NEWSDIRECT

NUMBER 34 SPRING 2000

There's More Than One Way to Sell on the Internet

by Howell Pugh

Editor's Note: This article is reprinted with pemission of Lincoln Re Reinsurance Reporter © 2000. All rights reserved.

Most insurance companies want a product presence on the Internet, but many are uncertain as to the best way to go about developing one. The medium is still so new, even companies you'd think would know how to make the most of it are feeling their way around like a near-sighted person who just dropped a contact lens. The going can be slow and uncertain, but persistence and patience are sure to pay off.

It simply isn't easy for many companies to balance the needs of their existing distribution methods with the demands of this new, very different one. Should the new replace the old, or supplement it? If it's to supplement it, how? And what does that mean in terms of product development and pricing?

Insurers aren't the only ones making it up as they go. One day last November I noticed side-by-side articles in *The Wall Street Journal* about two giant organizations taking virtually opposite approaches. One announced that Toyota Motor Corp.'s U.S. unit was testing an online car-selling system in cooperation with its dealers. It had designed an Internet site to piggyback on its regional-dealer marketing associations by letting consumers browse dealers' inventory on the Web as well as buy and finance there.[1] Opposite that article was one about Microsoft Corp.'s newly formed partnership with Tandy Corp. to sell its online products and services inside 1,000 Radio Shack stores.[2]

(continued on page 3, column 1)

Chairperson's Corner

A Funny Thing Happened...

by Carl E. Meier

In July, I will be starting my 36^{th} year as a practicing actuary. Not long enough to threaten any records, to be sure, but a significant portion of my life so far.

I started my career as an actuarial student with one of the largest debit insurers in the business and, although it goes by a different name today, that company is still very much alive as well. What's more, for all of the changes that have occurred in its operations, it's still concentrating on that very traditional method of distributing life and health insurance to consumers of modest means.

I, however, left all of that behind about 15 years ago and went off to see what was happening in the rest of the world. I learned about new and different

(continued on page 2, column 1)

In This Issue

Chairperson's Corner
from page 1

products (and helped to design a few along the way), new and different distribution systems (and tried to cope with some of the "channel conflict" that resulted), new and different accounting methods (without which, I am convinced, some of those product and distribution ideas would never have seen daylight).

Today, non-traditional products and distribution seem to be both the present and the future of our industry. Few, if any, people seriously believe that innovations in insurance products and distribution systems are going to stop anytime soon.

And yet, a funny thing happened along the way…actually several.

In those long-ago mid '60s, we were interested in products that offered benefits the client needed and wanted, that were simple to understand, that were affordable, and that involved a minimum of underwriting red tape.

What has changed today? Very little. A product that it seems everyone is talking about these days illustrates this very well: Critical Illness coverage is hot precisely because it meets all of these criteria; and yet, although the amounts available today are a lot higher, it's really just a variation on the Dread Disease coverage many debit companies were selling 35 years ago.

As far as distribution is concerned, the debit concept, under which an agent was responsible for insurance sales to everyone living in a defined geographic area such as a few city blocks, was considered back then to be one of the most cost-effective ways to provide insurance coverage to the average man or woman of modest means.

What has changed today? Again, very little. The concept of worksite marketing, where an agent is responsible for insurance sales to everyone working for a particular employer, is heralded as one of the most cost effective ways to provide insurance coverage to the average man or woman of modest means.

Ah, yes. Everything old is new once more. And being "nontraditional" is really just part of being alive.

Carl E. Meier, FSA, MAAA, is second vice president and actuary at Pan-American Life Insurance Company in New Orleans, LA. He can be reached at cmeier@exchange.palic.com.

NEWS DIRECT

Issue Number 34 Spring 2000

Nontraditional Marketing Section
of the Society of Actuaries
475 N. Martingale Road, Suite 800
Schaumburg, IL 60173

Phone: 847-706-3500 Fax: 847-706-3599 *www.soa.org*

This newsletter is free to Section members. A subscription is $15.00 for nonmembers. Current-year issues are available from the Publications Orders Department. Back issues of Section newsletters have been placed in the Society library, and are on the SOA website, *www.soa.org*. Photocopies of back issues may be requested for a nominal fee.

