

INSWEB

Ray Smythe was reflecting on the contrasts of the day. That evening, at Chubb Corporation's annual recognition dinner, his employer of twenty years had presented him with the award for top claims adjuster of 1999. When he got home, he discovered an e-mail message from his daughter, who had recently graduated with an MBA and moved to a new apartment in Chicago. Miriam's message excitedly described to her father the ease with which she had bought all the insurance he had recommended she have. Ray was pleased to hear that his daughter had taken his advice regarding the value of owning insurance, but he was shocked to learn that rather than buying through an agent and Chubb, she had bought all the insurance on the web via InsWeb. On InsWeb she found renters insurance for her new apartment on Lakeshore Drive, car insurance for her new Saab, and even pet insurance for "Dot-com", her new pet Dalmation. Ray sat in front of the computer terminal and shook his head in disbelief. How could his daughter shop at a competitor?

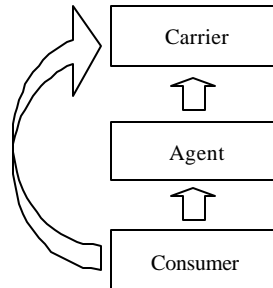
Ray decided to log onto the Internet himself and check out InsWeb. He was dismayed by what he discovered. InsWeb (www.InsWeb.com) was an online marketplace that provided extensive information about its products and enabled consumers to shop for a variety of insurance products, including automobile, term-life, homeowners, renters, individual-health, and pet insurance. Miriam's e-mail quoted a recent *Forrester Report* that credited InsWeb with revolutionizing the process of finding insurance by empowering customers to compare products from direct writers, exclusive agents, and independent agents all in an electronic, one-stop-shopping option that had no physical counterpart. Indeed, InsWeb was simple and convenient to use, and was considered by many industry analysts to be the best player in the insurance-shopping marketplace.¹

Insurance Marketplace

Over the years a variety of insurance products had been developed, including renters, auto, life, and health. The value chain for each type of product was distinct. The issuance process for some products was relatively simple; for example, automobile insurance was sold to the consumer either through an agent or directly from the carrier. Therefore, to ensure a competitive price, the consumer had two options: call carriers and collect quotes or trust the judgment of an agent.

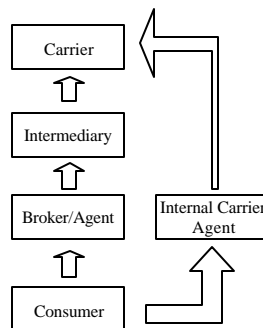
¹Jaime Punishill, "Practicing Proactive Destruction," *Forrester Report* (October 1999).

Automobile-Insurance Value Chain



Other types of insurance were sold through more complicated value chains. Life insurance, which was subject to a number of government regulations, was an example. Many life-insurance products existed, from a simple term life contract to the much more complex whole life and universal life contracts. The sale of each life product was restricted by specific regulatory laws, sometimes requiring a laborious, often manual, application and review process. Despite the many venues available to consumers to purchase life products, there were only two methods that were used regularly. First, the consumer could interface directly with an internal agent from the carrier. Consumers who used this path faced barriers if they wished to shop between carriers for the best price because of the intensive paperwork and proprietary medical tests required during the application process. Second, the consumer could contact a life-insurance agent, who would collect application information, obtain quotes from a number of carriers, and recommend a policy. Most agents had relationships with several carriers. Agents also had relationships with intermediaries, who provided back-office support and freed the agent to concentrate on sales. Intermediaries provided various levels of support in the policy-issuance process, from coordinating medical exams to expediting policy issuance. Consumers who used an agent lacked firsthand knowledge of prices and relied on the agent to recommend the most suitable policy.

Life-Insurance Value Chain



Traditional members of the insurance value chain had been slow to embrace the Internet and online business. There were numerous reasons why the industry had been slower than brokerages and commercial banks to integrate web-enabling technology. For example, unlike a brokerage business that had frequent customer visits, insurance was a product that consumers did not regularly buy. It was purchased occasionally and usually through an agent. Moreover, insurers hesitated to implement online sales because the new channel would threaten the agents, who sourced a significant amount of the company's sales. And finally, regulatory restrictions also hampered online insurance applications as laws varied from state to state.

