21.5TH CENTURY HEALTH INSURANCE

COMPETITIVE STRATEGY FOR PAYERS TO WIN AGAINST THE TECH GIANTS

KANSAL & COMPANY

COURAGE TO LEAD

INSIGHTS

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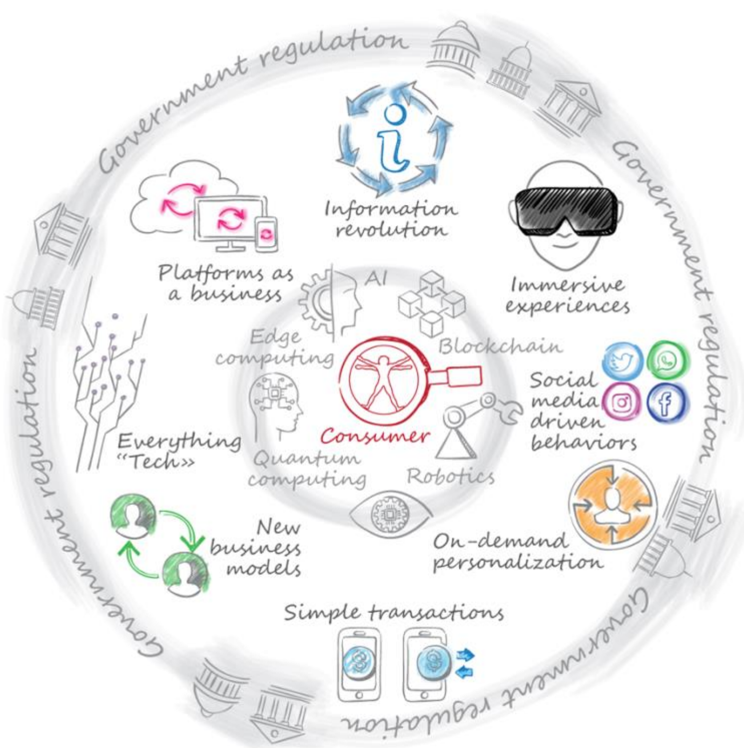
INTRODUCTION

It should come as no surprise that the healthcare industry would eventually be driven by the consumer. It is surprising, however, that it has taken this long. Over the past couple of years, we have seen massive movement toward consumer-centric marketplaces in the retail, telco, media and entertainment industries, among others. The consumer, armed with easily accessible information, increased buying power, and a wide range of choices, is exerting its interests and forcing the industry players to reshape their offerings, enhance consumer experience and engagement, and innovate their business models, or risk get disrupted.

Similarly, in healthcare, insurers are dabbling with value-based care, establishing alternate care sites for easier access, formalizing preventive and wellness programs, while also attempting to integrate digital health into their offerings. While the intent is there, these efforts are best described as piecemeal or isolated, failing to generate the expected engagement and enthusiasm from the consumer, the principal reason being that healthcare insurance is still primarily funded by the government or employers.

At the same time, though, consumers are searching for a connected experience in healthcare, one driven by consumption patterns that have been shaped by direct-to-consumer industries. Tech giants who are already embedded in the lives of consumers are sensing this opportunity to further advance their business footprint by moving into healthcare with their platform strategies. They are leveraging emerging social and technological trends to make inroads into a market which is projected to become 20% of US GDP by 2022!

FIGURE 1: THE NEW HEALTHCARE CONSUMER



Tech giants are using alternative products, platform business models, patient centricity, and customizable pricing to revolutionize the industry, and each player is using its particular strength to formulate its own healthcare strategy. For example, Apple is leveraging the consumerization of medical grade bio-sensors; on the other hand, Amazon's interest in creating new healthcare models is evidenced by the partnership between it, Berkshire Hathaway, and Chase.

Incumbents cannot compete on their current business model. They will have to lay the foundations around digitization, deep analytics, and personalization as prerequisites to counter the threat caused by this growing dominance. Incumbents can take an incremental path, first by simplifying products and selling them through established and emerging ecosystems, followed by expanding core offerings to support consumers' "Protect my health" journeys, and finally, by influencing and facilitating journeys in order to become true orchestrators of patients' healthcare needs.

