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The fastest track

Internet rapidly forcing major shifts in the insurance industry

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Insurance professionals are seeing the industry change before their very eyes, and many are being forced to change with it. But it seems those pushed and pushing the most are those touched directly by the Internet's World Wide Web.

Seven executives and professionals interviewed for this story work on this new fast track, perhaps the fastest the industry has ever seen. They sometimes had widely varying opinions, but they agreed on two points: the Web is rapidly forcing a restructuring of the way insurance business is done, and this will create new and perhaps more opportunities for actuaries. Talking about this world of constant flux were:

- Bob Bland, president, Quotesmith, a Web-based insurance pricing database offering instant quotes to consumers; about 100,000 quotes are provided monthly (*www.quotesmith.com*)
- Shane Chalke, FSA, president of AnnuityNet, Inc.; his company's new Web-based product, the "eAnnuity," is being offered through Lincoln Life in more than 29 states (*www.eannuity.com*)
- Gordon Gaddy, founder and board member of InsWeb, a software company that maintains a Web site (*www.insweb.com*) offering insurance quotes and information; monthly visitors to the site are "in the hundreds of thousands"
- Greg Mateja, FSA, vice president, head of the Internet Distribution Group, Personal Lines Company, The Hartford Financial Services Group
- Rod Rohda, FSA, president, and Bill Johnson, FSA, vice president and actuary, Fidelity Investments Life Insurance Company, which maintains a Web-based insurance business (*www321.insurance.com:80/*) as part of its larger insurance business; 30% of its term life sales come from the Web
- Charan Singh, president, SelectQuote Financial Services, a direct sales company that maintains a Web site but sells primarily by mail and phone; several thousand people respond to SelectQuote each month (*www.selectquote.com*)

At the center of change

Two actuaries working at key vantage points are Greg Mateja of The Hartford and Bill Johnson of Fidelity's insurance division. Their experiences and observations begin to paint a picture of the industry's interaction with the Web today.

Mateja leads the team responsible for Internet marketing and the development of the infrastructure to provide Internet service to The Hartford's agents and affinity groups. Affinity partners include several large financial institutions and the 30-million member American Association of Retired Persons.

A year ago, Mateja was heading the group developing a business plan for Personal Lines' Internet expansion. He assembled a team and was running full steam by May. Since then, the group has significantly expanded the capabilities of the affinity Web sites it supports and has several projects under way.

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Customers can get real-time auto insurance quotes and service their policies online.

"Speed *is* the Internet," Mateja said. "Several auto carriers are highly active on the Web, but a few are clearly moving faster than others. We have to be fast. For example, although I operate within The Hartford's annual planning cycle, my group does quarterly plans."

Johnson has worked in the insurance division of Fidelity Investments for six years after nine years with more traditional insurers. "Fidelity has been selling on the Web for a very short time," he observed. "What's this block of business from the Web going to be like? If someone is just keying in information — not talking face-to-face with an agent — is that information more likely to be inaccurate? As the Web gets more mainstream, the group of people applying for insurance might be more typical. But right now, that block consists largely of early adopters [individuals who race to be the first using a new technology]."

Internet as integrator

Mateja's and Johnson's comments raise several of the most important truths about the insurance Internet business. Gordon Gaddy, founder of the software and Web-based insurance information company InsWeb, looked at those ideas and others when he spoke on the topic "the Internet as integrator" to a group of actuaries at an event sponsored by The Actuarial Foundation last summer.

Setting the framework, Gaddy said in an interview: "*Amazon.com* and some other online business are making inroads [on the Web] faster than the insurance industry because they aren't hamstrung by regulations like insurers are. Nonetheless, they're offering benchmarks for where insurance has to be."

Those benchmarks show that the insurance industry must:

1. Switch from one-time sales (to distribution channels) to customer relationship management
2. Unbundle products and delivery mechanisms, which have been closely tied
3. Become a retailer rather than a wholesaler alone

"Most companies are in huge turmoil as they try to switch to this new focus," Gaddy said. Mateja and Johnson might add that part of this turmoil stems from Internet-imposed high-speed change compounded by the uncertainties inherent in an early-adapter consumer base.

Such are the pressures as these benchmarks demand attention.

Key are shifts from being a wholesaler to a retailer and from a distributor focus to a customer focus. "The distribution channel has been the customer. Now, the policyholder is the customer," Gaddy noted. Web sites such as InsWeb and Quotesmith, which offer instant quotes from several insurers along with financial ratings from the major rating companies, are forcing this (and other) major shifts in the business. More and more, insurers must look to what consumers want: comparison shopping, buying insurance online, and getting policy service online.

"But we're not just talking about adding a new distribution channel or reducing costs (although the Internet certainly will reduce costs over time)," Gaddy said. "With the Internet as integrator, we'll see a change in structure, in how companies operate."

