

BIGGER

ISN'T ALWAYS BETTER: REGIONAL HEALTH PLANS' COMPETITIVE ADVANTAGE

Frank Pino
Kazim Zaidi
Victor Abiad



Health plan providers of all sizes in the United States face pressure for lower pricing, better customer service and innovative product lines. However, national plan providers consistently outperform regionals (see Figure 1). The nation's top eight health plan providers (representing ~2 percent of the total) own 50 percent of the market.¹

Regional plan providers have struggled to compete, as they are at a disadvantage when it comes to the ability to invest in digital capabilities, shift to value-based care and reduce their cost to serve.

But amid these challenges, there are several opportunities for smaller regional plan providers to turn disadvantages into market-differentiating advantages. By duplicating value-add capabilities from nationals, “born digital” and other high-performing regional plans, smaller regional plan providers can improve their competitive agility.

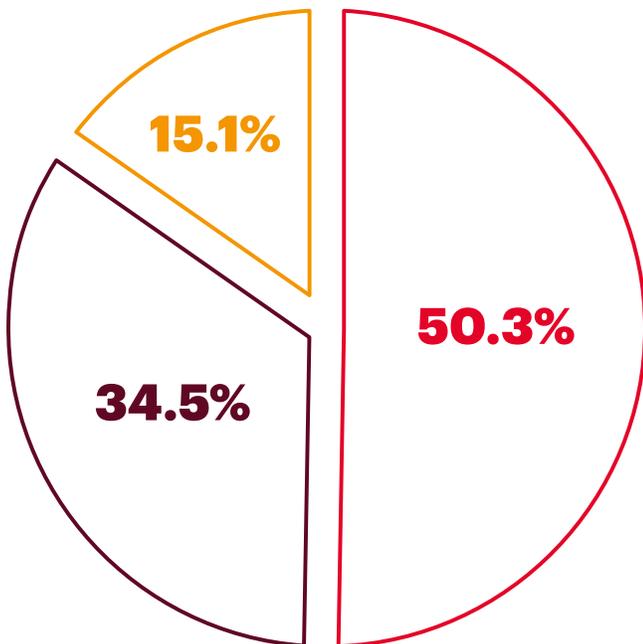


FIGURE 1

Health plan provider market share by competitor class

8 NATIONAL HEALTH PLAN PROVIDERS

36 REGIONAL HEALTH PLAN PROVIDERS

~400 NICHE HEALTH PLAN PROVIDERS

Source: AIS Directory of Health Plans 2016.

MAKING A GREATER LOCAL

IMPACT

WITH TARGETED INVESTMENTS

National health plan providers typically make annual investments at an order of magnitude greater than those made by the regionals. They have invested in new digital capabilities, launched new revenue ventures and made acquisitions to achieve operational scale.²

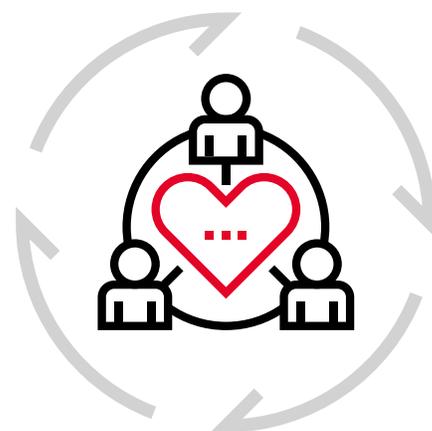
But while big health plan providers have the capital to place big bets, regionals have the ability to focus their attention and stretch investment dollars by making small, more strategic moves that cater to local market wants. For instance, regionals can mimic “born digital” startups like Bright Health, that set down roots in Colorado, where it works with specific care providers—Centura Health, the Colorado Health Neighborhoods provider network and Children’s Hospital Colorado—to connect Coloradans with top physicians through integrated care and personalized technology.³

Independence Blue Cross invests heavily in consumer and digital healthcare, but it also recognized the need to complement its digital presence with a bricks-and-mortar care facility. The business opened Independence Live, a 10,000-square-foot space in Philadelphia, designed to be a destination for customer service, community health and wellness.⁴

Regional and niche players have regular interaction with their members and providers, so they better understand what improvements need to be made from a customer experience perspective, or what innovations will address local consumer needs.