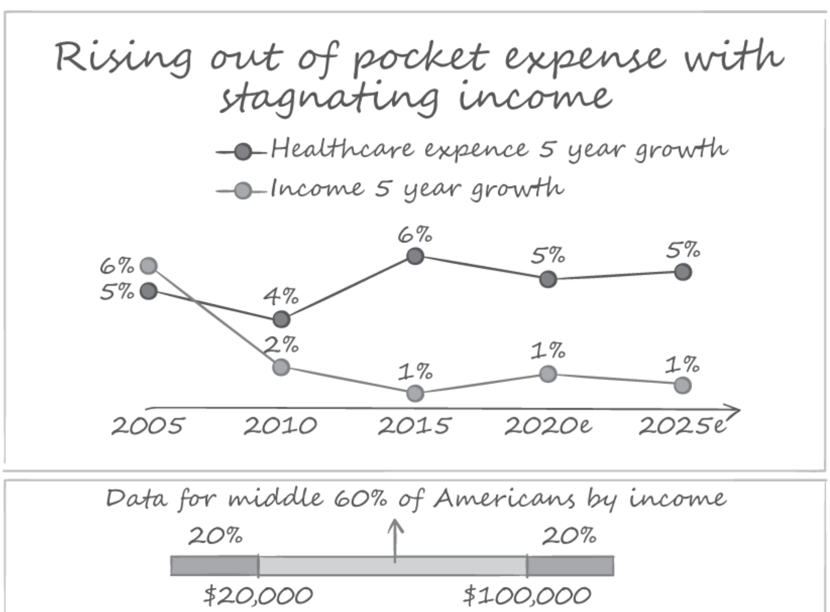
THE FRUSTRATION OF THE US HEALTHCARE CUSTOMER

Cost to the US healthcare industry stands at an unsustainable level of 18% of GDP, compared to 11% for other developed nations[1]. Despite the high cost, however, health outcomes remain unpredictable. The rising frustration emanates from three primary reasons:

INCOMES HAVE NOT KEPT PACE WITH INCREASES IN HEALTHCARE COSTS FOR THE MIDDLE 60%

The rising cost to insurers and employers is pushing the cost burden onto consumers, who now pay much higher premiums and other out-of-pocket health expenses. Figure 2 compares the growth of healthcare expenses and income over time and demonstrates how sluggish income growth, accompanied by increasing healthcare expenses, pans out for middle-income households[2].

FIGURE 2 - RISING OUT-OF-POCKET HEALTHCARE EXPENSE WITH STAGNATING INCOME

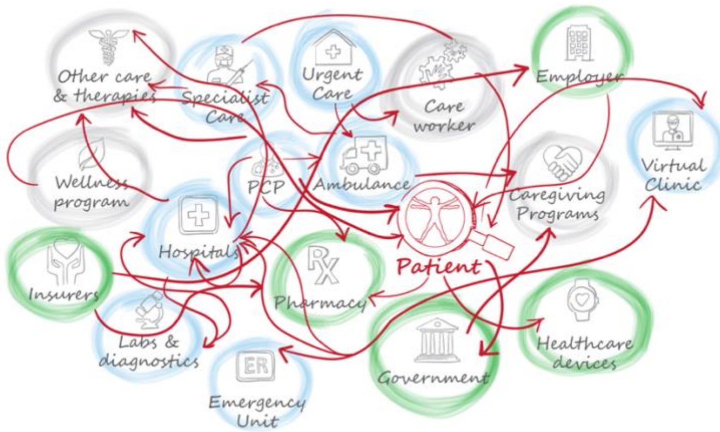


[1] Kaiser family foundation and OECD data from https://data.oecd.org/healthres/health-spending.htm
[2] Virtusa analysis on costs & Income data from U.S. Bureau of Labor Statistics - https://www.bls.gov – Consumer Expenditure Surveys

THE CONSUMER IS LEFT TO ORCHESTRATE ITS CARE ACROSS A FRAGMENTED LANDSCAPE

In an era of connected and personalized customer experience, healthcare faces some very fundamental challenges. Lack of data sharing, absence of workflows across the value chain, and the inability to unite all stakeholders for a common purpose have led to the healthcare consumer to become the unsuspecting orchestrator of care (Figure 3), with severe limitations in terms of resources and access to data-driven decision making.