There's More Than One Way to Sell on the Internet
from page 1

If companies like these are taking radically different approaches, how's anyone to know which is best? The best I can do through this article is help sort out some of the issues and alternatives of creating a presence online. It's up to each company to arrive at its own conclusions as to what might work best, and then advance accordingly.

www.bigcompany.com

Have you visited *www.lincolnre.com* yet? It's a great place to track down *Reinsurance Reporter* articles, as well as review the breadth of our products and services, but you really can't buy there. Increasingly more direct insurance companies are making their Web sites a place to buy, however. In fact, some want to "dot-com" their company altogether and sell strictly through the Internet.

One option available to insurers, therefore, is what I call the *www.bigcompany.com* approach. This essentially involves creating a Web page to showcase your products without the glare of competition that automatically comes with other online marketing approaches.

At *www.covernadirect.com*, for example, Internet shoppers can assess their need for insurance, learn about products (term, permanent and health plans), apply online, and get a quote. The site even lists "The top 10 reasons to be your own agent," which include being able to make up your mind without pressure and to "save a bundle." Coverna is one of few companies that collect applications online. Doing so is probably the best way to collect unfiltered information quickly as well as move people into the buying process.

While the *www.bigcompany.com* approach is ideal in terms of the degree of control it affords the site originator, it's an expensive way to sell on the Internet. That's largely because it costs money to get people to your site — and lots of it. About half the advertisers on this year's Super Bowl broadcast were Internet companies, each paying a record $2.2 million on average for each 30-second spot.[3] Some dot-com companies offer sweepstakes and lotteries to attract visitors, which is like paying people just to enter a store. CBS's iWon.com attracted 4 million visitors to its site using everything from Quick-Draw Poker and Three-Eyed Bingo to $10,000 daily drawings and monthly $1 million jackpots. How many insurance companies are willing to do something like that?

Putting up a site is one thing, getting people to visit it is quite another, especially for companies without brand-name recognition.

Insurance malls

High advertising costs aren't an issue for insurers who opt for the second online approach: the insurance mall. These sites — which include AnnuityNet, Insweb, MSN Money Central and Quicken *Insurance* — are a marketplace where Internet surfers can price-shop. Many of the sites boast that they can offer lower prices because buyers won't pay a salesperson, which is true. Instead, you pay a distribution cost that often takes the form of a flat fee per lead or per policy placed, which is certainly less than agency commissions.

The benefit of this approach is that the site originators have paid for the advertising and built the alliances that ultimately drive shoppers to their sites. Internet surfers at a mortgage loan site, for example, can click through to Insweb, whereas a collection of personal finance sites pave the way to Quicken*Insurance*.

Insurers at these sites get the advantages of the links, along with the disadvantages of not having much say over content — that's pretty much determined by the insurance mall originators. Most limit the number of insurers they'll represent to fewer than 25, so this isn't an option for everyone. In fact the last time I checked, Insweb was at full capacity.

Insurance malls aren't the place to market permanent plans, because most don't feature them. In fact, there doesn't appear to be much product innovation going on for Internet-marketed products. Most insurers are using existing term products, partly because term is popular and partly because complexity and customization haven't been brought to the Internet much yet. I do believe there's a place for that, however, and will discuss it later in this article.

For now, most sites are designed around price because Internet shoppers are believed to be price-driven. Unless a product is priced low enough to appear on the first screen that pops up, I wonder about its chances of being purchased.

Brokerage sites

The same could be said of the third, and most prolific, approach to online sales: brokerage sites. There are a lot of these, most likely because the Internet is a variant of term brokerage distribution. What brokers have done traditionally and what they do on their Web site isn't all that different: they steer consumers toward companies with the best rates. In fact, the Web could be perceived as a more efficient, more direct method of brokerage distribution.

Brokerage sites are similar to insurance malls in claiming to add value to insurance shopping. They tout such advantages as price, company ratings, responsiveness, quoting accuracy, and underwriting fairness. Many offer permanent products, unlike the insurance malls.

In relation to Regulation XXX, some sites are careful to emphasize guarantee periods as much as premium. It would be wise for other sites to bring this important element forth, too, to give consumers informed choices.

It's unknown as to whether consumers pay attention to guarantees or conversion features. In the past, agents have always desired convertibility for

(continued on page 4, column 1)

There's More Than One Way to Sell on the Internet
from page 3

the chance to resell permanent insurance in the future. Does a product gain a competitive advantage on the Internet by being nonconvertible? As a result of Regulation XXX, the industry will be testing whether consumers want lower prices or longer guarantees. The Internet can make consumers aware of the distinction.

It will be interesting to see just how important price will be for Internet shoppers compared to brand name and financial security ratings. Will the market move to some type of auction system? One new entrant to the Internet is trying to find out.

