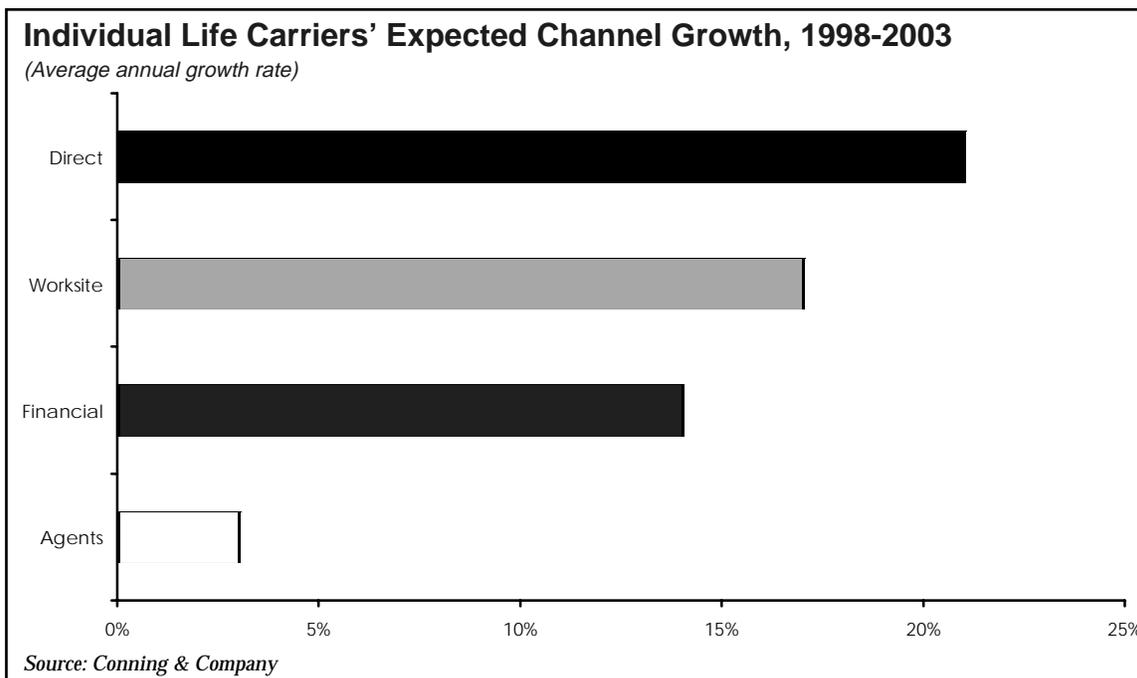
At a macro level, this implies that a significant but indeterminable portion of the growing Direct/Tech sales actually will be agent sales. For example, while some insurers are using their Internet sites, direct marketing and other approaches to sell direct (such as Progressive, which sells via the Internet but also uses its Internet presence to enhance branding for its agency force), others (such as Prudential) use the Internet to generate leads for agents, and still others (such as John Hancock) follow both approaches.

This also is true among the Internet “aggregators” (i.e., online insurance supermarkets or malls). The average consumer is unlikely to differentiate between the various Internet sites, but such sites have big differences in their underlying strategic approaches. Thus, while Quotesmith.com, Inc. is essentially an online insurance agency, which places publicly available rate filings on its site, InsWeb is a technology company that does not sell insurance at all, but simply generates leads for a limited number of carriers with which it has formal relationships and technology links to their back-office systems.

One additional consideration in looking at today’s Direct/Tech options is that underlying technological capabilities are expanding rapidly and will have a profound impact in the not-too-distant future. Today’s target market for Direct/Tech distribution is limited to those who are both tech-savvy and financial “do-it yourselfers.” But, as technology in the form of expert systems and other artificial intelligence develops to the point where the Internet can present “cyberguidance”—high-level, customized interaction—the Direct/Tech market will expand to include a much greater proportion of the general population.

Today, insurers are struggling with not just the fundamental question of whether they should sell Direct/Tech, but—if they do—which approach they should use. To provide guidance for those faced with these critical decisions, Conning’s new strategic study, *Direct/Tech-Middle Market Distribution—Will It Close the Gap?*, develops a taxonomy of the strategic approaches and options that are emerging for both the Internet and direct marketing.

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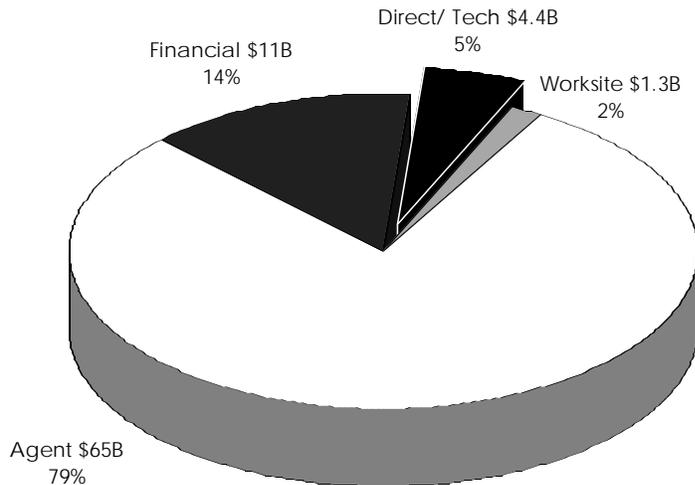