The March 2000 issue of *Forrester Report* stated, "More than 27 percent of all U.S. households and 60 percent of online households have bought something online. But of the 28 million online purchasing households, less than 700,000 have bought insurance online."² Despite low consumer interest in purchasing insurance on the Internet, some online companies emerged that allowed for information gathering and price comparison.

InsWeb

InsWeb was first conceived on New Year's Day in 1995 by Hussein Enan and Darrell Ticehurst. Both men were successful entrepreneurs, Enan in the reinsurance market and Ticehurst in telecommunications hardware. "I knew about the Internet and he knew about insurance," Enan said. "So we started talking." From that conversation, InsWeb Corporation was born.³ The company, formally established in October 1996, held an initial public offering for \$85 million in July 1999 when the company issued 500,000 common shares at \$17 a share.

InsWeb's website featured the largest network of online partners of any Internet insurance marketplace. Many services were provided, including real-time customer service, interactive tools, and research capabilities that helped consumers make confident and well-informed decisions. InsWeb was partnered with an evolving list of 52 carriers, including CNA, John Hancock, Zurich Kemper, Progressive, and MetLife (see **Exhibit 1**).

InsWeb simplified the policy-shopping experience for the customer. To purchase a policy, customers filled out a single application. InsWeb compared the data with the criteria of each underwriter. The customer was presented a list of four potential policy offerings (when available), which could then be purchased directly or through an agent, depending on the company.⁴ Because InsWeb charged the carrier a fee for each sales lead, its revenue was not affected by whether the customer chose to purchase online or through an agent.⁵

²Kenneth Clemmer et al., "Market Overview: Insurance Online Is All about Research," *Forrester Report* (March 2000).

³Beth Karlin, "InsWeb Builds Its Brand Image," *Insurance Networking* (October 1999): 24.

⁴Karen Epper and David Weisman, "New Intermediaries Beckon Insurers On-Line," *Forrester Report* (20 June 1996).

⁵Karlin.

InsWeb offered consumer value through improved pricing transparency in term-life and auto-insurance policies. For auto insurance, InsWeb acted as an online “agent” that allowed consumers the convenience of purchasing insurance from some carriers completely online. Progressive was a notable example of a carrier that used an agentless sales process. For most other companies, however, InsWeb referred the customer to a local agent to complete the deal. Shopping for term insurance was similarly complex: customers were provided with agents’ names, who would contact customers to complete the sale. In addition, InsWeb provided customer value by reducing time spent shopping for policies, decreasing paper work, enhancing the customers’ confidence in their selection, and providing a fair value.

In addition to the benefits for the consumer, InsWeb also provided value for the insurance companies. Insurers had lower customer-acquisition costs using InsWeb. Ordinarily, these costs could run about \$400 a year for a typical \$1,200-premium auto policy, according to Ticehurst. Were the same policy purchased from InsWeb, acquisition costs would average \$200 to \$300. For term-life coverage, first-year acquisition costs could reach \$600, often surpassing average term-life premiums of \$500. By selling through InsWeb, carriers reduced those costs to \$200 to \$300.⁶ InsWeb’s fees charged to the insurance companies, however, were relatively modest at \$1,000 a month and \$10 for each application that resulted in a sales lead.⁷ InsWeb considered each time it recommended a carrier’s product to a potential consumer a sales lead.

InsWeb’s competitive advantage lay in its direct computer links with more than 50 percent of its partnering carriers. While other insurance websites could only provide estimates of quotes, InsWeb provided the carrier’s actual quote. For those carriers that were not connected via the Web, customers would receive a quote directly from the carrier by phone or e-mail. This system enabled InsWeb to provide accurate quotes; although, it also slowed the process down significantly. For a non-web-enabled carrier, customers might have to wait from 20 minutes to several days for the carrier to process the information and provide a quote.⁸

The Competitive Landscape

InsWeb was not the only company providing online insurance shopping. In fact, because the insurance industry was large and complex, new players entered the market in a variety of ways. Some companies specialized in a single service, such as providing quotes over a broad range of insurance categories, while others specialized in a specific type of insurance, such as health insurance. Major competitors included eCoverage.com, InsureMarket, Quotesmith.com, and Ebix.com (**Exhibit 2** provides comparative descriptions of the various competitors in the online insurance marketplace).

eCoverage, was launched in September 1999 with California auto insurance. eCoverage currently offered auto insurance for residents of Arizona, California, Illinois, Indiana, Missouri,

⁶Ibid.

