



SOCIETY OF ACTUARIES

Article from:

News Direct Newsletter

January 2002 – Issue No. 39

Are Internet Term Sales on Track?

by Howell Pugh

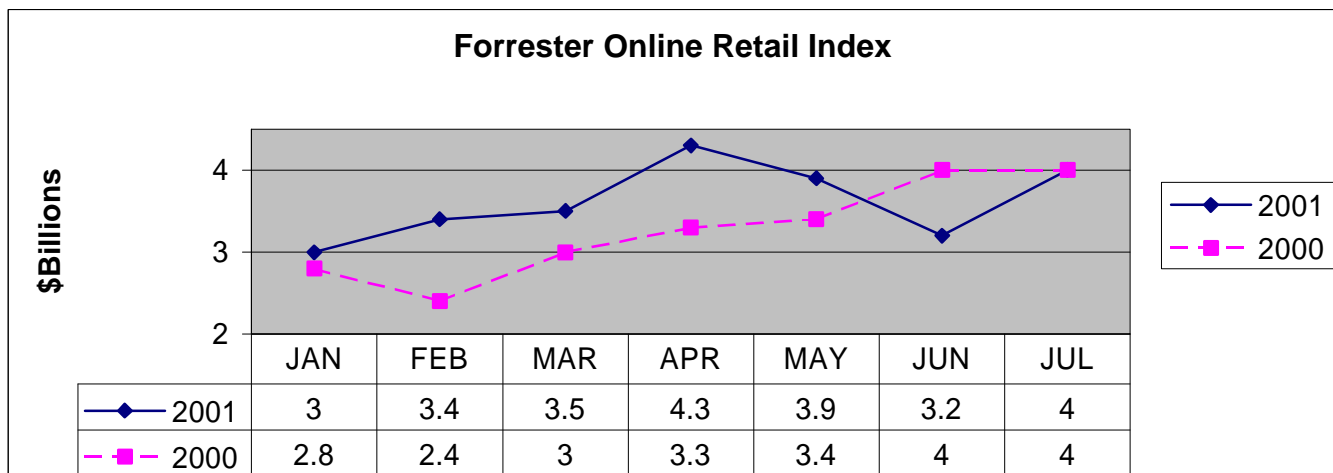
Term insurance sales on the Internet are thriving. The common view is, however, that term sales from this channel are in decline. This is based particularly on data from one insurance mall site. While we really are operating with extremely scanty information, I hope to convince you that the pessimistic case is overstated. Term sales on the Internet continue to thrive.

Futurecasts

Most market research firms are still predicting increased penetration of the insurance market by Internet distribution. The forecast is for today's 1% market share to grow to about 5% over the next 4 to 5 years.

Online Sales in General

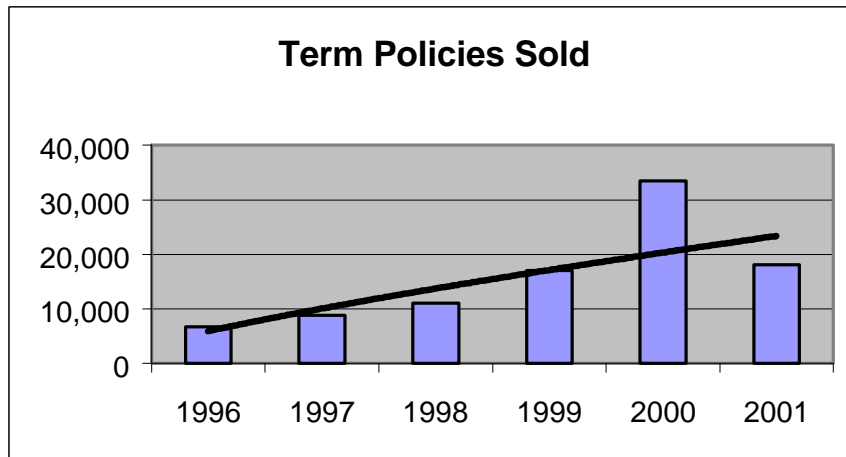
So far in the calendar year of 2001, the crash of "dot-com" firms has not eroded online sales, according to Forrester Research, as shown in the graph of online retail sales below.



Insurance Mall Sites

It is instructive to review financial results of insurance mall web sites. There are two such sites, Insweb and Quotesmith, which are publicly-owned firms. Using quarterly and annual filings, we can examine their results.

Both firms have had to curtail their advertising costs. Insweb cut their advertising in mid-2000; Quotesmith did likewise in January 2001. The results are dramatic for Quotesmith; through June 30th 2001, Quotesmith has experienced a 46% drop in sales. However, the long-term trend is still favorable. From 1996 through 2001 (est.), Quotesmith has experienced 22% growth in sales of term policies, as shown in the chart on the next page.



Source: 10K reports

For Insweb, the breakout of term data is very sketchy. We have access to only three-quarters of sales information, but this data shows a strong growth pattern:

2nd Quarter 2000:	\$422 million
1st Quarter 2001:	\$970 million
2nd Quarter 2001:	\$1142 million

The Internet as a Distribution Channel

The Internet will not wither as we go forward. It may emerge as a strong distribution method for certain kinds of insurance.

There will be an upper limit to the commonly-seen S-curve pattern of growth, but it is too early to know where Internet term sales will top out. Of interest is that John Hancock reports that in the year 2000, over 70% of their term sales came from online ventures. That could be an early harbinger of the true ultimate scale of Internet term sales.

Howell Pugh, FSA, MAAA, is Second Vice President and Director, Client Products Innovation, at Lincoln RE in Fort Wayne, IN, and a member of the Nontraditional Marketing Section Council. He may be reached at (219) 455-3820 or by e-mail at whpugh@LNC.com.