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# UNDERWRITING IN THE 21ST CENTURY: EXPLORING THE DIRECT-TO-CONSUMER CHANNEL

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**Executive Summary:** This article series continues to explore the evolving landscape of underwriting in the 21st century. Some of the themes that have already been covered include: overcoming barriers between underwriting and distribution, maximizing the value of an APS, the growth of remote underwriting, and risk factors associated with private aviation. Another area worth exploring is the growth of direct-to-consumer distribution channels and its intersection with underwriting. For this article we took a look at the various means by which carriers and producers are reaching the consumer through mediums such as the Internet, broadcast and print advertising, direct mail and the use of contact centers to directly engage prospective insureds on a mass scale via the telephone.

In addition to our primary research, we spoke in detail with Colonial Penn, one of the leading carriers selling a variety of insurance products direct-to-consumer, and InsWeb, one of the leading online insurance portals.

## Introduction

The insurance industry has numerous options to consider for distribution channels. Without question the producer channel is still the primary driver of business, but alternative channels such as banking, affinity marketing and worksite are just some examples that have become increasingly prominent. Another growing channel is direct-to-consumer marketing.

According to the *KEHRER-LIMRA Bank Insurance Benchmarking Study*, banks that sell life and health insurance through direct marketing channels such as mail, tele-services and the Internet yield "per bank customer" revenue equal to banks that opt to refer leads externally to traditional channels such as brokerage or captive agents. The difference is that the banks using direct marketing experience significantly higher net revenue because "the acquisition expenses of direct marketing pale in comparison to the cost of face-to-face selling."

Direct marketing is a long-standing and proven method for selling almost every type of good and service in today's economy. The benefits of direct-to-consumer marketing come from speaking directly to the customer. It can be both a cost-effective addition to a company's mix of distribution channels and an opportunity to leverage existing communication vehicles. It is also an opportunity to build a bridge between the underwriting and marketing areas of an insurance company.

## Real Time Underwriting as Part of the Sales Process

Direct-to-consumer marketing can be a tool to create leads for producers or it can be a low cost - high margin alternative distribution channel. Revenue opportunities lie in both the acquisition of new subscribers and the up-selling/cross-selling of existing policy holders. There are four elements to effective direct-to-consumer marketing of insurance products:

1. Advertising mediums (broadcast, print and direct mail, online push/pull)
2. Fulfillment vehicles (call center, mail house and website)
3. Underwriting (tele-underwriting and risk triage)
4. Relationship management (customer service, administration)

Utilizing a risk triage process, applicants can be screened at the point of initial contact and then further evaluated for eligibility by conducting a phone based personal history interview and/or underwritten by senior lever underwriters. Following a simple script, answers provided during an initial interview or via a web portal will quickly determine if the applicant's health history warrants further consideration. If so, a more detailed interview following a rules-based survey will help determine if a policy could be issued in an expedited manner, or if it is necessary to obtain additional information under further review by an underwriter and/or medical professionals. In addition, information acquired during this process can also open the door to further marketing opportunities to cross-sell other products or up-sell higher face amounts.

Real-time risk management in support of a direct-to-consumer marketed product can expedite the application-to-issue cycle, reduce instances of incomplete applications and stalled issuance, and reduce new business acquisition costs. By incorporating simple underwriting practices across the lifecycle of customer interaction, companies can open up new opportunities to approve/decline, increase, decrease or modify the type, size and/or features of any insurance product being sold or serviced.

According to Tom Fiordimondo, Vice President for Life/Health Marketing with Colonial Penn, "We believe in the value of incorporating some form of risk management upfront into direct-to-consumer sales to avoid being burned later by bad risk experience. We measure mortality experience, persistency and claims over years to better manage mortality expenses. In the process, our underwriting efforts contribute verifiable risk results to better define marketing budgets based on real results and quantifiable bottom line impact of policies being sold to particular market segments."

From the perspective of InsWeb Senior Vice President of Life Insurance Sales and Operations Todd Ewing, "InsWeb is like the Lending Tree of insurance, with 5 million transactions per year all conducted online and by phone. Our goal is to pre-screen and qualify applicants for the best rate available. We use an automatic rate calculator based on an initial screening application, and then through a tele-underwriting process, further review a candidate's insurability. Two issues that have become more of an underwriting factor are healthy lifestyles and foreign travel. We try to educate the applicants on how to get the best results from their exams and use available medical information for the advantage of both the applicant and the carrier, so the applicant can get the best rate and the carrier gets the right match based on its established criteria."

Direct-to-consumer products are for the most part small face value policies and fly under the radar screen of reinsurers. As marketing programs and risk management become more sophisticated, the face values are getting bigger, and as they exceed the $100,000-$200,000 level, reinsurance starts to become a factor. In the case of web portal sales, it is not uncommon to see policies written in the seven figure range and fall under the jurisdiction of a reinsurance arrangement. There have been instances of reinsurer backlash from claim experience because pricing can become aggressive in this channel and reinsurers have pulled out or refused to cover policies/claims generated through this channel.

**Direct-to-Consumer Communication Mediums**

There are numerous vehicles being used today by the insurance industry to reach the consumer directly. Carriers and producers are both adept at using advertising mediums such as the radio, TV and print outlets like local or national newspapers and magazines. The Internet as an insurance sales tool has grown considerably over the last 5-10 years as well. Insurance companies such as New York Life in partnership with AARP, Colonial Penn, BCBSA, MEGA, Gerber Life, AEGON-Direct, ING Direct, Progressive and GEICO all run successful direct-to-consumer marketing programs.