⁷Epper and Weisman.

⁸Karlin.

Ohio, Tennessee, and Wisconsin. It planned to offer a full range of personal insurance products, in all 50 states. Unlike many of its competitors, eCoverage was attempting to become licensed in all states and planned to underwrite, not just shop, insurance risk. The company's slogan, "the industry is history," reflected its aggressive marketing strategy intended to shake-up the insurance establishment.

InsureMarket, a member of Intuit's Quicken Financial Network, allowed customers to fill out a single online application and returned competitive quotes. Unlike InsWeb, which charged a fee for sales leads, InsureMarket charged insurers a percentage of completed sales and a setup fee.⁹ Intuit's primary focus was banking and investment, but the company hoped to cross-sell insurance during the course of business.

Other online insurance companies catered to price-sensitive customers by providing them quotes or allowing them to name their own price. For instance, Quotesmith provided quotes from more than 300 leading insurance companies, including auto, life, medical, and dental carriers. Ebix.com allowed customers to name their own price and see if an insurer would accept the offer. While many of the online companies provided customers with information, few provided a venue for actually closing the deal online without having to speak to an insurance agent. eHealthInsurance.com acted as an online insurance broker by providing customers with quotes, and also offered a complete online application, approval, enrollment, and payment process. In April 2000, InsWeb and eHealthInsurance.com announced a two-year online partnership designed to leverage the companies' respective strengths in marketing, product offerings, and customer service. With InsWeb's marketing infrastructure and eHealthInsurance.com's products and fulfillment capabilities, the companies hoped to create a comprehensive, online solution for the insurance industry.¹⁰

Despite numerous competitors in the online insurance space, website quality was questionable. For many, online auto-insurance shopping was a frustrating experience.¹¹ Ara Trembly, of the *National Underwriter*, performed a test on the various insurance websites and obtained a wide range of results. The best price was found on the difficult-to-use Ebix.com. For his brand-new 2000 Toyota Celica GT, Trembly received a quote of \$648 a year from an Allstate agent in one day. The easiest-to-use site was Quicken's InsureMarket, although it would not accept a 2000 model and he was forced to enter "1999" to continue the test. The fastest turnaround was from InsureMarket, where he received five quotes within a few moments. Unfortunately, they were the highest quotes he received, ranging from \$2,740 to \$3,735—almost six times higher than the Allstate quote from Ebix.

Finally, InsWeb provided a seamless process that furnished Trembly with one "instant" quote from GE Auto Insurance Program and two "pending" quotes from State Farm and RelianceDirect that he "should receive . . . within three to five business days." He got an e-mail from RelianceDirect three days later with a quote of \$920 a year, but State Farm never

⁹Epper and Weisman.

¹⁰"InsWeb and eHealthInsurance Partner to Create Premier Online Health Insurance Marketplace."

¹¹Ara Trembly, "Online Shopping Still Far from User-Friendly," *National Underwriter*.

responded. Progressive provided Trembly with a quote of \$1,506, with a \$25 discount for purchasing the coverage on the Internet—but, again, the site would not accept a 2000 model and he had to enter “1999.” Progressive displayed competitive quotes from Allstate (\$2,128) and Colonial (\$2,362), together with its own. The Allstate comparison quote provided by Progressive, however, was more than three times higher than the Allstate quote provided for the same vehicle on Ebix.com.