In what at first seems a paradox, Gaddy talks about "unbundling" but also about bringing parts of an insurance company together. "Unbundling" refers to separating product development from the needs of one main distribution channel — agents — so that products can be designed for consumers' needs.

But an existing division in insurance companies must be eliminated if companies are to survive and profit, Gaddy says. The large, rapid flow of information allowed by technology is raising the bar in all areas of the industry, and the old ways have to go. "The distribution of insurance and the 'manufacturing plant' [product development] have always been two separate operations, even though they're part of the same process. That big canyon has always made sense to those inside the business who were looking inward, but it will be a hindrance as the focus turns outward toward consumers," Gaddy said. "The Internet can bring product development and other parts of the company together."

The premise of the "Internet as integrator" idea is, "Insurance is information intensive," Gaddy noted. "The insurance industry will be changed by the Internet, which can store information and analyze data accurately and rapidly — and it operates 24 hours a day, seven days a week."

How will this bring the manufacturer and distributor closer together? When companies must rely on an agent channel for marketing as well as sales, the company and customer know little about each other. With Web services, "information can go right from the consumer straight into the pipeline electronically," and this information can be used to design new products and features.

Of course, the Web lets information flow the other direction, too — toward consumers.

The new world of consumer focus

Visitors to InsWeb's site see several different insurers' names, all household words. The Quotesmith site promises instant quotes from among 375 insurers. Both offer financial information from the leading rating services on the insurance companies listed.

Insurers are in brand-to-brand competition.

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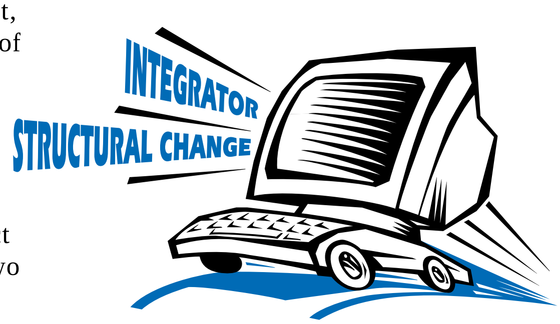

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"The Web is a vehicle to tell the truth. We give all five rating agency opinions with each quote," said Bob Bland.

Notes Gaddy, "Generally, insurers don't want to compare quotes. But those with a Web presence understand you have to be where the consumers are and give consumers what they want. To compete, they have to differentiate themselves: ratings, their service, how they pay claims.

"Many companies on the Web have spent lots of money building brands. And brand works. But that's not all of it — high levels of service and competitive pricing are crucial."

Gaddy quotes a 1997 Yankelovich Partners study of California drivers that said 71% want three or more quotes and 31% know they could save money if they shopped around. "The price for identical coverage can vary dramatically," Gaddy observed.

"Consumers want factual, unbiased information prior to buying, and the Web facilitates the information gathering process. Successful companies will use the Web to help this process."

Rod Rohda of Fidelity agrees. "Certainly, you can call a rep or go to one of our consumer centers to buy term, but the Web lets consumers learn about it at their own pace. The Web lets a consumer become much smarter," he said.

"One of the realities of the Web is, you're being shopped today more than ever before. We recognize that consumers are examining our products and prices every day."

Several interviewed — including Charan Singh of SelectQuote — emphasized the important rise of the consumer who is not only educated but a self-directed investor and self-selected shopper and purchaser. "The Web is a wonderful source for such people," Singh said. "When people are self-selecting, they have a vested interest in pursuing the information they need, and the Web is a user-friendly way to do that."

What works on the Web

As Mateja noted, a few companies are transacting auto insurance business — not just providing quotes or other information — over the Web. But in general, transactions aren't yet widely available for most policies. The Hartford provides quotes and service help but does not yet have transaction ability; today, to complete the sale, customers must dial into a call center, where a customer representative takes payment information and asks a few final questions. This is standard practice in most companies. The Hartford expects to implement transaction capabilities in 1999 but will continue to offer a call center option for consumers who want to complete a transaction off-line.

Where the Web shines is as a marketing tool — for both disseminating and gathering information.

Said Bland, "We see the Web as an information delivery mechanism to distribute information or deliver common information more conveniently."

Quotes and consumer information are common for annuities and term life, whole life, health, Medicare supplemental, auto, home, and renters insurance. Conducting transactions or selling a product solely online are rarer.

Even marketing is limited. Those interviewed agreed that products marketed on the Web must be simple — that is, easily understood by consumers. While several of those interviewed said annuities were too hard to sell over the Web, one company recently broke that barrier, heralding another change.

AnnuityNet began offering its "eAnnuity" product on Sept. 30 through Lincoln Life, a subsidiary of Lincoln Financial Group. The product was created and shepherded to market by Shane Chalke, AnnuityNet's president.

