



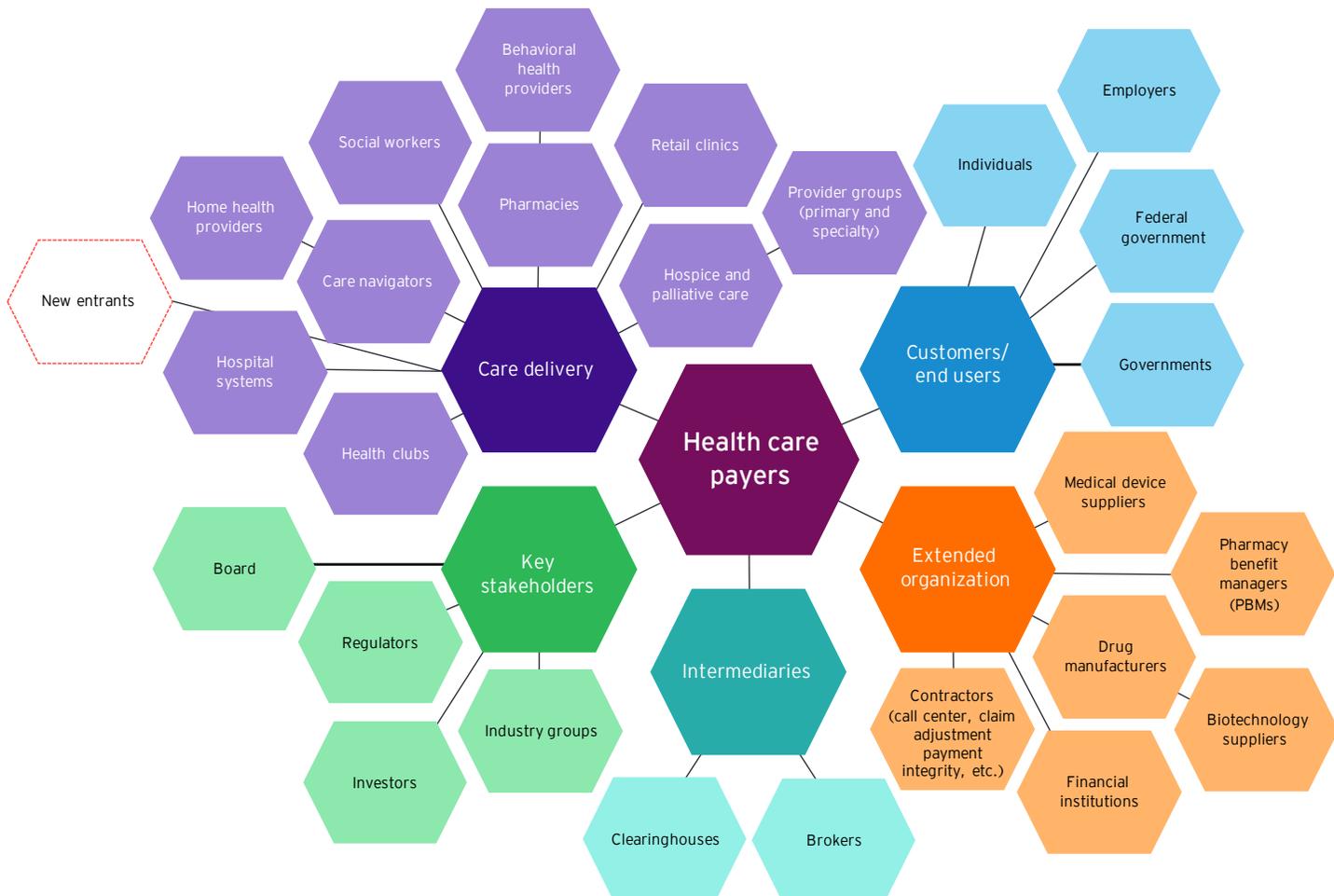
Three ways health insurers can reimagine partnerships for a stronger ecosystem

The COVID-19 crisis has exposed many companies to the vulnerabilities in the overall ecosystems in which they operate. Examples include the reliance on offshore suppliers for active pharmaceutical ingredients in our drug supply chains, the reliance of cruise lines on independent travel agents for bookings and revenue, and overseas call centers unable to function with remote work. Most businesses have had to evaluate how partners impact performance. Health care is no different. From a payer perspective, how important are specific provider partners? Which ones are critical? Are there new providers, e.g., home health or virtual care companies, that have recently become critical to your business? And what about brokers, outsourcing vendors or new technology entrants?

With economic stress across the industry, partners are pressured to make decisions, and the question for all players is how do I choose and then work with those partners that are most important? Payers have an opportunity to shape the ecosystems in which they operate rather than to react to the system that forms around them.