In addition to finding the sites difficult to use and variable in pricing, Trembly also considered the search results hard to interpret and potentially misleading.¹² When shopping online for a \$100,000, 10-year life-insurance policy, Trembly received extremely varied results. Moreover, after examining the fine print of the policy terms, he discovered that the first-year policy cost might not hold constant over the ten-year term. For example, the lowest quote he received was from First Colony Life/GEFA, for \$145; however, when he looked further he saw a column titled “10 Years Total Cost” with \$2,006, which made the average cost of the policy more than \$201 per year, not \$145. The fine print revealed that the policy started at \$145 and escalated annually to a high of \$273 in the final year. Another quote, from Old Line Life/American General, had a first-year premium of \$176, which rose to \$196 in the second year and remained at that level. Such lack of clarity in the terms and pricing made Internet shopping difficult for the consumer.

Stillborn Marketplace

As the market stood in spring 2000, online insurance information supported traditional channels (i.e., the agents) and did not threaten to cannibalize agent sales. Because of state regulations and security issues, customers were generally required to complete their purchases through an agent. For example, many policies could not be closed online because most states did not recognize the legality of an online signature. Some states, however, were considering changing this regulation. Regulatory changes could significantly alter the shape of the online insurance industry and could place online insurance aggregators in direct competition with agents. In the meantime, however, carriers were reluctant to threaten their agents overtly, as the majority of their sales came through this channel.¹³ Ultimately, carriers would have an incentive to circumvent the agents when possible, because agents’ fees composed fully 40 percent of carriers’ operating costs.¹⁴ Consumers, too, would likely place pressure on the carriers to issue at least some types of policies online, as agents currently took an average commission of 11.3 percent of what consumers paid for insurance.¹⁵

In spring 2000, online insurance sales accounted for a small percentage of all policies sold. Although this figure was expected to increase, the nature of the insurance business would require insurers to utilize other channels, such as agents, to maintain sales. Policy sales would

¹²Trembly, “Buying Life Insurance Online? Make Sure to Do the Math,” *National Underwriter*.

¹³Gomez, Weisman, and Wooley.

¹⁴Ibid.

¹⁵Diane Brady, “Insurers Step Gingerly into Cyberspace,” *BusinessWeek* (22 November 1999).

continue to need the skills of an agent, as many transactions required some offline component, like a medical exam. Agents would still be needed to describe complex and customized policies, like variable life. Internet sales were expected to be highest in auto insurance because, unlike life insurance, auto insurance was owned by virtually everyone and did not require additional offline processing. *Forrester Report* estimated that 7.5 percent of auto-insurance sales would be conducted online in 2001, approaching \$850 million in annual sales. By 2001, online term-life sales were expected to capture 11 percent, or \$108 million, of the term market because of product simplicity. Homeowners insurance had a lower turnover and was therefore expected to capture only 5.4 percent of new homeowner premiums online by 2001. Variable- and universal-life policies were expected to continue to be sold through agents owing to product complexity.¹⁶

Forrester Report estimated that most consumers used online insurance sites only to comparison shop, and then conducted their actual purchase offline.¹⁷ The publication reported that 85 percent of online insurance owners had an insurance agent and that, among online consumers, 92 percent of auto, home, and renters policies and 70 percent of term-life policies were bought through an agent. With customers reluctant to complete an online purchase where available and with carriers reluctant to threaten their current distribution channels, the future of online insurance aggregators was unclear.

Since its initial public offering, InsWeb's stock price had been in decline (see **Exhibit 3**). A sharp reduction in value occurred on April 19, 2000, when InsWeb announced that a primary partner, State Farm Insurance, had decided not to renew its contract with the company. Sales of State Farm automobile and homeowners policies had provided 30 percent of InsWeb's revenues. The contract between the companies ended May 1, 2000, and InsWeb's revenues were expected to plummet. The loss of State Farm's contract was an ominous sign for InsWeb and other Internet companies hoping to carve out a niche in the insurance marketplace. InsWeb believed that State Farm terminated the contract because InsWeb's strategic goals conflicted with State Farm's agent network. InsWeb had primarily acted as a referral service for State Farm, but had planned to expand its service offerings to permit the completion of transactions online. InsWeb believed that State Farm agents, fearing disintermediation, had pressured the company to end its relationship with InsWeb. State Farm, however, cited the difficulty in achieving an actual purchase from an InsWeb-based lead as its primary reason for severing the relationship.¹⁸ InsWeb's future with other direct-to-consumer insurers, such as Progressive, was also uncertain.¹⁹ InsWeb would certainly be subjected to a long, difficult trial to claim its place in the insurance marketplace.