New auction alternative

One of the newest online services is ebix.com, a site launched in September with the tagline "Insurance was never like this before!" It lets consumers define insurance policy coverages (auto, home, life, health, dental and vision) and seek competitive quotes from insurance companies, agents and brokers in a timeframe defined by the shopper. It's an interesting experiment put together by software provider Delphi Information Systems Inc. and Hewlett-Packard.

The concept, called an "Internet Insurance Exchange" in press releases, is the closest thing to the priceline.com approach to moving unsold airline tickets, except the driving forces are clearly different since a plane seat unsold is gone forever. Ebix appears to be getting takers, however, for it has announced agreements with carriers such as The Hartford, Principal Financial Group and Midland. How well it works remains to be seen.

Impact on product design

What the approaches being used indicate is our industry's perception of the Internet as a medium for the masses where sellers compete only on price. I wonder if companies aren't missing opportunities to really benefit from this new distribution method because they're accustomed to focusing only on the entire market rather than sections of it, and competing only on price and brand name instead of product design. There just might be a better way.

It's possible to stratify the term market in a number of ways: by policy size, age, smoking status, the buyer's household income, and preferred underwriting criteria.

Back in the early days of the Internet — say, about nine months ago — the central idea was that it places consumers in control. The Internet is more than just a distribution outlet; it's a way to make customers aware of choices and prices. Professor C.K. Prahlad, who co-authored the best selling *Competing for the Future* with Gary Hamel, considers this a shift in power to the consumer. In one sense, the customer is now a competitor because of this new knowledge. Just as good marketers know what other competitors are doing, your customers now have ample access to product information and can easily sort through prices and product options.

A company that can co-opt the customer will be on the way to truly tapping the distribution power of the Internet. This is where I feel that companies should look to build complexity and customization into their products. Look not at the mass-market level of the medium, but at the very atomic individual level. And the way to access each individual is through the Internet.

Why not design a product around your company's core competency? If your underwriters have special knowledge and understanding of males ages 51 to 65 who have had bypass surgery, then you can design a product that best fits that market. In the quoting services, your niche product should compare well for ages 51 to 65 and compare lousy everywhere else. But you have the opportunity to gain a significant market share by choosing the proper niche or collection of niches. While this strategy would be costly or impossible to do with agency distribution, the Internet makes it both affordable and feasible because of the medium's one-to-one-marketing capabilities.

Consider marketing one-to-one

Companies looking for quality e-interaction should consider giving up the mass market to mine an Internet niche. Focusing on fewer people can be both efficient and profitable, and it's very doable with the right links between sites.

First you must identify the relatively small number of people who comprise your target market. In the car rental business, for example, the percent of U.S. adults who rent a car 10 or more times a year is only 0.2%, or 500,000 people. Yet, as a group they account for fully 25% of all car rental transactions, with each generating $2,000 or more in car rental transactions annually.[6]

The second key is to figure out where these 500,000 people are most apt to be found online, and develop Web experiences that are "seamless and intrinsically enjoyable," according to Donna Hoffman and Thomas Novak, directors of an ongoing Web marketing study at Vanderbilt University called Project 2000.[7] Creating links that facilitate movement from other sites to yours should be designed to increase consumer learning and create positive associations with your company.[8]

It can be done, but it requires a very different mind-set than what most insurers are accustomed to. Then again, we're not accustomed to the Internet either.

Howell Pugh, FSA, MAAA, is second vice president and director of client product innovation for Lincoln Re, Fort Wayne, IN. He is a member of the NTM Council. He can be reached at whpugh@Inc.com.

Ending Credits

1) "Toyota to Team Up With Dealer Network To Sell Cars on Web," The *Wall Street Journal*, Nov. 12, 1999, p. B5.

2) Don Clark and Carlos Tejada, "Microsoft, Tandy Announce Internet Partnership," *The Wall Street Journal*, Nov. 12, 1999, p. B5.

3) Katie Hafner, "If It's the Internet, Down Must Be Up," *The New York Times*, Feb. 13, 2000, Section 4, p. 3.

4) Austin Bunn, "Starved for Attention," *The New York Times Magazine*, Feb. 13, 2000, p. 20.

5) C.K. Prahalad & Venkatram Ramaswang, "Co-opting Customer Competence," *Harvard Business Review*, January - February 2000, pp. 79-87.

6) Don Peppers and Martha Rogers, Ph.D., *The One to One Future: Building Relationships One Customer at a Time*, (Currency/Doubleday, 1993), p. 60.

