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Technology and changes in life distribution

by John B. Kleiman

Technology is changing the way we live and the way we do business. The better-educated individual who is entering the wealth accumulation phase will be more comfortable with doing transactions by phone or the computer. For commodity products, he or she will need, and could even prefer, little or no personal contact. Some will even choose to do their own retirement planning, and there are a number of software programs available to help them do so. Mutual fund and brokerage houses are producing their own versions in order to establish a link between them and retirement planning by the individual. Thus, how people are reached will change.

Consumers want convenience

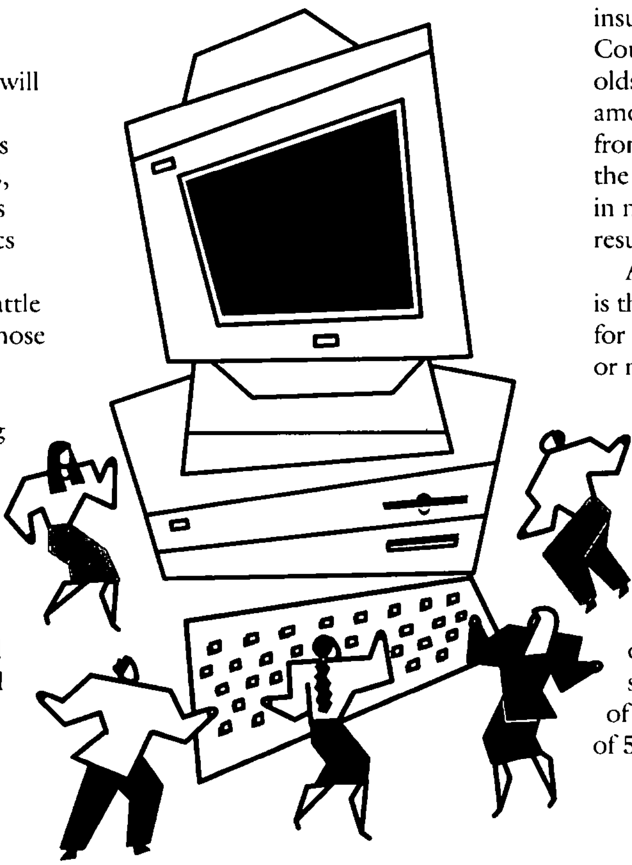
Methods of distributing life and annuity products will continue to change as consumer needs shift. The shift in annuity sales from career agents to banks will continue and eventually will affect the independent agent. The fastest-growing distribution systems will be banks and financial planners, with career and independent agents taking on more of the characteristics of financial planners.

The long-term winners in the battle for control of distribution will be those systems that can meet the evolving needs of the consumer. This will require conveniences, such as being open or available in the evenings and on weekends when dual income couples have more free time, or offering on-line purchasing and account information. The life insurance industry will most likely follow the path of the mutual fund houses with 800 numbers and 24-hour automated information. It will also require the creation of systems appropriate for the specific market, because no one system can cover all income and age levels.

Sales on the Internet

While the Internet may not have significant impact over the near term, insurers need to begin their planning for its eventual use as a medium for sales.

Results from a recent American Internet user survey indicated that 9.5 million people use the Internet. This group is young — average age 36 and 31% under age 30 — and affluent — average household income of $62,000. This profile is not surprising, as younger people have a greater knowledge of and are more comfortable with computers. Many colleges and universities provide free or relatively inexpensive access to the Internet.



While this is an intriguing outlet for sales, there are many reasons why significant insurance sales are a few years away. According to the survey, half of the users signed on just last year. They are getting used to "surfing" the Internet, and it will take time for them to get comfortable. Also, currently, the system is not totally user-friendly. The effort required to navigate the maze of menus and options will keep many potential users away until the process is simplified. Until this situation changes, use of the Internet for purchase of insurance products will not reach its full potential. Offsetting these limitations is that it is accessible 24 hours a day, seven days a week.

While there are many users of the Internet, the younger generation has shown a declining propensity to buy life insurance. According to the American Council of Life Insurance, 18-34 year-olds purchased 37% of the total face amount of life sales in 1993, a decrease from 48% in 1983. This segment of the population will actually decline in numbers over the next ten years, resulting in even less opportunity.

A more promising segment to target is the affluent, who are good prospects for insurance. People earning $75,000 or more purchased 35% of total face amount of life insurance in 1993, up from 15% in 1983. However, the affluent generally buy insurance as part of a financial plan, and there is a question as to whether the Internet can fulfill this need. Also, non-qualified annuities are generally purchased by pre-retirees or retirees, a group that tends to shy away from computers. Only 2 of annuity holders are under the age of 54.

Samples of Companies on the Internet

Separate Sites		Common Site (InsWeb)
Aetna	Massachusetts Mutual	American Re
AIG	Nationwide	CAMICO
Allianz Life	New England Mutual	Commercial Life
Allstate	Northwestern Mutual Life	Coregis Group
Arkwright	Phoenix Home Life	Employers First
CIGNA	Principal Mutual	Great States
CNA	Progressive	Grocers Insurance Group
Crum & Forster	Prudential	Industrial Indemnity
California State Auto Association	Royal	Kemper Life
GE Capital	SAFECO	Norcal Mutual
Great-West Life	Skandia	Pacific Specialty
Hartford Steam Boiler	State Farm	Westchester Specialty Group
ITT Hartford	Talegen	Workmen's Auto
Kemper	USAA	
Liberty Mutual	Zurich Insurance Group	

Despite the negatives, insurers still need to pursue this medium, as the user base will expand and eventually encompass a more diverse population. As the population ages, the segment of computer-literate buyers will increase. Also, the Internet will become easier to use, and it will be convenient for consumers with access at any time of the day or week. A market will develop eventually, and insurers need to be ready to take advantage of it when it does.

Companies on the Internet

The number of commercial hosts on the Internet expanded from about 800,000 to 1.8 million from July, 1994, to July, 1995—a growth rate of 7.3% per month. Activity from insurers has been limited, but growing. The following companies are among a sample of those that have their own web site or are part of a common site.

InsWeb, which has billed itself as the first centralized insurance marketplace on the Net, is a division of Strategic Concepts Corp. in Burlingame, California. In operation since November 1995, it will eventually provide quotes on health, auto, accident, life, and workers' compensation insurance.

Potential for future

The potential for selling through the World Wide Web is still unknown, but it presents some intriguing possibilities. Because of the impersonal nature of the medium, commodity-type products such as fixed annuities or term life insurance should be easier to sell. Variable annuities or long-term care are more complicated, and the Internet could serve as a lead generator. A person could seek additional information or request a call by so noting while at a site.

Thus, the Internet provides the potential of reaching a large audience at a fairly low cost. Initially, it offers potential for making the agent more productive and could serve as a mechanism for interaction with the customer by allowing access to policy values and permitting address changes. But it will take time to establish it as a legitimate distribution channel.

Perhaps the biggest way in which technological advances such as the Internet will help to enhance the distribution of life insurance and annuities is through the beneficial impact it will have on agent productivity. More companies are designing systems and software that make the agent's job easier by minimizing those tasks not directly related to the actual sales process, thus allowing them to concentrate more closely on opening and closing sales.

As more insurers try to get the most out of their agents, technological utilization is certain to expand. Thus, while use of the Internet as a direct, stand-alone distribution system is not likely to generate significant sales in the next few years, its use and other technological improvements will help improve agent productivity in the near term.

John B. Kleiman is vice president, Conning & Company, Hartford. This article was excerpted from "The Rise of Multiple Life Distribution Channels," reprinted by permission from Conning & Company, 1996.

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