Colonial Penn relies exclusively on these outlets to reach consumers and measures effectiveness from a variety of factors. According to Tom Fiordimondo, "We measure marketing costs against annual premiums to derive an ROI. We look at cost to generate leads vs. quantity of leads generated vs. percentage leads converted vs. policy persistency to track our marketing costs and rank best to worst mediums. TV is an expensive medium, with production costs alone hitting six figures before one lead has been generated. By comparison, mail is very inexpensive and can deliver precision targeting. If looking for an older audience, TV can be effective by reaching people at home during the day, whereas working age people watch TV in the evening when rates get much more expensive. It is important to have an Internet strategy with the less than 40 age range being very Internet-driven and we see the 40-60 age range as being much more viable online than the 60 and older age range."

The Internet is the sole domain of InsWeb, which sees customer behavior relative to online shopping continually evolving. Executive Vice President of Business Development Jamie Pickles says, "We are an online screening portal for carriers and a pricing aggregator for consumers. We have seen an evolution in consumer behavior with more comfort and confidence shopping online. The consumer views the process as having three stages:

1) Initiate
2) Inform
3) Narrow options

"As this channel continues to grow and produce better educated/prepared consumers—carriers, agents and brokers are all recognizing the importance of an online, direct-to-consumer strategy."

**Direct-to-Consumer vs. Producer?**

When it comes to developing new business, the producer is still king. But is a direct-to-consumer strategy a threat to the producer? The answer is—it depends. The pervasive products sold through this channel are simplified issue and are not products that producers focus on. Yet there is a big and underserved market for lower amount policies, and the direct-to-consumer approach is the ideal way to reach them. By adding a risk triage approach to the screening process, companies are better qualifying the leads they generate and opening up the door to sell higher amounts and/or offer additional products and riders.

According to Tom Fiordimondo, "Premiums generated through direct-to-consumer marketing constitute a single-digit percentage of the industry total as compared to producer generated premium—and that may always be the case. Web portals, a form of lead generation, have been on the rise and tend to generate higher face value policies. Producers themselves are actually very skilled users of direct-to-consumer marketing as a source of lead generation, and carriers also use the same to generate leads for producer channels. As opposed to the producers, we tend to look at all marketers in the direct-to-consumer space as our real competitors (sellers of Thigh Masters and Ab-Blasters included). We are competing for airtime and eyeballs on our mail pieces, and we are all after the same thing—the attention of the consumer and his willingness to pick up the phone and *act now*."

## Conclusion

Traditionally, underwriting and marketing operate in silos. The real-time nature of leads generated through direct-to-consumer marketing efforts opens up the opportunity for underwriting and marketing to work together as partners. Marketing can inform underwriting of what is happening in the marketplace with competitors' rating and pricing relative to a particular product being promoted, and underwriters get an opportunity to interact with the applicant without any mediation or management by producers. Underwriting can help inform marketing about what kind of applicants are responding to a promotion and if the products and pricing are compatible with the messages and mediums being used to drive responses. Both sides can benefit from real-time gathering and deciphering of market intelligence, which allows for testing marketing campaigns and product mixes before incurring the expense of a major product introduction.

By adding a direct-to-consumer capability, insurers are bolstering both their marketing and underwriting capability, opening up a channel that is ideally suited to reach underserved market segments, communicating directly with consumers in a cost-effective manner, and helping to drive more revenue to the bottom line.

**About the Authors**

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Parameds.com, a PDC company, was founded in 1998 by the company's CEO, Eli Rowe, and since then has emerged as the premier provider of APS retrieval and summary services, exam solutions and expert automated underwriting/claims support for the life, disability, long-term care and health insurance industry. Eli graduated Summa Cum Laude with a business degree from Touro College, while simultaneously becoming one of NYC's youngest Level 4 Paramedics. He volunteers in many industry and non-industry charity and association organizations, is the secretary and treasurer of MUD (the Metropolitan Underwriters Discussion Group), is an active volunteer paramedic, an avid instrument rated pilot and a father of two little boys and two sweet girls. Eli has spoken as a keynote speaker on the mainstage of the annual meeting for the Association of Home Office Underwriters, the Metropolitan Underwriting Group (MUD), the Society of Actuaries, and is published in the scholarly *Journal of the Academy of Life Underwriting, ON THE RISK* and is a featured contributor to *Insurance News Net*.

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Chris Orestis held senior positions on a number of political campaigns before working in 1993 and 1994 for both the White House and the Senate Majority Leader on Capitol Hill. From that point, he spent the next several years representing the health and life insurance industry as vice president and senior vice president respectively for the Health Insurance Association of America (HIAA) and the American Council of Life Insurers (ACLI). As senior management for both organizations, he was responsible for external affairs and activities related to revenue generation including membership, marketing, business and financial development, industry conferences and industry-vendor coalitions/partnerships. In 1999, he was awarded the Robert R. Neal Medal by HIAA for distinction and service to the industry. Chris heads marketing and profit center development for Parameds.com and is a regular, featured contributor to a number of industry publications, including *ON THE RISK*, *Insurance News Net*, AHIP's *HealthDecisions*, *InsuranceIntell* and *ProducersWeb*.