7) Don Peppers, "Go With the Flow: The Seamless Web Experience," (cited Feb. 26, 1998), available from Error!

8) *Ibid*.

Editor's Corner

by Joseph E. Brennan

This is a special issue of *NewsDirect*. You will notice a special supplement to present a proposed credit disability morbidity table. The lack of a recognized morbidity table for reserving has long been an issue for credit insurers. The publication of this table is a major step in getting it accepted for use by the NAIC and state insurance departments.

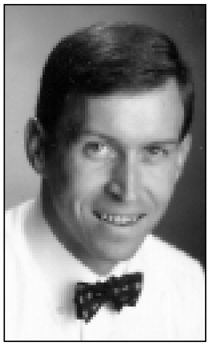
Also in this issue are two articles on marketing on the internet. If you are attending the SOA spring meeting in San Diego, you have probably noticed the five sessions dedicated to e-commerce.

Very shortly you will be receiving Section Council ballots. The NTM Section will be presented with the problem of choosing from a large list of excellent candidates for its Council seats: Tom Bakos, chief actuary, BISYS Insurance Services; Steve Cooperstein, market developer, Steve Cooperstein & Affiliates; Ian Duncan, vice president & actuary, CDMS Inc.; John Kerper, actuary, Protective Life; Steve Konnath, Physicians Mutual Insurance Co.; Jonathan Pollio, associate actuary, Assurant Group; Theresa Resnick, Combined Insurance; and Kurt Wrobel, director, HealthMarket

On November 10, 2000, in New York, David Shepard will present one hell of a seminar regarding the mathematics of direct marketing. David is a very well known author of a direct marketing text and has delivered his seminar many, many times.

This seminar is a must for any actuary who wants to understand the mathematics of marketing — particularly direct marketing. David's materials are invaluable for learning about risk selection and maximizing response rates.

If you are planning on attending only one continuing education event in 2000 and you are interested in direct marketing, this should be the meeting. Actuaries will benefit from the seminar if they have an interest in better understanding the mathematics of marketing. And, anyone attending the seminar will receive a copy of David's book, *The New Direct Marketing*.



Joseph E. Brennan, ASA

Joseph E. Brennan, ASA, MAAA, is actuarial director at Prudential Insurance Company in Newark, NJ. He can be reached at joseph.e.brennan@prudential.com.

Interest in Preneed Accelerating

by Kevin Gough

Editor's Note: this article is reprinted with permission from the February 1999 issue of Conning Commentary.

Preneed insurance — the sale of a life insurance policy or annuity contract to cover the cost, typically guaranteed, of a prearranged funeral — is a growing niche of the life insurance industry. Although prefunded funerals have been available for some time through trust fund mechanisms set up by funeral homes, preneed insurance has distinct tax and other advantages, such as the flexibility and greater guarantees of payment it offers. This edge — plus the fact that only a small percentage of the growing age-65-and-above population currently has preneed insurance — suggests that the market potential for this product is very high.

Today's market

Preneed insurance exhibited double-digit growth during the mid-1990s. Sales (new premium written) increased at an annualized rate of 12.6% over the three-year period 1994-96. During the same period, preneed insurance in force increased at a 29.3% annual rate.

A handful of insurers controls the $1.1 billion-plus premium market, while the balance is fragmented among many very small local or regional competitors that are regarded as relatively unsophisticated marginal players. Seven preneed specialists represented approximately 85% of the preneed market in 1996. These companies — Forethought Life, United Family Life, Homesteaders Life, Pierce National Life, American Memorial Life, Mission Life and Security Industrial Insurance — continue to dominate, albeit with some ownership changes. (Most significantly, Fortis Group, owner of the number two company United Family Life, acquired Pierce National Life in 1998, doubling the Fortis book of preneed business.)

Preneed's future

Preneed offers a number of favorable financial characteristics. Cash flows are stable, due to reliance on the noncyclical and growing death care industry. Mortality experience is relatively stable, due to the small face size of the policies, while policy persistency is high. Most important, a natural sales outlet exists through funeral homes, where commodity pricing does not apply and customers generally do not comparison shop.

The funeral services industry remains highly fragmented, despite an accelerating trend toward consolidation in urban areas initiated by funeral home consolidators. A focus on profitability among the consolidators has helped to fuel the growth in preneed arrangements, which in turn has created incentives for some of the consolidators to enter the preneed insurance business via acquisition.