After further investigation of InsWeb, Ray Smythe was conflicted: Whom should he call next? Should he call Miriam and chastise her for stepping away from the family insurance company, a company with 118 years of experience? Or, should he call his Merrill Lynch broker and purchase shares of InsWeb, which at its currently depressed price seemed quite a bargain?

¹⁶Gomez, Weisman, and Wooley.

¹⁷Clemmer et al.

¹⁸Ron Shevlin, "State Farm Reveals Chink in InsWeb Armour," *Forrester Report* (26 April 2000).

¹⁹Brian Graney, "InsWeb Looking Anything but Safe," *MotleyFool.com* (19 April 2000).

Exhibit 1

INSWEB

InsWeb-Affiliated Insurance Companies

1. 21st Century Insurance Company	27. John Hancock
2. AAA Insurance	28. Kemper Auto and Home
3. AIG	29. Kemper Insurance
4. Allstate Life Insurance Company	30. Meridian Insurance
5. American Family Insurance	31. MetLife Auto
6. Amica	32. The Metropolitan Life Insurance Company
7. Auto Club Insurance Association and Affiliated Companies	33. The Midland Life Insurance Company
8. Auto Club South Insurance Company	34. The MONY Group
9. Avomark	35. National Merit
10. Blue Cross and Blue Shield of Florida	36. Nationwide Insurance
11. Blue Cross Blue Shield of South Carolina	37. New York Central Mutual
12. CNA	38. Northwestern Mutual Life
13. Central States of Omaha	39. Ohio National Financial Services
14. The Commerce Group, Inc.	40. Old Republic Life Insurance Company
15. Cross Country Home Services	41. Orion <i>Auto</i>
16. COUNTRY COMPANIES	42. PacifiCare of California
17. CSE Insurance Group Electric Insurance Company	43. Permanent General
18. Explorer Insurance Company	44. Progressive Insurance
19. Farmers Insurance Group	45. Reliance <i>Direct</i>
20. Financial Indemnity Company	46. Reliance Personal Insurance
21. GE Auto Insurance Program	47. Sun Life
22. GE Term Life Insurance Program	48. Trigon Blue Cross Blue Shield
23. GMAC Insurance	49. Travelers Insurance
24. The Hartford	50. Tri-State Consumer Insurance Company
25. Homesite Home Insurance	51. Western and Southern Life
26. Horizon/Blue Cross Blue Shield of New Jersey	52. Zurich Kemper Life

Exhibit 2

INSWEB

Insurance Web-Site Comparisons¹

NAME	WHAT IT DOES	HOW IT STACKS UP
EBIX.com (www.ebix.com)	Reverse auction in which insurers and agents bid for customers.	Boasts a reasonable mix of 170 agents in 46 states. Offers both consumer and business insurance. But the process confuses some customers.
ECOVERAGE (www.ecoverage.com)	Developing auction, homeowners, and marine insurance with an underwriting partner for sale only on the Web. Says in can cut costs and pass savings on to customers.	No agent fees, and it's backed by big Web investor Softbank. But because it sells only policies developed with its partner, it doesn't have comparison quotes.
INSWEB (www.insweb.com)	Comparison site that generates leads for insurers and agents.	Policies from 46 carriers, fewer than Quotesmith. It can be tough to complete transactions on the site because many underwriting partners insist on closing deals offline.
QUICKEN INSURANCE (www.insuremarket.com)	"Mall" with quotes from 21 carriers of auto, health, home, disability, small business, life and other insurance.	Promises instant, binding quotes. But critics say customer service is weak on offerings and general information about buying insurance.
QUOTESMITH.com (www.quotesmith.com)	Instant quotes on auto, life, medical, dental and other insurance.	Database includes more than 300 insurers in 50 states, the most of any site. But critics say quotes can change as insurers ask more questions before policies close.

¹Diane Brady, "Insurers Step Gingerly into Cyberspace," *BusinessWeek* (22 November 1999).

Exhibit 3

INSWEB

Stock Price Performance