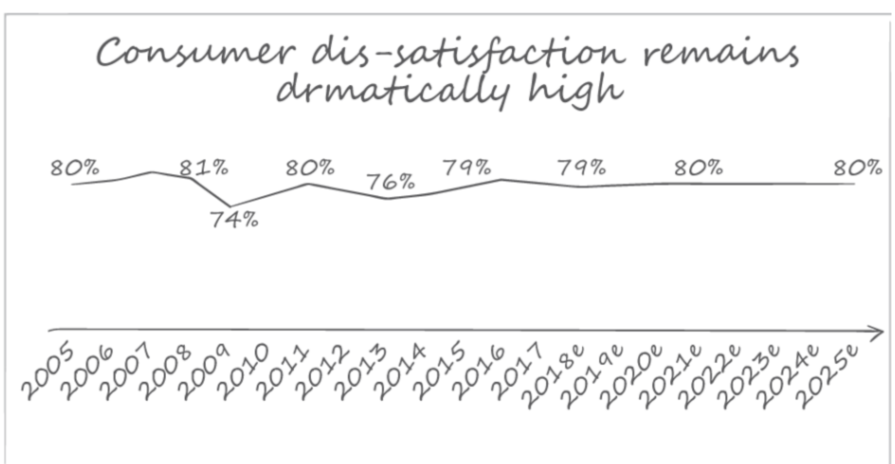
FIGURE 3 - THE HEALTHCARE CONSUMER IS LEFT TO ORCHESTRATE ITS CARE



LACK OF AWARENESS OF AVAILABLE OPTIONS HAS RESULTED IN UNDER-UTILIZATION/MIS-UTILIZATION OF FACILITIES

In addition to traditional hospitals and clinics, there is a proliferation of alternate care sites, ranging from retail clinics to urgent care sites. Additionally, there are businesses that focus on 'Wellness & Prevention,' or ones propagating the promise of 'Digital Health' as an alternative. Most often, such services discount the fact that an average consumer may not be well-versed with the suitability of such options, when to use or not use them, and the financial implications. The businesses focus on making money through new business models, and the consumer of healthcare is even more confused. No wonder that the consumer dissatisfaction with healthcare remains high (Figure 4).