Sales success will require access to a sustainable distribution channel that is not overly vulnerable to competitive pressure from the larger funeral home consolidators. Funeral home distribution will remain a viable channel, because many of these businesses will remain independent, especially in non-urban areas. Entrance of some of the leading funeral home consolidators into the preneed insurance industry will drive demand for additional "independent" preneed insurers to service their needs. Also, exclusive arrangements between carriers and funeral homes appear to be the exception within the industry. Insurers that can establish effective distribution agreements with these independent homes — especially on a multi-regional or national scale — will profit and flourish. The Midwest and South are particularly attractive target areas, because rural funeral homes are much more prevalent.

Players changing

The configuration of preneed players is changing. Consolidation, increasing participation of the funeral home consolidators, and the exit of small "mom and pop" insurers will reshape the industry significantly in the next decade.

Consolidation among the dominant players, along with their acquisition of small, local insurers, will leave just a few large national companies — Forethought and others. In total, this dominant segment will control a reduced market share, while that of the surviving companies likely will increase.

There will be a declining number of small, local preneed insurers as "mom and pop" businesses sell out and less involvement of multiline companies as they shed businesses outside their core strategic lines. In many cases, reinsurers and administrators will acquire these profitable existing books of business to facilitate the owners exiting the industry.

Finally, funeral home consolidators will be increasingly active in offering preneed, either through directly owned subsidiaries or joint ventures, which will help them integrate prefunding with their funeral home ownership. As such, they have the best future preneed business prospects because of their ability to vertically integrate all aspects of the death care business. They will be extremely formidable competitors, especially in urban areas.

The future also is bright for Forethought Life and the one or two other dominant specialist carriers that will service the remaining independent funeral homes, especially in non-urban areas. On the other hand, the funeral industry will continue to support alternatives to Forethought Life in order to prevent the company from *de facto* monopoly status.

Finally, reinsurers, TPAs and venture capitalists will profit — though to a lesser degree — as marginal players exit the business and consolidators look for profitable acquisition targets.

Conning's strategic study, *Preneed Insurance — A Business to Die For?*, analyzes this growing niche of the life insurance industry.

Preneed Funeral Insurance Survey

($ in millions)

	1993	1996	*Annualized Growth Rate 1994-96*
Sales (New Premium Written)	$612.3	$874.2	*12.6%*
Insurance In Force	$5,118.7	$11,066.4	*29.3%*
Number of Policies In Force	2,939,285	2,981,032	*0.5%*
Number of Policies Sold	308,629	430,968	*11.8%*

Source: Life Insurers Conference

1996 Preneed Market

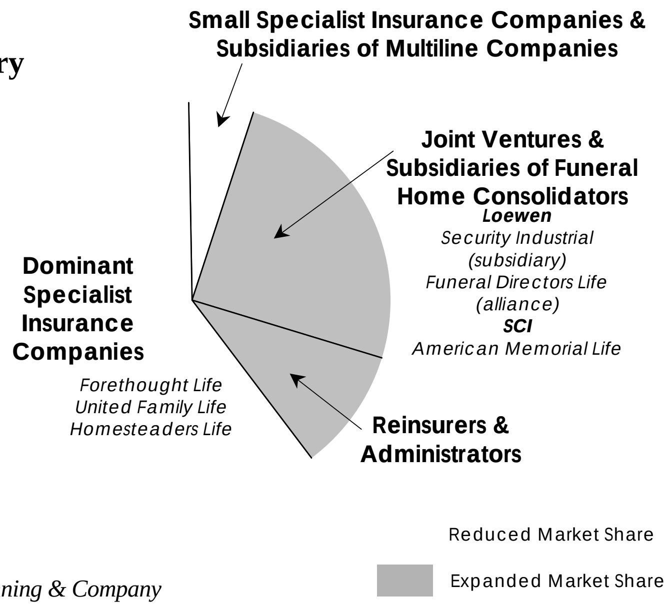
($ in thousands)

	Preneed Sales – New Premiums Written	Net Premium Written	Insurance In Force	Admitted Assets
Forethought Life	$411,258	$479,682	$2,450,075	$1,686,454
United Family Life	100,887	146,245	1,439,606	734,623
Homesteaders Life	94,362	111,990	887,576	293,910
Pierce National	47,589	104,939	1,583,309	769,642
American Memorial Life	67,590	97,258	665,738	411,560
Mission Life	19,881	36,465	335,676	213,730
Security Industrial	6,835	31,492	1,027,902	212,720
Seven Dominant Carriers	**$748,402**	**$1,008,071**	**$8,389,882**	**$4,322,639**
Total Preneed Market*	**$874,152**	**$1,135,566**	**$11,066,382**	**$5,394,223**
Seven Dominant Carriers % of Total	*85.6%*	*88.8%*	*75.8%*	*80.1%*