Oscar Health, is another “born digital” health plan that has redefined how to engage the consumer. They teamed up with Mount Sinai Health System to open a walk-in clinic in Brooklyn, New York, that is just for Oscar members. The 6,000-square-foot clinic is mostly paperless and allows members the option of walk-in appointments, or appointments scheduled via the Oscar app or desktop tools. The care process is designed to be seamless, with lab results available on a patient’s health profile as soon as they are ready.⁵

Such examples illustrate that **regional plan providers can improve their competitive advantage by focusing on business transformation. By delivering the care that consumers want and forming close relationships with local providers, regional plan providers have a critical ingredient to success.**



ACTIVATING **VALUE-BASED CARE**

BY OPERATING AS CARE COORDINATION PLATFORMS

Across the United States, providers are moving from a fee-for-service model in which they are paid based on volume, to a value-based care model where success hinges on quality and outcomes. In this new normal, care coordination has become more important than ever across providers, plan providers and patients.

National plan providers have been quicker to transition to value-based arrangements, which range from simpler pay-for-performance (P4P) arrangements, evolving to shared savings and culminating in full-risk arrangements. Regional plan providers are a mixed bag as some are keeping pace with the nationals, but others are still focused on P4P, and lagging in the more sophisticated arrangements.

While dwarfed by the size of nationals, regionals tend to be the largest payers in their home markets. This advantage can be used to build partnerships with local providers to become the preferred enablers of value-based care in the communities they serve.

For example, Independence Blue Cross in Philadelphia created Tandigm Health, a value-based healthcare company that provides analytical support, innovative tools and meaningful incentives to help primary care doctors manage costs and improve care in Southeastern Pennsylvania. Tandigm assumes the full risk of paying healthcare bills for the patients, and it also pays doctors for more closely tracking patients. To compensate providers for this extra work, Tandigm increases the doctors' monthly payment per patient (capitation rate) by 50 percent for commercial HMO patients and more than 50 percent for Medicare Advantage patients. That increase was \$8 million in aggregate for Tandigm doctors in 2015.⁶

When nonprofit insurer CareFirst organized a patient-centered medical home program, which encourages primary care providers to follow guidelines to improve the health of patients and coordinate care, both parties benefitted. In addition to improving quality and outcomes, the health plan provider saved \$345 million and participating primary care providers earned an average award that equated to \$41,000 to \$49,000 in increased revenue.⁷



OPERATING DIFFERENTLY HELPS REGIONALS WORK MORE EFFICIENTLY

Nationals have achieved economies of scale advantages and run with administrative costs 20 percent or more lower than the regional plan providers.⁸ Nationals have also been more aggressively investing in automation and digital, outsourcing and offshoring.

The national plan providers have tried to build on their scale advantage through merger activity. But it is inherently difficult to execute on large-scale mergers and capture post-merger synergies, as integration is cumbersome. They face challenges similar to those of large healthcare systems that, post-merger, are losing out on \$4-\$19 million in annual cost savings per hospital and losing revenue uplift of \$2.5-\$6 million per hospital per year due to not capturing synergies.⁹ Smaller plan providers can't spend millions on a new acquisition, but they can pivot toward innovations by partnering quickly to adopt new capabilities.



For instance, Blue Cross and Blue Shield of Kansas City (Blue KC) is working with population health management solutions provider Lumeris to establish a robust business model that enables Blue KC to enter the Medicare Advantage market. Data collected through the Lumeris platform will help physicians to coordinate care with patients, and the platform will interact with members to provide reminders, alerts, coaching advice and treatment information.¹⁰

Regionals can also partner to build virtual scale. After a large merger fell through for Independence Blue Cross (IBC), the company adopted Highmark's claims-processing system for its commercial and Medicare businesses. This helped achieve some of the savings that it had expected from the merger.¹¹

HOW smaller HEALTH PLAN PROVIDERS CAN **WIN BIG**

Smaller, regional health plan providers can be a contender against large, national plan providers when they work on the right things, in the right way and in the right place to improve their competitive agility.

