Market Intelligence

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Navigating the Road Ahead

Identifying Opportunity During a Period of Industry Disruption and Uncertainty

A HEALTHCARE MARKET INTELLIGENCE EXECUTIVE BRIEFING

The status quo is not an option for insurers in today's competitive landscape, but neither is navigating blindly across the continuously evolving healthcare environment.

Heightened consumer and regulatory demands, unsustainable cost trends and digital disruption are forcing industry players to revisit their playbooks.

Innovation and intelligence will be the foundation of competitive advantage in this new era of consumer-driven healthcare.

Regulatory Developments Aside, the Healthcare Market Has Been Reshaped

The healthcare industry is once again facing a period of uncertainty. Insurers are taking actions and making preparations to ensure that they're properly positioned for whatever regulatory changes may take place as a result of efforts to replace or revamp elements of the Affordable Care Act (ACA). At the same time, a careful review of the intelligence picture reveals a handful of emerging market trends and drivers that are likely to shape the competitive landscape regardless of the outcome of the current policy debates.

The industry has been navigating the rapid evolution of the market since the ACA was introduced nearly a decade ago, while adjusting to other macro trends, such as the disruptive impact that digital technologies have had on business models and operations. Many of these changes will not be reversed by new legislation or regulations, including: the rise of consumerism in healthcare; the shift to value-based care; the industry-wide desire to curb high health system costs; and the requirement to address multigenerational needs as the Millennial cohort enters its career stage and the Baby Boomer cohort moves further into retirement. These drivers have ushered in a wave of new care models, coverage options, technology solutions and business models.

The health insurance industry has been transformed, and there's no turning back. Moving forward, it is imperative that industry players adjust quickly to consumer demands and monitor new technologies and investment opportunities that can support both client and provider engagement strategies to improve the value of care. At the same time, it will be essential to remain abreast of changes to the competitive landscape to ensure an advantage in an increasingly aggressive environment.

Consumerism in Healthcare: Industry's Requirement to Innovate

The ACA brought in a wave of new insureds – and with them, a surge of consumerism. This market transformation was further propelled by a profound trend unfolding across many industries – the so-called Amazon effect, where consumers have been conditioned to receive service and products their way, immediately. Health insurers are facing the requirement to seek novel ways to differentiate themselves while catering to new consumer expectations of personalization, accountability and immediacy.

This presents a window of opportunity for health-tech companies, allowing them to move in with the promise of swiftly meeting consumer demands with business models designed to be agile and digital-friendly. These players may also attack some of the healthcare system's inefficiencies without the burden of legacy systems that traditional insurers are tied to.

Today, the playing field is more crowded than ever. As the insurance industry continues to play catch up, it can seek insights from certain industries that have faced similar disruption, such as retail and financial services.

Significant progress has been made over the past decade, but insurers continue to face pressure to identify investment and partnership opportunities in an effort to innovate in the area of member engagement (attracting and retaining new, healthy members and assisting higher risk members to take effective measures to manage their health), care management and cost management. Strategies to arrive at these solutions are diverse; some organizations are making direct investments on their back-end solutions, others are entering strategic partnerships with third-party solution providers, while others have taken a venture capital approach to innovation, incubating startups that aim to address industry needs.

Investments in this space range from responsive member portals that are personalized and predictive in their ability to support member needs, to relying on novel technologies like open APIs, chatbots and artificial intelligence – moving beyond just consumer data collection to a point where solutions can get ahead of consumer needs and proactively support them through their care paths.

Further, alongside technology solutions, insurers are exploring new business models as a way to better engage and serve their members, from retail storefronts that bring personal service back to health insurance to concierge services that act as a one-stop-shop for all their healthcare needs.

Consumerism and retailization have reshaped health insurance and, while initially spurred by ACA requirements and health-tech's disruption, these market forces show no sign of slowing. They will likely continue to build as the Millennial cohort progresses through its earning years, bringing with it heightened consumer behaviors and expectations.

Attacking Health's High Costs: New Care Models and Solutions

Major cost drivers are propelling expenditures higher each year for members and benefit providers. Annual premiums in 2016 hit $18,142 for an average family, a figure that is up 3% from the year before. This cost burden continues to impact employers who are fully or substantially insuring their employees and individuals who are participating in market exchanges. At the same time, many insurers still struggle with profitability.

This is because the cost of healthcare delivery has reached an unsustainable level. To address this, the insurance industry is exploring potential solutions that can help tackle the most significant cost drivers.

Early efforts included a focus on wellness programs and an emphasis on prevention, predominately within employer plans. More recently, insurers have rolled out strategies and offerings that aim to address chronic care and behavioral health conditions, facilitate a move to value-based care, reduce the overuse of emergency departments for non-emergency care and attack skyrocketing pharmaceutical costs.

Health Cost Realities

$442 b

The Surgeon General reports that substance misuse and substance use disorders cost the U.S. $442 billion each year.

$193.2 b

Serious mental illness costs $193.2 billion annually in lost earnings.

$38 b

Emergency department overuse costs approximately $38 billion annually.

$310 b

Total spend on medicines in the U.S. reached $310 billion in 2015, up 8.5% from the previous year.

