

# PHASE TWO



## Industry urged to awaken online promise

By Rodd Zolkos

**DALLAS**—A September gathering of a cross-section of players involved in doing insurance business online was seen by many of those attending as a harbinger of the next phase of online insurance business.

The first eInsurance Symposium drew more than 350 attendees from 36 U.S. states, Canada, the United Kingdom and Mexico. Among attendees at the Dallas gathering were representatives of retail agents, intermediaries, insurance companies, reinsurers, technology firms, investment banks and other investors.

Opening the two-day gathering, Richard Kerr, founder and chief executive officer of Dallas-based online insurance exchange MarketScout, which presented the symposium, noted that while the insurance industry might have been slow to recognize the Internet's potential, in the past 10 years, various players in the industry have started to embrace such ideas as online lead generation, underwriting tools, insurance exchanges, company access and single entry multicompany interface (or SEMCI).

Mr. Kerr noted that "an Internet gold rush" in 1997 and 1998 meant that by 1999, "if you had an insurance idea with a dot-com at the end, it was easy

money, and there was money to be had." That period was followed in 2001, however, by a "dot-com graveyard" with the bursting of the so-called Internet bubble.

But many of those online insurance ventures of late 1990s, like many online ventures in other industries, were built on flawed business matrices, with business models pointed in the wrong directions, Mr. Kerr said, and the investors attending the Dallas gathering no doubt remember the results.

### SURVIVAL OF THE FITTEST

In recent years, though, some e-insurance businesses started to emerge based on the recognition that the number of eyes peering at a site each month isn't the most significant metric. Those new companies recognized that "financial returns matter," Mr. Kerr said. Or, put more simply, "Guess what? You have to sell some insurance on these Web sites."

In 2005, "some survivors started to emerge" with the new approach, he said. "By 2006, the field started to thin out and the survivors started to grow."

"By today, in 2007, the solid plans are rocking," Mr. Kerr said. Now insurance industry companies are doing business online that ranges from personal auto to workers compensation. In 2008 and beyond, "there will be a

massive redistribution of wealth," he predicted.

If insurers are to take advantage of the opportunities available to them in this next phase of online business, insurance industry companies have to recognize certain facts.

Among them, noted William C. Hartnett, general manager of financial service strategy and solutions at Microsoft Corp. in Redmond, Wash., is that, "Stuff that was designed in the '50s is still in use today" at insurance companies and many other businesses. "That's why we had the Y2K problem."

"That should have been the first wake-up call, but it doesn't look like it was," Mr. Hartnett said.

Technological advances have been dramatic, Mr. Hartnett said, and today most technology innovations enter the consumer market first. That means consumers "often have better technology in their pockets in some cases than powers whole insurance companies."

Mr. Hartnett noted several megatrends he sees shaping online insurance business, including improved hardware performance, digitization of the economy, software breakthroughs, and broad-based access to the Internet anywhere in the world and mobile capabilities that mean many people are now carrying broadband devices in

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their pockets.

All those changes put the focus back on people, so companies have to make sure that the tools and techniques they employ fit the people working there and their customers, the Microsoft executive said.

Mr. Hartnett noted that most people under 30 today interact with one another largely online, and that's shaping the nature of business. Also, television is becoming more "connected," interactive and personalized, "so you don't all watch the same shows at the same time now."

From an insurance industry perspective, "that infrastructure that's been set up for television is available to us as well" to change the consumer experience with insurance, he said.

### **CHANGE COMES SLOWLY**

So far, "there's been progress here and there," but much about the insurance business is still being done the way it was a decade ago, Mr. Hartnett said. "This is not a business that moves real fast."

The objective for insurance industry companies is to use available technology to shape the consumer experience, he said. If you're trying to create experience, "the first rule is you've got to know what business you're in," Mr. Hartnett said. "I think we're in the promise business."

Ultimately, some business disruption will drive the insurance industry's full embrace of online opportunities, Mr.

Hartnett predicted. "What will be the business disruption in insurance that really makes the online take off?" he asked. "The disruption is out there. Maybe it's Google getting into the insurance business."

Another symposium speaker, Patrick Brandt, CEO of Frisco, Texas-based Skywire Software, also spoke of the importance of the customer experience.

It doesn't matter where in the insurance business value chain you are, Mr. Brandt said, everyone needs more information and needs it faster. "How you achieve that is by getting a lot closer to the dream of straight-through processing that everybody wants," he said. "You do that by assembling the components that connect the different players in the value chain and provide choice."

"The moral of the story is that at the end of the day, it's still all about the customers and the customers' experience," Mr. Brandt said.

Typically, those consumers turning to the Internet fall into three camps, said Jaimie Pickles, president and chief operating officer of Gold River, Calif.-based InsWeb Inc.

They include "consumers who want to do everything on their own," he said; "the really indifferent," who basically are shopping for the best prices; and "the information gatherers," a group forming the majority of consumers on the Web.

Most consumers who shop for insurance online visit three or more sites to

gather the information, Mr. Pickles said.

"Increasingly, consumers are looking to the Internet and looking to 800 numbers as they shop for financial services," added another symposium speaker, David Roush, CEO of Insurance.com in Solon, Ohio. "It's this change in distribution that presents opportunity."

### **EXTERNAL EVENTS**

As insurance industry companies pursue online opportunities, Jake Hampton, owner and president of Virtual MGA in Austin, Texas, cautioned that they should be aware of the ways outside events can affect their ability to raise capital.

"Macroeconomic events happen and you'd better be ready for them," Mr. Hampton said, citing the dot-com crash and the Sept. 11, 2001, attacks as two events that affected the availability of investment capital.

As companies shape their online models, Mr. Hampton, whose company builds online platforms for managing general agents targeting MGAs, regional underwriters and Lloyd's of London brokers and syndicates, advised insurance industry companies to "pursue a narrow customer segmentation strategy."

Companies also should be aware of their customers' technological limitations. "Don't get too far ahead of your customer implementation curve," Mr. Hampton said. ■