"We believe that products sold over the Internet must be simple, so we started from scratch and eliminated almost all the complexity from an annuity product," Chalke said. "We believe much of the complexity stems not from what consumers want but from the distribution structure of the traditional business," so the eAnnuity has no guaranteed death benefits, waiver of surrender charge provisions, fixed account, or fixed annuitization option.

Chalke's other comments seemed to echo those of Mateja, Gaddy, and other Web observers. "We believe we must control not only distribution but also the manufacturing of products," he said. By controlling both, "we're maintaining the whole customer relationship." The focus is on giving the investing public what it wants, and that has been mutual funds. "Our marketing proposition is to recast annuities to compete head-to-head with mutual funds," said Chalke. As part of the eAnnuity's marketing strategy, he introduced the product in America OnLine's mutual fund center, and, he said, "this is the first time we're aware of that an annuity has been designed specifically to attract mutual fund money."

What doesn't work — yet

Chalke's eAnnuity fits squarely with the idea that Web products must be simple. More complex products require help from knowledgeable people and so aren't yet commonly marketed on the Web. Rohda at Fidelity is developing what may be one possible path to a solution. Within a year, visitors to Fidelity's insurance Web site will see a pop-up screen that can put consumers in touch with an online representative. "The consumer visits our site to become educated but gets to a point where a rep's help is needed," Rohda observed. "Initially, this probably will require the customer to call Fidelity, but thanks to intelligent call routing, the rep's screen will automatically show the same Web page as the customer's. When further advances allow two-way voice and video to go over the same line being used for the Web, the customer will be connected with a rep by pushing a button; use of the phone won't be involved."

Technological standards and data security remain a concern in many instances, said Singh of SelectQuote. "Web developers have solved the prospecting problem but not the processing problem," he said. "Because technology standards can vary so much from one shop to another, the Web isn't ready to take in large amounts of information. There are firewall needs, security issues. We're very conscious of the possibility of leaks of data collected over the Web and stored digitally."

Singh also believes consumers need customized information that only contact with a knowledgeable person can provide. "There's no easy way to customize a quote on the Web to provide the best value, especially for people with special needs," he said.

From Bob Bland's perspective, there is a more difficult problem to solve — one involving a large number of highly influential people. "The number-one barrier to increasing the use of the Web for insurance sales is insurance company reluctance to speed up the underwriting cycle," he said.

"All the Web-based agents and consumers want a faster process. So there's a collision course here. Insurers are underwriting business no faster than they did 20 years ago. Yet the Web and other forms of direct selling are increasing the speed of business. Insurance company chairmen really ought to pay attention."

Bill Johnson at Fidelity sees several challenges, "strictly from the actuarial side."

First on his list is regulatory issues. "We have to be concerned with how illustration regulations apply to selling over the Web," he said. The requirement of having a signature on an application "granting permission to get information important to underwriting" also slows the process.

While others believe the Internet will ultimately reduce costs, Johnson says it's too early to tell. "The cost of selling over the Net will be very different," he said. "The areas most affected will include distribution, persistency, mortality, keeping up with the technological demands of consumers on the Web, and the increase in competitive pressures."

And that great benefit for consumers — shopping around for lower premiums — could continue even after a person has bought a policy. "More people could lapse, and this would create a cost challenge," Johnson said. So product design could well be more difficult. "Simple products get commoditized. Ultimately, the challenge may be for companies to develop products simple enough to sell over the Web but still find ways to differentiate themselves so they do not compete merely on price."

In addition, people might choose the best class offered, even if it doesn't most accurately reflect their conditions. "This might subject more companies to anti-selection." And as Johnson observed earlier, today's Web shoppers might be less honest as they fill out online forms in the privacy of their homes and offices; but the book of business could become more traditional — and, by implication, more intrinsically sound — as the Web becomes more widely used.

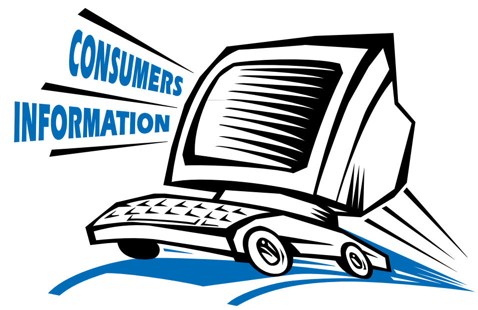
'A candy store for actuaries'

The Web experts interviewed — actuaries and nonactuaries alike — see Web-based business offering benefits for actuaries in their work. Such benefits take two forms: one is information (greater amounts, possibly more accurate, and available faster), the other the growing needs of insurance companies under pressure from competition spurred, in part, by the Web and consumer demands.

