

Now that healthcare reform has passed . . .

Over the next five years, health plan leaders will determine whether their industry prospers or withers. Here are three crucial first steps.

An Oliver Wyman CEO Briefing

To those who understand Congress's healthcare reform bill, it looks less like a coherent program of reform, and more like an ultimatum to the healthcare industry: Cover an additional 32 million people and implement its insurance reform provisions—and stay afloat while doing it. And while you're at it, reduce the cost and improve the quality of care or suffer the consequences.

In a few years, when we look back at healthcare reform, we will see that by far the most important aspect of the legislation is that it eliminates the option for health plans to do nothing. Insurance companies, working with providers, must make their industry sustainable. And despite Washington's vilification of the industry, we know they can. In a surprising way, healthcare reform has put the burden of fixing the system squarely in the hands of the people best able to succeed at the job. And now that President Obama has signed the bill into law, the real work of reform can begin.

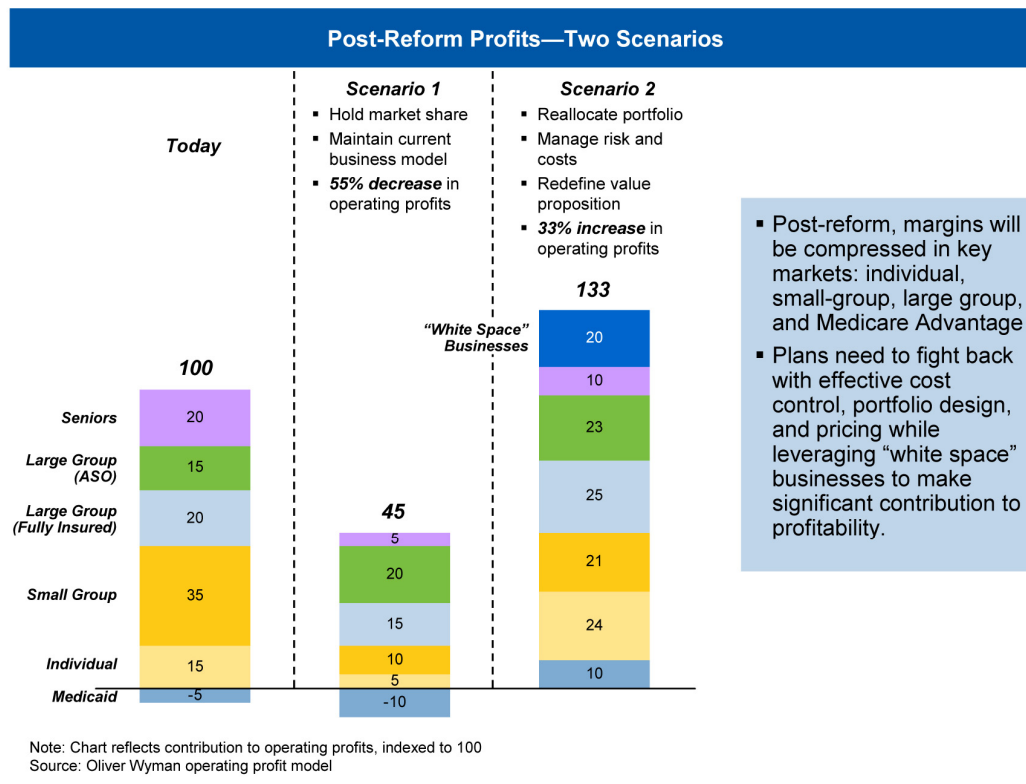
The primary question that many of you are dealing with right now is “What does my company need to do? How can we survive the disruptions of reform and ultimately seize its opportunities?” Within the next year, we believe healthcare leadership will need to focus on three critical areas:

- **Redefine your business portfolio and operating model.** Build mandated products, optimize pricing for new rating requirements, prepare exchanges, and reduce administrative costs. Create a practical transition path to the new model.
- **Reduce the cost of care; improve quality.** Your target is ambitious but possible—bend trend to match CPI within five years.
- **Define your new market position and value proposition.** Show constituents and regulators the value you bring to the marketplace.

Your long-term strategy will not fully come into focus for a few years. But these areas of immediate focus will help get your company to take “no regrets” first steps toward the post-reform world.