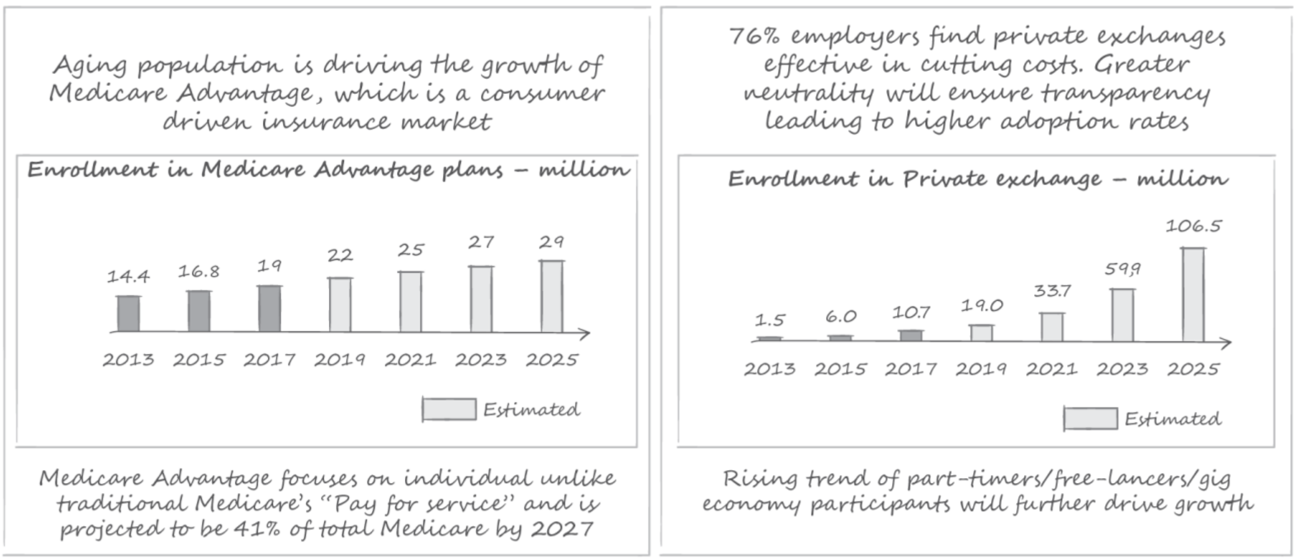
FIGURE 4. CONSUMER DISSATISFACTION WITH HEALTHCARE REMAINS HIGH



CONSUMER MARKET GROWTH IS INEVITABLE, REGARDLESS OF POLITICS

Escalating healthcare costs and the resulting burden on Medicare and Medicaid, as well as the gradual shift of healthcare financial burden from employer to employee, are driving the direct-to-consumer trend in healthcare. We can also agree that the Medicare marketplace is essentially a direct-to-consumer market in which beneficiaries choose their insurance provider—trend visible in the fact that even I get multiple calls from various providers during the enrollment season, even though I am far from being eligible for such benefits. Private exchanges are providing consumers with a greater choice of plans: customizable, self-administrable, and flexible so as to accommodate a variety of individual needs,—and the number of individuals and large employers using these exchanges is on the rise.

FIGURE 5 - CONSUMER-ORIENTED INSURANCE GROWTH[3]



Our projections show that this will remain a growing market in the years to come. Further, much like the 401K world, we can predict the transition from "health benefits" to "health contribution," when employees are free to select and manage their own plans. The trigger point is there, and a bold move on part of one large employer will open the flood gates to this phenomenon.

While the current industry has the incentives to maintain the status quo to drive longevity of its current business model, the emerging shift toward individuals funding their own healthcare is creating opportunities for a class of firms known for their extreme consumer focus, technology expertise, and business model innovations—The Tech Giants.

TECH-GIANTS ENTER US HEALTH INSURANCE SPACE TO BECOME ORCHESTRATORS OF HEALTHCARE

[3] Medicare Advantage - https://www.cms.gov|https://www.kff.org/medicare/fact-sheet/medicare-advantage | Private Exchange - http://dayhealthstrategies.com

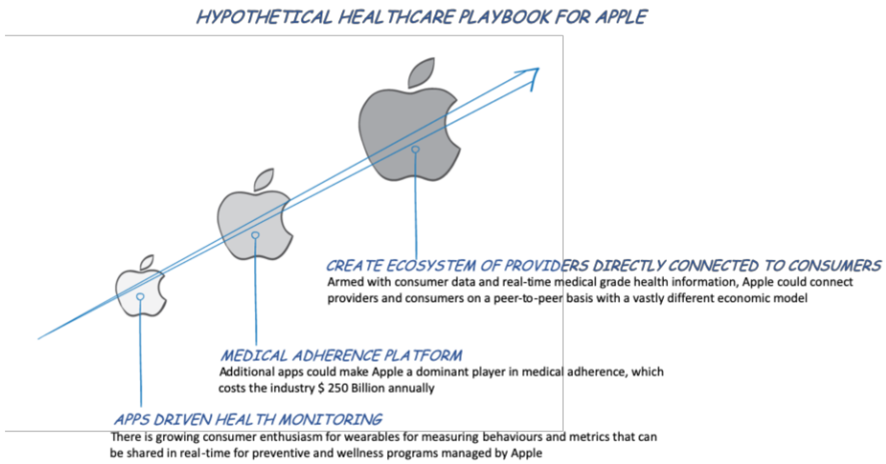
Tech-giants are seizing this opportunity to build a new healthcare experience that is connected, cost-efficient, and consumer-centric (Figure 5). These huge companies, with their unique platform strategy, could position themselves as the orchestrators of care, alleviating the current consumer difficulties of having to navigate the complex healthcare ecosystem by themselves, unassisted and ill-informed.

FIGURE 6 - TECH-GIANTS' PLAYBOOK IN HEALTHCARE

As they assert themselves in their new role of orchestrators, they will be in an enviable position to gather and curate consumer data. Tech-giants are deploying varying strategies to gain market share and define their position in the evolving marketplace.