Said Gaddy, "If their companies are on the Web, actuaries will have data they don't have today: statistical data from all the marketing transactions that occur on their site — how people buy, when they buy, who's buying, and who's lapsing." Rohda agreed, saying more consumer information will be available faster: "who the prospects are, how they change over time, what pricing changes alter consumer interest in a product."

Also, noted Rohda, proprietary sites such as Fidelity's capture the number of visits per day to each page on a site. "This lets an actuary involved in marketing analysis get a much more granular sense of what they are getting for, say, their advertising dollars — for example, does one type of banner ad attract more viewers than another?"

Bob Bland summed up the information availability the Web provides for actuaries. "It's a fishbowl they can walk around and see into. Or a candy store. We're creating a candy store for actuaries."



Then there's the need to adapt the insurance business to take advantage of the opportunities offered by the new technological world.

Gaddy, who sees the Web changing the basic structure of the insurance business, said, "when you talk about a change in structure, you're talking about a change in all the assumptions that go into that structure, all the product lines, all the services." Actuaries will be needed to recast products and other parts of the business in light of the structural changes.

Mateja's comments reflect that view.

First is a change in communication with agents. "The Hartford is committed to and investing in independent agents, and the Internet is part of that commitment," he said. "We have deployed or are developing support tools and quote, policy, and service capabilities for agents over the Web." Product development also will be affected. "The world is going to start operating at a faster pace. We'll see even shorter product cycles than we now have."

Singh of SelectQuote observed that a primary question for insurers today is how to reduce the cost of acquiring new customers. "For the first time, insurers

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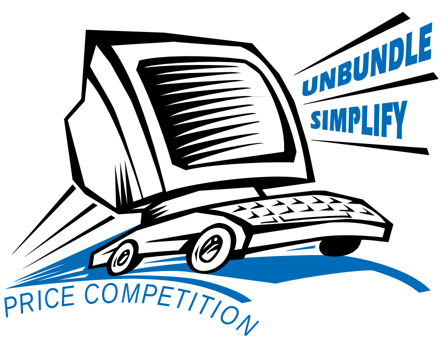
have the chance to create a new, highly targeted distribution system," he said. "This offers several benefits.

"One is that when you find customers who like to do business this way (by direct methods, including the Web), you can design specific products for them. They'll pay a little higher premium than companies might expect, but it will still be lower than it would have with agency costs built in, and the company can still make money. Companies will be clamoring for actuaries to do this type of work.

"Another is that this customer base is self-selecting. That means they have a vested interest in finding information and buying the product, and so they are likely to stay on the books much longer. It's not customers who are churning the business.

"Also, this way of doing business brings the insurance company much closer to the customer. The knowledge the company gains should allow it to conduct business with a much smaller margin of error."



Get on board

All interviewed agreed that the Web will be part of the insurance business. It isn't going away.

"If you don't develop Web capabilities, someone else will seize the opportunities," Mateja noted.

"The short term financial return may be unclear. But it's a new market and growing rapidly. Do you want to surrender it to other players or to take the market for yourself?

Will agents do what they must to get online? Bob Bland thinks they will. "Banks are selling insurance," he said. "The big institutions are coming down the road. That's reason enough."

Then there are companies like Fidelity, which never had an agent-based business, and new efforts such as Lincoln Life's eAnnuity, priced without agency costs built in. Will efforts such as these and the Web sites offering quotes, financial ratings, underwriting policies, and other information keep insurers' eyes on the Web?

Many think so, including Gaddy. "There are businesses on the Internet demonstrating that you can give consumers what they want."

The executives quoted can be reached by e-mail: Bob Bland, Quotesmith, *bob@quotesmith.com*; Shane Chalke, AnnuityNet, *sachalke@annuitynet.com*; Gordon Gaddy, InsWeb, *ggaddy@insweb.com*; Bill Johnson, Fidelity, *bill.johnson@fmr.com*; Greg Mateja, The Hartford, *gmateja@thehartford.com*; Rod Rohda, Fidelity, *rod.rohda@fmr.com*; and Charan Singh, SelectQuote, *charans@goselecttech.com*.

Upcoming SOA meetings and seminars

Dec. 10-11	Retirement Needs Framework	Buena Vista Palace, Orlando
Dec. 14-15	Product Development Boot Camp	Buena Vista Palace, Orlando
Dec. 14-15	Actuarial & Financial Modeling Conference II	Buena Vista Palace, Orlando
Dec. 14-15	Product Development Practicum: Theory to Practice — A Path to Excellence	Orlando
Dec. 17	Voluntary Compliance	Teleconference
Jan. 14-15	Risks in Investment Accumulation	New York
Mar. 18-19	Fair Value of Insurance	New York
Mar. 24-26	The Annuity Conference	San Antonio

Coming in February: "Lost Art of Estimation," date and location to be announced. For updates on all seminars, watch future SOA mailings. Seminar information will also be posted on the SOA Web site (*www.soa.org*) under *Continuing Education*.