*Note: * Represented by results of 1996 Life Insurers Conference survey of 23 preneed carriers (including top 7)*

Source: OneSource, Life Insurers Conference, Conning & Company

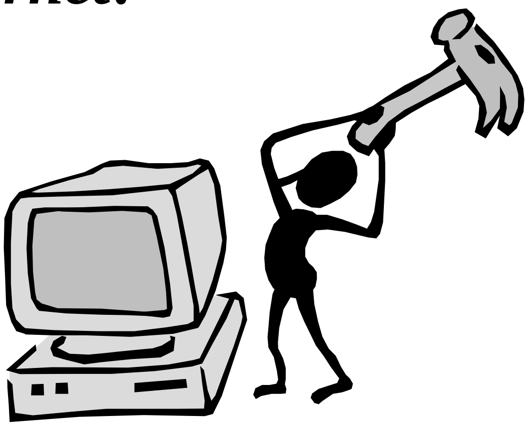
The Future of Preneed Industry



Source: *Conning & Company*
Kevin Gough, FSA, CFA
Assistant Vice President, Conning & Company

Who's Afraid of the Big, Bad Internet?

by Mark L. Trencher



Editor's Note: this article is reprinted with permission from the March 1999 issue of Conning Commentary.

Insurers are expanding their Internet presence. Just about every large carrier — and most of the midsized ones — have put up Web sites with varying capabilities. Most provide company, product, and other insurance-related information, while a handful have transactional capability where people can actually buy products online. In addition, there are Internet "malls" offering consumers the ability to shop for the best price among many companies' offerings.

Much of the discussion relating to Internet insurance sales has focused on the perceived threat to agents. The Internet clearly represents a major change in how people buy, and change often is perceived as threatening. But, while some carriers are selling insurance direct over the Internet — just as they have already been doing via direct mail, phone, etc. — many Internet sites are run by agents seeking to expand their business. Even some of the Internet malls are run by agencies, expanding their reach and market nationally through technology.

One person who recently bought life insurance from an Internet site characterized his buying experience as "very good…they called me back several times and the agent was very helpful…the whole thing took about a month." This underscores the fact that the Internet still is the front-end of a sales process. Because many insurance products are complex, they need to be described to customers; the sales process often requires human expertise and action.

When we say that people are "buying insurance through the Internet," we may forget that the Internet today is more correctly described as a "door-opener," aimed at a particular type of consumer. Most of the insurance Internet action today involves lead generation, and the contacts made and/or price quotes obtained through the Internet are the start of a process that takes time and people. One agent recently commented that the Internet should not be included in "alternative sales," because most of the use that he sees is what he called "integrated" — agents integrating technology into their practices as a way to reach customers more effectively.

This is not to say that the Internet cannot be used to sell direct; a few companies are doing so. But behind the slick front-end, people need to be involved in the sales and servicing of insurance. After all, when shopping online, it is an "agent" who calls back. Ultimate satisfaction depends as much on the agent's follow-up and smooth sales process as it does on finding the best quote online.

Life Insurers' Views and Plans

Will many people actually shop for insurance over the Internet? A recent Conning survey of life insurance carriers attempted to shed some light on this issue.

Specifically, we asked carriers what percentage of consumers they think will use the Internet in five years to research life insurance companies and their products, to get comparative quotes that help them make a purchase decision and/or to actually buy life insurance online — i.e., complete the application and make the purchase.

The results show that carriers expect a significant expansion of consumers' Internet activity over the next few years.

Admittedly, not every type of consumer will buy through the Internet, nor is every type of product appropriate for sale through this channel. But with 20% to 25% of consumers expected to shop for insurance on the Internet, its potential as a lead generator and door-opener for both agents and carriers is significant. In fact, one carrier in four felt that 40% or more of consumers will be using the Internet to shop for insurance in five years!

Given this view, it is surprising that there is, at best, lukewarm agreement among life insurers that they will need a significant Internet presence in order to succeed.

For some companies, this might make sense. Perhaps they think their target market and products warrant less of a commitment to the Internet. But even some customers of full-service broker Merrill Lynch are clamoring for Internet access to their accounts. This proves that some high-net-worth customers will be unsatisfied with no Internet account access.

One wonders if too many insurers and agents still view the Internet as a threat rather than an opportunity.