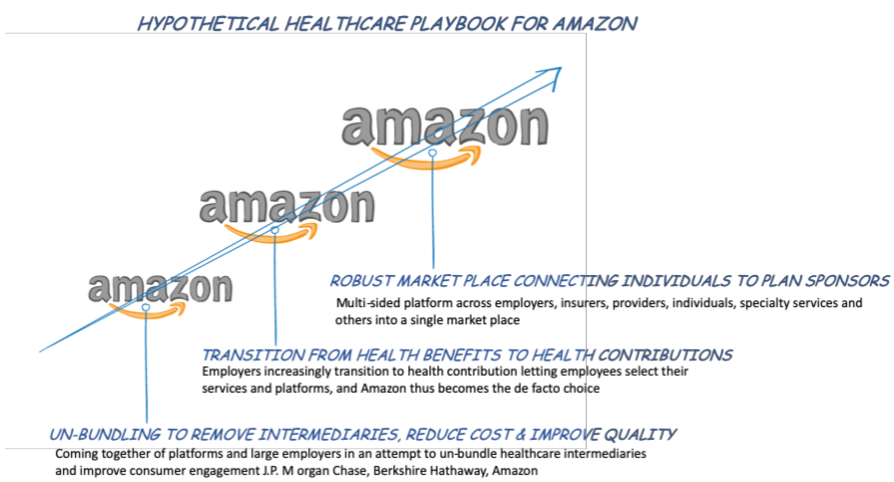
APPLE

Apple is charting a new journey with consumer bio-sensors, using its 'Apple Watch' platform. It is likely to capitalize growing consumer enthusiasm for wearables to measure behaviors and health markers that can be shared in real-time for preventive and wellness programs managed by Apple. It would move into remote care monitoring and drive medical adherence via customized mobile apps. Finally, using deep customer data, it could connect providers and consumers on a peer-to-peer basis with a vastly different economic model. In effect, Apple could create an ecosystem around its platform forcing participation from traditional players on the back of consumer demand.



AMAZON

Amazon, in partnership with Berkshire Hathaway and JP Morgan Chase, has the potential to offer a unique ecosystem that unbundles current healthcare business models and experiment with new ones with lower cost structures. Initially, it would work toward removing intermediaries to reduce cost and improve quality. The combined employee base of over one million would serve as a research hub to test new care models. Amazon would accelerate the transition from health benefits to health contribution, with employers onboarding with Amazon to manage their health plans. Finally, it could become an insurance marketplace encompassing a multi-sided platform across employers, insurers, providers, individuals, and specialty service providers.



GOOGLE

Google's investment in Oscar Health could be a learning ground for becoming a truly digital insurer of the future. Alphabet's Verily has investments and partnerships across bio-sensors, smart interventions, patient data, and health platforms. At the very least, it could leverage its strength in organizing data and superior 'search and match' capabilities to be a dominant exchange operator. Access to rich personal data would allow Google to provide recommendations. It could look to partner with insurers to create unique plans based on consumer search analytics and deep insights from consumer data. Finally, it could create an ecosystem for 'smart care' to unify healthcare capabilities from bio-sensors, big data-based disease prediction models, and potential partnerships with the likes of Watson Health to create a smart-care platform to dramatically drive costs down while personalizing care at the same time.

The possibilities are endless, deeply impacting the current payer business model. As demonstrated above, tech-giants are taking differing paths to achieve their goal of a tightly integrated, well-connected ecosystem. This also implies that tech-giants become the trusted partner in the customer's journey from "*Being healthy-At Risk- Getting Diagnosed-Treatment-Post Care-and Proactive Monitoring*."