All figures in USD

Strategies that are being developed and deployed across the industry include

A greater push toward value-based care through accountable care organizations and other care and network models, as well as significant efforts to improve healthcare data interoperability, with the aim of improving care coordination and reducing health system waste

Making pharmaceutical companies and benefit providers more accountable for high pharmaceutical costs through performance-based contracts and strategic partnerships that aim to identify ways to reduce costs within the pharmaceutical industry

Injecting greater transparency into the healthcare system, by giving members the information needed to make better care decisions, from transparency tools that highlight various cost and quality measurements, to incentive programs that steer members toward lower cost, yet high quality providers, and care bundle coverage options that move to improve patient care, lower costs and reduce complications

Reshaping care channels to move to a more cost-effective approach, including limiting insurance coverage for members unnecessarily using emergency departments and pushing for greater telehealth acceptance and usage

Changing Commercial Market Needs: Cost Efficiency and Innovation

Facing greater cost burdens, employers are becoming more motivated to curb healthcare costs, both in terms of reducing plan costs and offering innovative benefit solutions that foster an employee's health maintenance and productivity. At the same time, more corporations are seeking ways to reshape benefit packages and use them as a tool to attract quality talent.

This has given rise to intricate plan options within the commercial segment (e.g., consumer directed health plans), and these plan designs continue to shift the cost responsibility from employer to employee. They are also highlighting the need for cost transparency, support tools that help employees understand and properly use their benefits, and tools that not only demonstrate plan ROI to employees, but employers as well.

Other macro trends are unfolding across the commercial segment and shaping how employers approach their health benefit strategy. Shifts in demographics are reshaping the traditional workforce – there are now four generations that make up the American workforce, each with its own consumer behaviors and health needs. Further, driven by economic pressures over the past decade, as well as Millennial career behaviors, there's been a greater shift toward a contingent workforce.

These trends are leading to a shift in corporate philosophy and driving employers to seek innovative health plans and moving away from traditional coverage. One example of this shift in philosophy is the large employer segment's move toward direct purchase of specific healthcare services, bypassing their insurance providers/administrators altogether. Larger employers are purchasing episodic bundles directly from providers because they're seen as a way to increase the predictability of costs, while more effectively improving employees' care.

Understanding the employer market is of paramount importance for the insurance industry, and a starting point is identifying new ways to improve cost efficiency and come to market with innovative solutions that attract commercial clients.

A Burgeoning Medicare Advantage Market: Ripe for Disruption

The Medicare Advantage market has emerged as a stable, profitable segment of the business – "the only safe game in all of health insurance," according to a former senior CMS official. With the current state of uncertainty surrounding the individual exchange market, many larger insurers are betting big on Medicare and will likely continue to do so as long as demographic trends include a significant upswing in the number of retirees. The Medicare Advantage market has grown 60% since 2010 and 19 million Americans (or one third of all Medicare beneficiaries) are in a Medicare Advantage health plan.

As a growing market dominated by a handful of major players, it's developing into a segment that's ripe for disruption – both in terms of market players and technology solutions. Medicare Advantage's payment model (and underlying membership base) offers ample opportunity for innovation, from managing high-cost health conditions, promoting preventative care and medical regimen adherence, and achieving the coveted goal of health system interoperability. Payers who can unlock these solutions stand to gain (or retain) a strong foothold in this market.

Payers that have traditionally held a position in this market segment will benefit from taking steps to ensure their strategy includes technology and care management investments and partnerships, as large payers with deep pocketbooks and newer insurance technology companies look to move further into this space given its significant growth opportunity.

The Need to Diversify: Health Services Vs. Health Coverage

For insurers, further protection against regulatory uncertainty and less profitable product lines can come from outside of core, risk-based lines of business. Investments that fall outside traditional products and offerings enable payers to widen their reach in other areas of the healthcare market and have a stronger hand in the move toward better care coordination.

Health services is emerging as a profitable opportunity for insurers, and can offset some of the risk involved with traditional insurance lines. An example of this is UnitedHealth Group's significant success with Optum Health. But, beyond the push into health services, the industry is also investing more in the care market directly, acquiring or entering into joint ventures with medical groups, health networks and surgical centers, among other areas.

Another investment strategy that serves two purposes for the insurance industry is the launch of venture capital arms or incubator programs. This strategy allows insurers to tackle their own internal challenges while also creating new revenue opportunities.

Diversification is a natural strategy for insurers with available capital to deploy. It's an essential tool for expanding offerings, unlocking new revenue and offsetting risk-laden insurance products.

Innovation and Intelligence Required

The healthcare industry has evolved significantly in the past decade as the ACA and market forces have transformed it. Looking ahead, government will continue to play a role in how the industry moves forward, but there are bigger trends at play that continue to shape health insurance and healthcare.

Consumers are in the driver's seat for their purchase decisions, there is an industry-wide recognition that healthcare costs need to be curbed, a major demographic shift is set to occur and technology is now a part of everyday life – regardless of one's age. These fundamental changes in the competitive landscape will continue to present both opportunity and risk for insurers. Continual innovation and the ability to stay abreast of changing forces will be paramount as the industry looks to successfully navigate the new continuum of care and care coverage.

Market forces at play show no sign of slowing, just the opposite – many will gain momentum over the coming years. An evolving regulatory environment will be the new normal for the industry, and more macro trends like consumerism, digital disruption and demographic shifts will require health insurers part ways with their traditional business models and focus on agility.

This paper has provided a snapshot of key market drivers, among the many dynamics we track in order to give our clients a competitive edge.

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