Conning's recently released study, *Life Insurers' Distribution Strategies — Testing the Waters*, explores in depth use of the Internet and other distribution channels in selling individual life insurance.

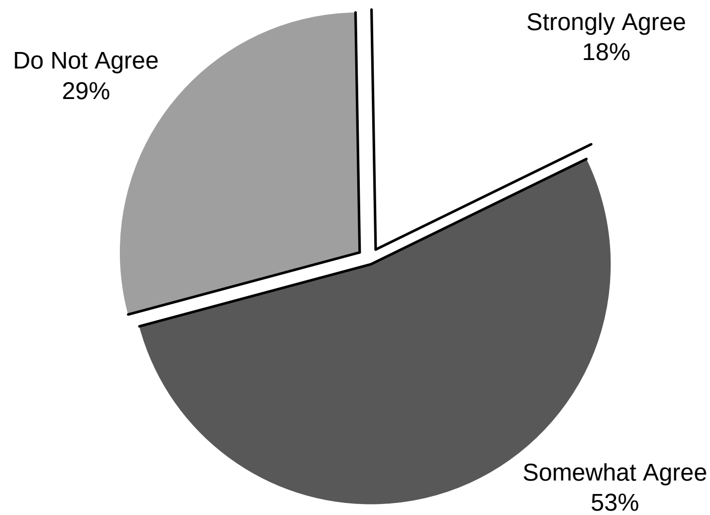
How Insurers Expect Consumers to Use the Internet

% of consumers that will use the Internet in 5 years to …	**Median %**
Research life insurance companies and their products	25%
Get comparative quotes to help make a purchase decision	20%
Actually buy life insurance online	10%

Source: Conning Life Distribution Survey, 1998

Internet's Importance to Insurers

(Agreement that: "An insurer will need to have a significant Internet presence in order to succeed")



Source: Conning Life Distribution Survey, 1998

Mark L. Trencher
Vice President, Conning & Company

NTM Section Council Meeting in San Francisco

The Nontraditional Marketing Section Council and "friends" meet at the SOA Annual Meeting in San Francisco to plan the Section's activities for the coming year.

Standing — l to r: John Yanko (Secretary/Treasurer); Michael Fix (2000 Annual Mtg. Program Committee representative); Nancy Manning, Howell Pugh, Carl Meier (1999-2000 Chairperson)

Seated — l to r: Jay Jaffe (1986-1987, 1994-1995 Chairperson); Bob Butler, Jim Smith (Vice-Chairperson and 2000 Spring Mtgs. Program representative); Grant Hemphill, Ed McKernan (1998-1999 Chairperson)

Successful Bancassurance Programs:

A Look Behind the Scenes

by Kerry J. Kixmiller and James B. Smith, Jr.

An open forum was held at the October annual SOA meeting on the topic of bancassurance, which is the sale of life insurance and annuities through banks, thrifts, and credit unions. The forum was moderated by Jim Smith and featured three speakers. Bruce Ferris, Kevin Crowe and Jack LaSalle presented three different perspectives of bancassurance — from the viewpoints of an insurer, third party marketer and banker, respectively.

Bruce Ferris is vice president, investment sales for the individual life and annuities division of the Hartford Life Insurance Companies. He started his presentation by looking at the growth of the annuity business sold through banks and contrasting this with the future of bank distribution of life insurance. While banks have been a formidable distributor of annuities, the same is not currently true for life insurance. Ferris said that life insurance sales through banks are currently where annuity sales were a few years ago, and believes that banks will become a major force in the distribution of life insurance.

Ferris discussed some of the reasons banks have been formidable distribution outlets for annuities and will be in the future for life insurance. These reasons include name recognition, customer loyalty, large amounts of capital, and advanced technology. Critical factors for an insurance company to be successful with bancassurance include the manufacturing of products that are both competitive and the best of breed, brand recognition, long-term consistent performance, marketing support, and technology.

Ferris also talked about the tremendous potential for growth not only with the Baby Boom generation, but also the “Net Generation,” the segment of the population under age 25. Banks are deeply involved with the Internet, which is one way of effectively selling to these markets.

Kevin Crowe, the founder and chairman of Essex Corporation, spoke about bancassurance from the point of view of third-party marketers. Some of the services provided by third-party marketers include product design assistance, advertising, training, wholesaling, and administration.

For illustrative purposes, Crowe talked about his company’s relationship with Money Bank. They have set up their own insurance agency, which rents space from the bank. They have 40 full-time, dedicated sales representatives at Money Bank, and about 70 licensed bank employees of Money Bank who can handle basic sales.

