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DTC: Direct-to-Consumer, Definitions to Conclusions

By Nick Ortner

As S&P Global notes in its 2018 market report,[1] primary emerging areas for disruption and innovation in the insurance marketplace are direct-to-consumer (DTC) approaches in order to:

- improve the user experience;
- streamline how consumers obtain insurance; and
- reduce administrative expenses.

A fundamental challenge for various constituencies (such as carriers; distributors [i.e., brokers/agents]; and consumers [i.e., customers/policyholders]) in the insurance industry may be that DTC can mean different things to different audiences and/or products. A misunderstanding of that meaning may lead to misaligned expectations and misplaced priorities for all parties. Such a misunderstanding may drive carriers to make investments that differ from their agents' priorities and their consumers' needs. Addressing the challenge of those disconnected meanings and unifying under one definition of DTC may require three connected steps:

1. **What.** Align the various parties' definition(s) of DTC to establish a collective understanding for the affected parties.
2. **Why.** Understand why a direct-to-consumer approach may be important for carriers' and distributors' growth and development goals, tactics and strategies.
3. **How.** Use the agreed-upon baseline and understanding of DTC's importance to establish and agree upon reasonable expectations for its role in marketing, distribution, and product development and performance.

DEFINITION: THE ABCDs OF DTC

To guide understanding of what parties may mean when they describe a direct-to-consumer approach for insurance, Table 1 summarizes one understanding of the DTC spectrum using the

Table 1
DTC Spectrum: Carrier, Distributor and Consumer Activity

DTC Label	Consumer Activity	Estimated Constituency Involvement		
		Carrier	Distribution	Consumer
Aided	• Shops on own. • Comes to carrier/distributor with options in mind, for guidance on final product decision(s). • Demands regular service/communication.	Actively involved	≈ 75%	≈ 25%
Balanced	• Shops on own. • May purchase on own or need some guidance. • Requires some service/understanding.	Assist as needed	≈ 50%	≈ 50%
Collaborative	• Shops and buys on own. • Understands the product purchased; may have infrequent service needs or questions. • Other needs for carrier/distributor to explore.	Occasional, when needed	≈ 25%	≈ 75%
Directed	• Shops, buys and understands on own. • One-time or periodic product purchase and need (e.g., term life, Medicare supplement, auto/home). • Open to marketing but wants to retain control.	Limited, if needed	≈ 0%	≈ 100%

"A-B-C-D" mnemonic device shown, along with accompanying estimates of carrier, distributor, and consumer activity. Table 1 also provides estimates of involvement by those parties across that spectrum in the insurance marketplace.

Carriers, distributors, and consumers may use Table 1 to mitigate the potential for misunderstanding, align expectations, and establish priorities to unite under one definition of DTC.

IMPORTANCE AND USE OF DTC ABCDs

Different insurance industry constituencies are focusing on the user experience and embracing DTC distribution for some shared (and some unique) reasons, all primarily centered around the concept of scarce resource allocation (whether those resources are money, time, and/or expertise):

CARRIER

- Find savings and efficiencies to enhance pricing competitiveness and reduce friction for the consumer.
- Prioritize investments in emerging opportunities.
- Optimize support for sales, distribution, and marketing expertise.
- Align internal metric and goal calculations with distribution's expectations.

DISTRIBUTION

- Optimize time use to maximize the value provided to consumers and improve own performance.
- Align efforts, spending, and investments with carrier opportunities and priorities.
- Gather data to guide and support cross-selling and consumer understanding.

CONSUMER

- Control interaction with carriers and distribution on the consumers' terms (timing, length of interaction, etc.).
- Customize engagement with carriers and distribution, using the consumers' preferred medium (such as online, an app, in-person or non-DTC).
- Optimize time and money spent on insurance discussions and coverage.

Collaboration between carriers and distributors on the following activities may prove to be valuable investments for both parties:

- Align and agree upon a common definition of what DTC means, to put both parties on the same page to minimize wasted effort and investments and address the needs of consumers.
- Determine the position of consumers on the aforementioned spectrum.
- Recognize that different products and consumers may be in different positions on that spectrum.
- Embrace the emerging and ongoing importance of direct-to-consumer distribution.

What are the possible dividends for investment in such activities? Such collaboration may position carriers and distributors together to accomplish the following:

- Align sales, marketing and performance expectations and incentives for all parties to increase the possibility of outperforming in (and outside of) the DTC space.
- Design sales, marketing and distribution systems and approaches to meet consumers where they are at.
- Expand current sales and cultivate new markets to remain relevant and magnify profiles in an ever-changing industry.

By first establishing an understanding and shared meaning for DTC, carriers and distributors may pave the way for collaborative decisions for effective and efficient use of time and money. Such parties may then move in concert to optimize those resource investments and improve their chances for relevance, growth, and expansion with their target markets. ■

Nick Ortner is a consulting actuary for Milliman, a member of the American Academy of Actuaries, and meets the Qualification Standards of the Academy to provide this information. To the best of his knowledge and belief, this information is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. The opinions included here are the author's alone and not necessarily those of Milliman.

Nick Ortner, FSA, MAAA, is a consulting actuary with the Milwaukee Health practice of Milliman. He can be reached at *nick.ortner@milliman.com.*

ENDNOTE

1 Mason, Thomas. 2018 US Insurtech Market Report. S&P Global, 2018, *www.spglobal.com/marketintelligence/en/news-insights/blog/2018-us-insurtech-report* (accessed November 30, 2018).