Article from:

The Actuary

June 1999 – volume 33 - Issue 6

UNTANGLING DISTRIBUTION

The push-button agent

Why insurers should prepare for an Internet world

by Jay M. Jaffe

If the Internet Life, Health, Annuity, and P&C Insurance Company (also known as Insurance.com) were formed, it would be a very good investment based on the performance of other companies with the word Internet in the name and the "dot com" that follows. But would it sell insurance and would it be profitable?

Simply including the word Internet in a company name will not ensure an insurer's success. Marketing insurance through the Internet is neither a simple process nor an impossible task, but it is not going to be an instant success.

The Internet now has value as a segment of the insurance distribution process, and it will become even more valuable in the future. For example, the Internet can display comparative data for insurance products to potential customers and casual shoppers, so it can be an excellent vehicle for providing policyholder information. However, it isn't yet a completely customer-friendly mechanism for the insurance sales process.

An insurance company should be developing Internet marketing skills if for no other reason than, for many people, the insurance agent of the future will be the Internet. Because the Internet is highly cost efficient, it is an ideal distribution system for market segments where personal creative services and advice are not a prospect's primary need. For this group of prospects, the Internet can handle an entire insurance sale from the initial contact with the prospect to explaining the policy to obtaining the application to issuing the policy — all on a timely and extremely cost-effective basis.

2 bridges to cross

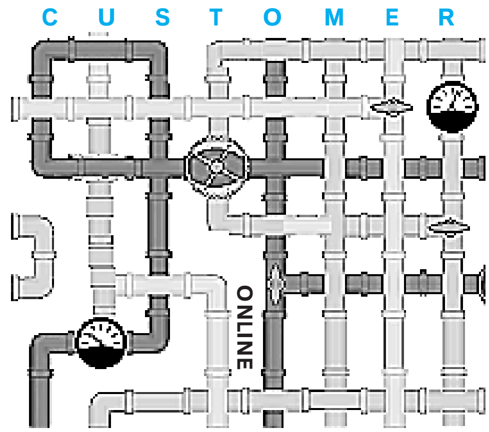
Unfortunately, for most insurance companies in the relative near future and for all but simple insurance products, the Internet will not live up to its potential as an insurance distribution channel for two primary reasons.

The first is archaic insurance laws. Legal requirements for the sale of insurance were developed and codified long before the Internet was born. It is common to hear from attorneys that, for example, fax signatures are not valid, the application must be signed if the data is to be available for use in a contested claim, and a signed release is needed to obtain medical records. These are probably a few of many legitimate concerns.

Contrast the steps required to purchase an insurance policy with the much simpler processes for purchasing investments through an e-trade system or for participating in an online auction. It quickly becomes evident that the insurance industry has not yet figured out how to sell all but the most elementary insurance products on the Internet.

The second reason is lack of appropriate underwriting models. Applications received via the Internet must be underwritten using algorithms different than those developed for business received from traditional sources. Internet-savvy insurance customers not only demand low premiums but also expect a fast response to their applications.

Companies will have to underwrite Internet applications almost on a real-time basis to keep the Internet applicant's interest. This will require new sources of underwriting data, surrogate information, and immediate access to an applicant's records. In other words, the basic underwriting models now in use will have to be modified or even abandoned in favor of new underwriting systems, protocols, and techniques before the Internet can reach its potential as a viable distribution system for insurance.



Preparing for impact

The lack of Internet marketing success to date by insurance companies should not discourage the insurance industry from actively and enthusiastically developing Internet marketing capabilities. In fact, being able to market insurance using the Internet will be necessary for success and survival in the 21st century.

It is probably an understatement to say that electronic commerce is growing at an extremely fast pace. For example, a recent article about booksellers (*The New York Times*, April 18) predicts that in less than five years, online book sales will grow by nearly 300%, while superstores' sales will actually decline.

The shift to electronic commerce will have as much impact on the financial services industry as on any other business. An indicative commentary on the financial services industry in the excellent book, *Sense & Respond* (Stephen P. Bradley and Richard L.

(continued on page 9)

Wanted: added value (continued from page 6)

transferable among different lines of business.

If carriers manufacture products, which they do well, it will be up to independent brokers to develop packaging and a host of other services.

Remember the old lesson about why your last flight wasn't on Southern Pacific Airways? The railroads became so focused on railbeds and real estate that they forgot they were in the transportation business, and the business literally flew right by them. Independent life brokerage agencies cannot forget they are in the service business. If they think their business is purely product delivery, better methods of bringing product to market will pass them by.

Establishing and demonstrating value adds is a tough discipline. Differentiation isn't easy, and erecting significant barriers to entry by predators is a difficult, tedious process. A current trend and a potential bright spot in life brokerage is consolidation. Consolidation can produce revenue-enhancing synergies and expense-reduction synergies, but it offers something more — scale-based opportunity to create and offer value adds. Scale offers critical mass for production fulfillment, enhanced revenues to invest in the development of value-added services and to carry out process improvements, and human resources to continue the evolution of the independent brokerage model. At least nine consolidation endeavors involving independent life brokerage firms are underway at this writing, and if the objective is scale-based opportunity, the future for brokerage as a distribution system is very bright, indeed.

Christopher G. Greis is president of Capital Synergies, Inc., North Barrington, Ill., an independent life brokerage agency. He can be reached by e-mail at *chris.greis@capital synergies.com.*

The push-button agent (continued from page 7)

Nolan, Harvard Business School Press, 1999), states, "... the biggest threat to the banking and insurance industries is the brokerage business." The authors emphasize that stock brokers will survive and become even more important in the financial services industry because of their low-cost operating structure. Of course, maybe the most important reason that brokers will deliver services at low cost and quickly will be the commitment to and the effective use of the Internet.

Bradley and Nolan make another important prediction. They say banks and insurers using conventional distribution face the possibility of a "winner's curse" because "they may win a substantial market share based on number of customers, but a modest market share based on total assets." This assessment should serve as a wake-up call and directional sign to those insurers committed to remaining viable financial services marketers in the next millennium.

At some point in the coming decade, an insurance company will perfect insurance marketing on the Internet. Very likely, this company will become a dominant force for Internet insurance sales because it will have established a brand name with the public and be recognized as a quality service provider. In other words, in a few years, Insurance.com will be just as well known as Amazon.com.

Jay M. Jaffe is president of Actuarial Enterprises, Ltd., a marketing and actuarial consulting firm in Highland Park, Ill. His e-mail address is *jayjaffe@compuserve.com.*

Service or commodity? (continued from page 8)

channels. The central question then becomes, who will win in the service-intensive market segments? The simple answer is, those who learn to play by the new rules, fully understanding that they could require radical changes. Such changes include how professional intermediaries position themselves in the marketplace, the nature of the relationship between intermediaries and their clients, the products and services offered, how intermediaries are compensated, and more.

If all of the new rules were fully known, the only choice would be between old and new and the only risks would be those related to transition. However, some of the new rules are still evolving, with the result that multiple roads are being created and diverging. The exciting prospect exists that there will be multiple roads to success. However, one thing is clear: whatever the choice made, those facing the greatest risk will be insurers who remain in the old paradigm.

Sam Turner is senior vice president, emerging markets, Southland Life Insurance Company, Atlanta. He can be reached by e-mail at *sam.turner@mindspring.com.*