Health care is becoming more complex with new players and an expanding view of relevant services. We are seeing data businesses, new types of providers, new types of services and shifting business models of incumbent players. Providers are creating systems of their own and taking on risk. Payers are owning and controlling key elements of care delivery.

Players in the health care ecosystem



The system shock created by COVID-19 has accelerated change in the ecosystem that was otherwise progressing slowly and presents a unique opportunity and threat for payers. Providers are seeing significant financial pressures. Hospitals are losing hundreds of millions every month. Certain physician practices have experienced 50%, 60% and even 80% declines in patient visits. Meanwhile, new virtual providers are having explosive growth with relaxed state licensing and an uptick in demand. Post-COVID-19, we believe home health and new technology-driven, home-based services will proliferate. In this environment, payer networks will surely be disrupted. Practices will fold, health systems will grow larger and new entrants will take share. Similar activity will likely occur on the product distribution side. Smaller brokers will be challenged. And, on the supply side, business process outsourcing arrangements may need to be revisited given global workforce disruptions.

This is all in the context of shifting business models where ecosystems are essential to delivering value for customers. Ultimately, payers will need to redefine how they compete in the market and build the capabilities required to win. Models such as demand aggregation or network orchestration have proven successful with technology firms in ride sharing, retail and media. We believe there are corollary models in health that payers are well positioned to capture and that the ability to craft partnerships and deliver seamless experience and value to customers is the future.

The opportunity of partnerships in health care

How will manufacturing products and distribution look in the future?

- ▶ Vertically integrate the supply chain
- ▶ Digitize health supply chains
- ▶ Direct to medical supplier and manufacturer pricing
- ▶ PBM and pharmacy disintermediation
- ▶ Group purchasing organization integrating supplier base

How can technology change the health care model?

- ▶ Technology and analytics to change patient and physician behaviors
- ▶ Home automation technology for primary care
- ▶ Financial and health care data price transparency



How might the way we access and deliver care be reshaped?

- ▶ Care and care delivery
- ▶ Direct provider relationships
- ▶ Care management
- ▶ Increased access to care and care planning
- ▶ End-to-end experience for wellness and care navigation

What might be the impact to demand and distribution?

- ▶ Ability to direct demand
- ▶ Self-insure and circumvent health insurance
- ▶ Private health marketplace
- ▶ Open health marketplace to all consumers

While partnership models have been evolving for the past several years, financial stress, shifting consumer behavior and new entrants driven by the COVID-19 outbreak have accelerated the trend. In a webcast for payer organizations, we polled more than 500 participants, asking which scenarios they saw playing out post-COVID-19 due to the increased pressure on provider organizations. Almost 45% of respondents indicated a more strategic role for network management.

Polling question results: which of the scenarios are most likely to impact your organization's planning? (select all that apply)

1. Payers' network adequacy is challenged and they need to scramble to build out new networks.



2. Payers look to expand ownership and control of clinical delivery assets.



3. Network design and contracting become critical capabilities with shifts to value and wellness and larger scale providers.



4. Larger provider systems take on risk and challenge payers with direct to employer contracting and owned health plans.



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In order to minimize risk and proactively build the ecosystems that matter, payers can take this opportunity to rethink their network and distribution strategies and build new connections with the partners that are most critical. Immediate actions that payers can take include:

- 1. Identifying those partners that matter.** It isn't only the largest partners that are the most important. Network analysis will show that smaller entities can have a dramatic influence on individual behaviors and patterns within the system. Also, we believe a forward-looking view for payers may yield new linkages that should be built, such as virtual providers, home health services, retail and employer Strengthening certain connections in the ecosystem while allowing others to weaken can position payers to create competitive advantage aligned to what we believe could be very different business models from those that exist today.
- 2. Determining how to build linkages.** Payers will have multiple options to strengthen ties with various players in the health ecosystem. It is an opportunity to define and create those linkages proactively. The right partnership models may require direct financial investment, creative value-based contracting or joint ventures. No one size fits all.
- 3. Reimagining traditional functional capabilities.** These sorts of changes in network relationships will require a reorientation to what traditional network management, broker management and client management require. The resulting capabilities will be much more strategic and aligned to delivering the right experience and value for customers. When payers own equity stakes in provider organizations, the relationships become less transactional. Similarly, value-based contracting requires very different capabilities and partnering. Also, large group employers will demand a new relationship with payers to manage health costs and improve their employees' experiences. A reorientation toward ecosystem engagement takes time and will require cultural and structural change for payers.

This is a unique window of opportunity for organizations to start to rethink how they serve customers in the context of ecosystems. Health care has long operated as a network of connected companies delivering financing, risk management, clinical services and benefit design. The opportunity for payers is to be proactive in building new linkages and ecosystem connections that position themselves more favorably to help shape the evolution of the future of health.