RIGHT THINGS:

MAXIMIZE CONNECTIONS WITH LOCAL CUSTOMERS,
PARTNERS AND PROVIDERS

Smaller plan providers know local communities, organizations and providers on a deeper level than nationals; therefore, they understand the capabilities needed most—and where they can fill the gaps. Regionals can use their strong community presence and local market know-how to guide investment in market-facing capabilities that build on the local relationships that only they have.

RIGHT WAY:

REDESIGN THE OPERATING MODEL TO CREATE
SHARED OUTCOMES WITH PROVIDERS AND DRIVE
INTERNAL ADMINISTRATIVE EFFICIENCIES

Regional plan providers have the advantage of agility, which means they can easily pivot from a traditional model to more relationship-based ones with local providers. These plan providers are the gel that connects the healthcare ecosystem that serves the local community. Therefore, it is easier for them to develop the capabilities needed to get to value-based care and shared outcomes with providers. Pivoting the operating model toward a relationship/partnership model gives plan providers better opportunities for collaboration with providers, transparency and a shared strategic vision.

Regional plan providers also need to focus internally on their operating models to drive out administrative inefficiencies. They need to use analytics to monitor operations and systematically catch and rectify issues. One key to success is identifying a small set of operational metrics that matter. These measures provide leading indicators of operational health so corrective actions can be proactively taken.

RIGHT PEOPLE:

GAIN VIRTUAL SCALE AND REDUCE COSTS BY APPROPRIATELY SHIFTING WORK TO THE RIGHT PEOPLE

National health plan providers have economies of scale based on sheer size, but smaller plan providers can scale smarter by using digital technology and strategic partners. For instance, plan providers can use digital channels and technology to enable customer and broker self-service. Providing improved self-service options not only lowers operating costs but, when effectively implemented, improves customer satisfaction. Plan providers can also build a global workforce and shift more of the cost base from fixed to variable by appropriately shifting work to partners in lower-cost onshore or offshore locations.

MAKING A COMEBACK FOR COMPETITIVE AGILITY

Large, national health plan providers have been stiff competition for regional players—but that can all change. Regional plan providers have the power to improve competitive agility by engaging in non-traditional partnerships, coordinating care within the local ecosystem and continuing to ratchet down administrative costs.

Smaller plan providers also have the upper hand when it comes to addressing the needs of the local market. Such advantages make all the difference as the world shifts to personalized, individual medicine.

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www.linkedin.com/company/accenture-strategy

CONTACT THE AUTHORS

Frank Pino

frank.pino@accenture.com

Kazim Zaidi

kazim.zaidi@accenture.com

Victor Abiad

victor.d.abiad@accenture.com

NOTES

- ¹ AIS Directory of Health Plans 2016.
- ² National and Blue financial statements.
- ³ www.brighthousehealthplan.com.
- ⁴ *Internet Health Management*; “A Blue Cross plan ponies up \$2 million to invest in digital healthcare,” posted December 13, 2016.
- ⁵ *Internet Health Management*, “Oscar develops a members-only approach to brick-and-mortar healthcare,” posted on December 9, 2016.
- ⁶ Philly.com; “Tandigm helps deliver better care, lower costs,” posted on April 22, 2016.
- ⁷ *Washington Business Journal*; “CareFirst beats projections by \$345 million with massive health care experiment,” posted July 30, 2015.
- ⁸ Administrative costs are per member per month based on company financial statements and Accenture client work.
- ⁹ Accenture; “Capturing synergies in health system M&A.”
- ¹⁰ Blue Cross and Blue Shield Kansas City news release; “Blue Cross and Blue Shield of Kansas City Announces Medicare Advantage Plan,” posted September 23, 2015.
- ¹¹ Philly.com; “Independence Blue Cross grows by partnering, not merging,” posted August 23, 2015.

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