Redefine Your Business Portfolio and Operating Model

Start by preparing for the economic impact of reform. Membership growth and profitability will shift dramatically in coming years (see below exhibit). Insurers will need to understand the changes and stay ahead of competitors in adjusting their business mix. Oliver Wyman estimates proactive planning combined with a balanced and deliberate migration strategy is worth 3 to 5 points of margin over the next four years.



Reform will move health insurance toward a retail model in which decisions are made by individuals, not employers. Many of the previously uninsured will first obtain coverage in the retail market, and a significant movement of employer-sponsored coverage into the retail market will occur over the next few years. This shift will deeply affect nearly every aspect of health plans’ value chains—including branding, sales and marketing, product design, and service.

The challenge for health plans: Optimize your current business and mitigate profit erosion, while simultaneously building new capabilities and realigning your business capabilities for a post-reform market. Rapid refinements to product, pricing, and sales/distribution strategies can yield near-immediate financial impact for insurers. But time is of the essence to optimize the financial performance of your current business prior to the major market changes looming in 2014.

Reduce the Cost of Care; Improve Quality

There is increasing consensus that the solution to the cost/quality conundrum lies in changing the way healthcare is delivered and paid for. Approaches using the principles of Integrated Health Management (IHM) have shown persuasive results, and yet the approach has proven difficult for plans to implement broadly, relying as it does upon the availability of providers willing and able to adopt the new model.

This problem will eventually be solved, especially as federal programs drive EMR adoption, promote evidence based practice, set clinical data standards, and move to fee-for-value reimbursement. In the meantime, we believe that most plans can reduce medical trend by five points over the course of five years through targeted use of IHM. The details will vary by plan, but in general, we envision a three-pronged approach: (1) Establish a broad base of patient-centered medical homes, targeted at patients with elevated health risk factors and chronic diseases. (2) Bring integrated care management to the sickest patients—who account for more than half of health spending. (3) Partner with physicians in managing complex and expensive medical conditions such as cardiac disease and cancer, reducing costs and improving quality through evidence-based guidelines and multi-disciplinary care teams. The evidence we have seen to date suggests that clinically focused health management and appropriate provider partnerships can produce important economic results.

Define Your New Market Positioning and Value Proposition

In the wake of reform, it is only a slight exaggeration to say that health plans must reinvent themselves in a different business. Certainly the changing marketplace will drive a new focus on high-growth segments—the individual market, Medicaid, ASO, etc. In some cases, this shift will have a transformative effect on companies. And the increasing role of retail will push companies from what is essentially a wholesale model to a new, more consumer-intimate approach. But to truly take advantage of the opportunities offered by reform, the healthcare industry must embrace a new vision of their role and value.

Post-reform, your customers will be looking for a new value proposition. They will want and need precisely what healthcare reform promised but cannot deliver—lower costs and higher quality. To provide them, you will need to be involved in the management of healthcare at a whole new level. But to do that, you will need to be on a solid footing in terms of your own business and your relationships with your customers.

Positioning will take on increased importance. Post-reform, it will not only differentiate you from competitors, but will also help to build stakeholder support—something you will desperately need in order to disrupt what has become a toxic marketplace and move it back toward to health. Health plans have the opportunity to escape their old image as the root of problems in the healthcare system and to be seen as a force for positive change. They should seize that opportunity—starting with a new value proposition and a deliberate repositioning program.

A Guide Going Forward

The consultants of Oliver Wyman firmly believe that the United States can achieve true healthcare reform—better care for more people for less money. But that sort of reform will not be reached through legislation, no matter how well conceived. Instead, private-sector stakeholders need to step forward and break the logjam that stands between the current situation and a better future that many in the industry can already envision. We believe that there will be rich rewards for the companies that succeed in bending medical trend, improving quality of care, and engaging providers, patients, and employers in a more effective model of care. For those that fail, the consequences will be significant. The fate of the industry lies in the collective success of the private marketplace.

The road ahead, however, is complex and uncertain. To assist healthcare leaders to navigate it, Oliver Wyman has launched this series of executive briefings. Over the weeks and months to come, we will bring you reports on successful initiatives, analyses of new tools and strategies, and answers to your questions on the new healthcare landscape.

We encourage you to forward these briefings to your colleagues. If you would like them to have subscriptions of their own, please e-mail their names and e-mail addresses to john.manning@oliverwyman.com. In the meantime, we invite your questions. To ask one, or to arrange a discussion of your own situation, please contact our reform experts:

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