One of the success factors that Crowe discussed is the quality of products, because a bank must balance customers’ needs and the bank’s need for fee income. Another key factor is compensation of the sales representative, which needs to be fair and provide significant incentive.

Crowe described the market place as including three different product opportunities. One is the simple $50,000 or $100,000 term insurance product that can be sold without medical exams or blood tests. Another is the middle market, which includes products like universal life and requires some underwriting. The third product is long-term care insurance. A major factor in selling through banks is product design that is simple and easy to work with.

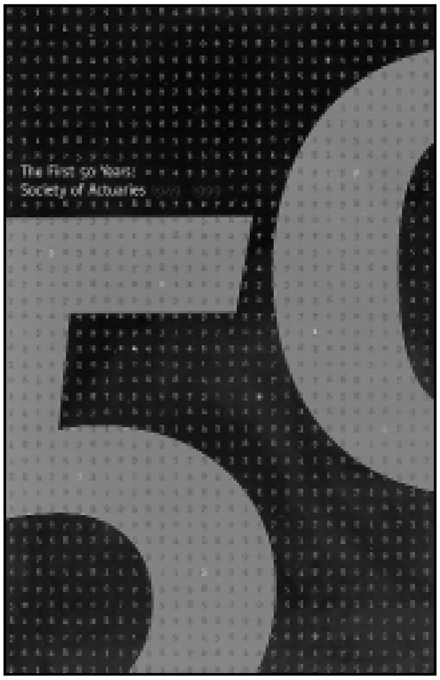
Jack LaSalle, senior vice president and director of sales with Cal Fed, talked about bancassurance from a banker’s point-of-view. Cal Fed’s sales team consists of financial consultants that typically cover two to three branches. In each branch, there are two to three licensed personal bankers that are aided by the financial consultants. The focus of the licensed personal banker is the sale of core banks products, as well as making the more transaction-based investment sales. The financial consultant’s role is to serve as sales leader, sales coach, and mentor to the licensed personal bankers.

LaSalle addressed the question of why banks are not selling more life insurance. One obstacle is the wirehouse background of many sales representatives in bank programs. The representatives gravitate toward selling mutual funds and annuities, rather than life insurance. Additionally, since banks are transaction-oriented, bank customers expect to complete their bank transactions before they leave the bank. Unfortunately, insurance products may require multiple activities because of the underwriting process.

Bancassurance is clearly a growing distribution channel. However, as each speaker emphasized, the potential is much greater than the current realization. Tremendous opportunities exist for sales growth through bancassurance distribution.

Kerry J. Kixmiller, FSA, MAAA, is an actuarial associate at American General Life/Accident in Nashville, TN.

James B. Smith, Jr., FSA, MAAA, is senior vice president and chief actuary at American General Life/Accident in Nashville, TN and a member of the Nontraditional Marketing Section Council. He can be reached at jim_smith@agla.com.



Own the past

The First 50 Years: Society of Actuaries 1949-1999 tells the intriguing and human story of the far-sighted professionals who joined to form what would become the largest actuarial organization in the world. Against the backdrop of a half-century of social, economic, and cultural change, archival material and rare photographs show the evolution of the organization into the worldwide and influential body it is today. And, interviews with 26 past presidents of the SOA paint a vivid picture of the development of a professional society.

This 281-page "coffee table" history is lavishly illustrated in full-color and fully indexed. It includes its own pull-out timeline giving readers an accurate understanding of the world the organization inhabits.

Don't miss your chance to own a piece of history. Order today by completing and returning the short order form below.

(01-53-0401)	*Price*	*Quantity*	*Amount*
	$75.00	________	________

The First 50 Years: Society of Actuaries 1949-1999

Subtotal ________
50% per book surcharge for nonmember overseas orders ________
7% GST for Canadian orders ________
IL residents add 8.25% sales tax ________
Total ________

❒ Check enclosed payable to Society of Actuaries ❒ Visa ❒ Mastercard

VISA/Mastercard No. ________ Exp. ____/____

Signature ________

Name ________

Company ________

Address ________

City ________ State ________ Postal Code ________

Country ________

Phone ________

With payment enclosed, send to:
Society of Actuaries
P.O. Box 95668
Chicago, IL 60694 U.S.A.

With credit card number, send to:
Books & Publications Department
Society of Actuaries
475 N. Martingale Road, Suite 800
Schaumburg, IL 60173-2226 U.S.A.