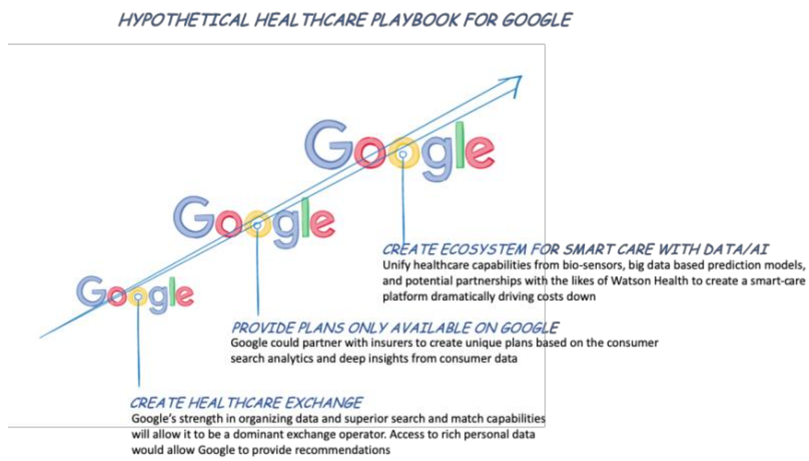


FIGURE 1-TECH-GIANTS EYEING OPPORTUNITIES TO BECOME 'ORCHESTRATORS OF CARE'

HOW DOES A TRADITIONAL INSURER COMPETE?

As healthcare consumers transition from a passive state to a participatory one, tech-giants stand to gain through their platform strategy, hinged on frictionless participation between the healthcare ecosystem and consumers. That said, traditional health insurers have a head start in terms of existing strengths, which will take time for tech-giants to replicate.

HARNESS YOUR STRENGTHS

Healthcare and Regulatory expertise—The US healthcare industry is highly complex, ranging from complying with federal, state, local, and private regulatory bodies to providing integrated care to a very diverse population. While tech-focused companies succeed in areas of handling data, it is the area of understanding the structure of the industry that provides incumbents a critical advantage. The combination of healthcare expertise and knowledge of a complex and often conflicting regulatory environment is an advantage that incumbents need to capitalize upon.

Strong, trusted brand presence—Incumbents enjoy a strong, although sometimes negative, brand presence among healthcare consumers and other healthcare stakeholders. The long-lasting relationships, which have grown organically across the healthcare value chain, provide a solid competitive advantage. Contrast this to a tech-focused player, who needs to foster and grow such relationships with different stakeholders in order to bring them all together.

Government and Industry Partnerships—One of the core assets of the incumbents is government and provider partnerships. Acceptance from health systems and distribution networks requires significant time to scale and will not be an easy ride for the technology players, who in the recent past have been facing increasing regulatory scrutiny of their own.

Large customer base—Insurers enjoy a large consumer base, especially from their group plans. This large population can serve as the learning ground for the evolution of an insurer's strategy.

Healthcare data—Over the past several decades, insurers have been the custodians of proprietary healthcare data, such as disease distribution, provider quality, claims distributions, prescription filling for their existing customers, etc. Insurers are the only players having this treasure trove of healthcare data, which, when combined with non-health data, can provide powerful monetizable insights.

To counter the challenge of new entrants and maintain dominance, incumbents need to build upon their existing strengths and continue to invest in digitization, deep data analytics, and personalization.

DIGITIZE WITH PURPOSE

STEP 1: Digitize across products, experience, and processes—We are seeing the emergence of simple insurance products that are integrated with smart devices and wearables to enable an experience that's digital, efficient, and convenient. Through such initiatives and digitization of customer experience and processes, insurers not only provide a great experience, but also are able to gather data for actionable insights.

STEP 2: Analyze healthcare and non-healthcare data for personalized and optimal care—Further, insurers need to analyze consumer data holistically, which essentially means to analyze the abundance of data generated by consumers today across devices and domains in order to drive insights and recommendations for personalized and optimal care.

Mobile apps—Health, social, ecommerce, and finance

Insurance and Benefits—Health plans, dependent coverage, claims history

Medical conditions—Diagnostic reports, EHR, and medical adherence

Lifestyle—Family, job, home, care, and vacations

Genetics—Ancestry -elated affinity to certain diseases and suitability of treatment and drugs for conditions

Wearables—Medical and non-medical grade wearables that provide real-time, continuous bio markers

In due course, holistic data sets will enable insurers to create complete "digital identities" of their consumers, leading to more personalized experiences. When perfected through the application of Analytics/AI/ML, insurers could transition from "managing sickness" to "preventing sickness," supported by a transformed business model in which profits are driven by helping consumers stay out of the high-cost healthcare ecosystem and optimizing care when beneficiaries get sick.