**Direct Tech: The Emerging Taxonomy of Insurance Distribution Channels**  
*from page 3*

**Projected Shifts in Individual Life Distribution Channels**

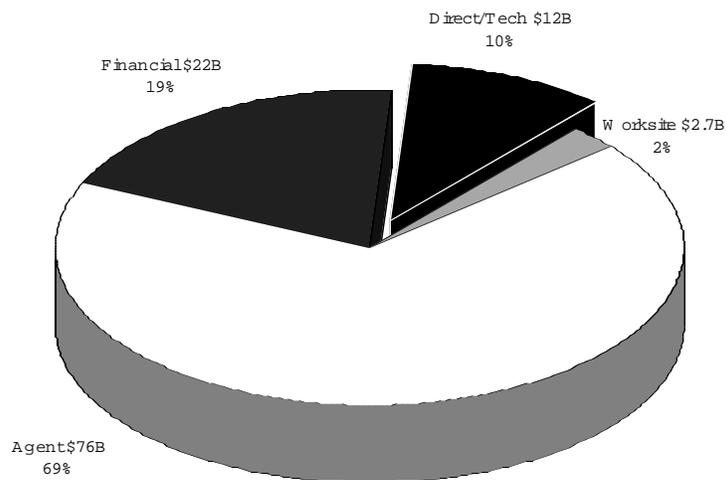
(For households with annual income of \$35,000 or more)

**1998**



Source: Conning & Company

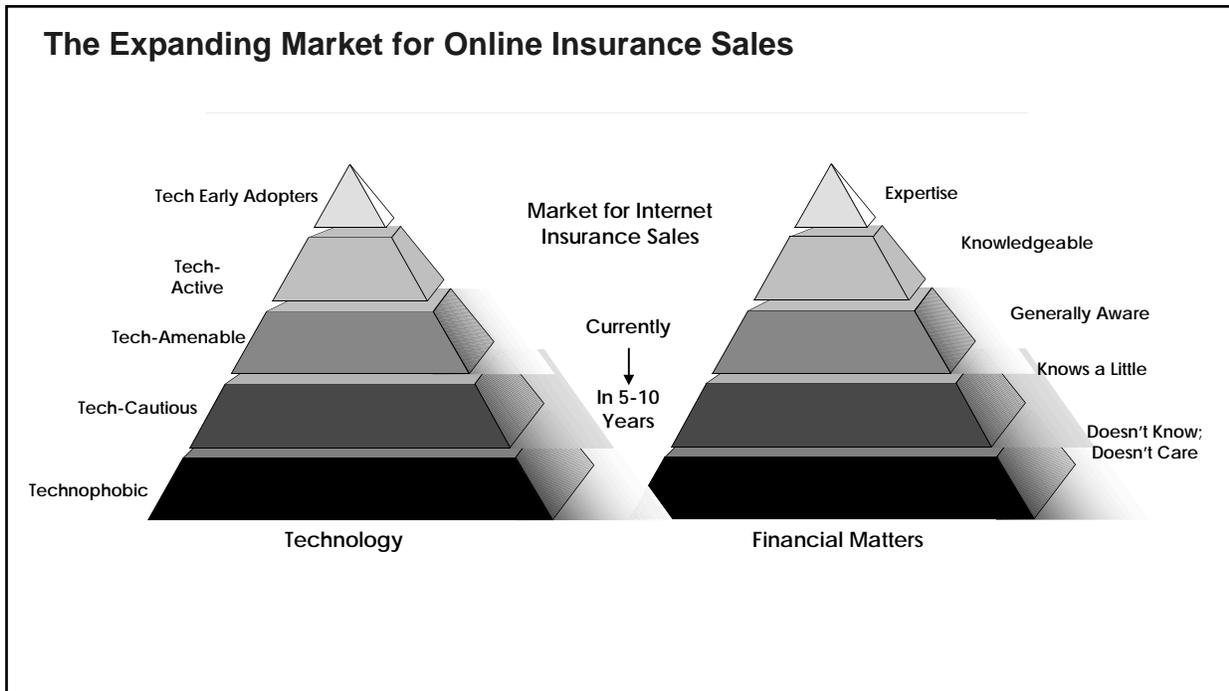
**2003**



Note: Direct/Tech channel includes direct marketing, Internet (both online sales and offline sales following up on Internet-generated leads), and sales developed via toll-free quote services. Financial channel includes banks, stock-brokers, financial planners, and other financial institutions or intermediaries.

Source: Conning & Company projection for 2003 based on Conning Life-Health Forecast & Analysis by Line of Business and other sources; apportionment by distribution channels based on November 1998 survey.

### The Expanding Market for Online Insurance Sales



## Exam Notes

**T**heresa Resnick of Combined Insurance in Chicago will be representing the Nontraditional Marketing Section on the Course 7 Advisory Group.

The Course 7 Working Group is planning 16 or 17 seminars in 2000 for a total of more than 400 students. Numbers similar to these are expected to be the norm in the years to come as well.

Each seminar will consist of two parts:

- One day-and a-half of common material including a number of brief case studies illustrating various aspects of the modeling process
- Another day featuring the presentation of a single comprehensive general or practice-specific (life, health, pensions, etc.) case study covering all aspects of the major components of the modeling process. On this final day, the students will also individually complete a

project assignment, which is the means of evaluation for the seminar. The project will involve analysis of a practical modeling problem and writing a report.

The members of the Advisory Group have each been asked to involve themselves in two specific seminars, if possible. This work involves peer review and finalization of the general or practice-specific case study to be utilized for the final day of the seminar and, more importantly, of the individual projects to be assigned.

This work is important to the proper education of future actuaries, and it also gives us the chance to see that the content of the case studies and projects includes material that is relevant from a nontraditional marketing perspective where that is possible and appropriate.