STEP 3: Leverage unique content and digital marketing to attract consumers—Insurers already have access to individual-level data that can be used as a competitive advantage against new entrants like the tech-giants. Insightful and personalized content provided digitally across channels such as social media, search, and retail can be used to drive traffic to the insurer's own channels of engagement. Personal construction will allow insurers to create individualized offers that are relevant, insightful, and actionable. For example,

To Jane, a young mom who needs a policy to cover her growing family, the insurer could offer

- The right balance of deductibles and premiums
- Average out-of-pocket cost estimates
- Providers with best pediatric facilities
- Vaccination charts by age, local appointments, including reminders
- Fitness centers with best reviews and discounts

To John, who just turned 65 and needs a policy that supplements Medicare, the insurer could offer

- Gaps in coverage "doughnut hole"
- Best balance of deductibles and premiums, based on age and medical history
- Access to online and local communities with shared interests
- Logistical services like ride share, medication delivery, and nutrition programs

These foundational elements, combined with strategic partnerships across the value chain, would enable traditional insurers to provide enhanced consumer experience and build loyalty. Moving forward, incumbents can deploy additional strategies to strengthen their competitive position.

PROTECT AND EXPAND

Market Expansion: Simplify current products and deliver digitally through partner ecosystems such as Amazon and Walmart.

Product Expansion: Expand beyond simple coverage for sickness to coverage for prevention, leveraging wearables, and sensors.

Service Expansion: Broaden offerings that help customers through healthy living, preventive interventions, and social nudges to influence behavior, nutrition, logistics for outpatient visits, and collaboration across care providers and caregivers.

Some incumbents are beginning to respond by taking a leaf out of this playbook. For example, Humana is the largest insurer of Medicare beneficiaries, a market characterized primarily by consumer like behaviors in the purchasing decision. To differentiate itself in the market, it has embraced "Our Bold Goal is a population health strategy to help the communities we serve be 20% healthier by 2020 by making it easier for people to achieve their best health." Healthy days are a self-reported measure developed by the CDC and requires respondents to report on how they perceive their physical and mental health. To achieve the 20% healthier goal, Humana is partnering with communities and physicians to baseline and improve the number of healthy days for its beneficiaries through better clinical engagement, consumer experience, and investments in data and analytics.

Similarly, CVS Health's vision is "…Helping people on their path to better health." To do so, it is launching HealthHUBS with the promise of a personalized experience for its customers, focused on everyday needs such as chronic disease management, blood draws, and sleep apnea assessments. The CVS-Aetna deal provides CVS Health the opportunity to create a healthcare ecosystem for the 22.2 million Aetna customers[4]. CVS already allows its customers to navigate through its mobile app to place online orders for pills; it can further access Aetna's claims data to create customized and convenient drug benefit plans, thus broadening its retail offerings and linking up greater "value" for the consumer. In due course, CVS could integrate its medical adherence program, tele-health, and digital health programs and extend the ecosystem to partners, like nutritionists, counselors, and therapists. Doing so would provide a range of healthcare services, both digitally and through its HealthHUBS and 'Minute Clinics.' In summary, the CVS-Aetna combine is positioning itself to defend against the tech-giants.

CONCLUSION

The time to act is now, before tech-giants disrupt the entire value chain through technology and business model innovations. Tech-giants will be relentless in pursuing healthcare and other services as growth from their core services slow. Amazon's venture with Berkshire Hathaway and Chase, Google's DeepMind and Verily programs, Apple's Smart Watch, CareKit, and ResearchKit are all indications of a future that will be vastly different. Insurers have the competitive advantage that will allow them to remain the dominant players in the future of healthcare. Acting now could prevent insurers playing a catch-up game with tech-giants as these disruptors start taking leadership positions.

ABOUT THE AUTHOR

Ruchin Kansal is the Managing Director of Kansal & Company. We coach transformative leaders, consult with companies to find new markets, and co-create with investors and entrepreneurs to build the future of healthcare. To learn more, visit www.ruchinkansal.com.

ACKNOWLEDGEMENTS: THANKS TO AVIK ROAY AND RAJBEER KAUR OF VIRTUSA FOR THEIR BACKGROUND RESEARCH AND CONTRIBUTIONS

[4] http://investor.aetna.com/phoenix.zhtml?c=110617&p=irol-reportsAnnual