

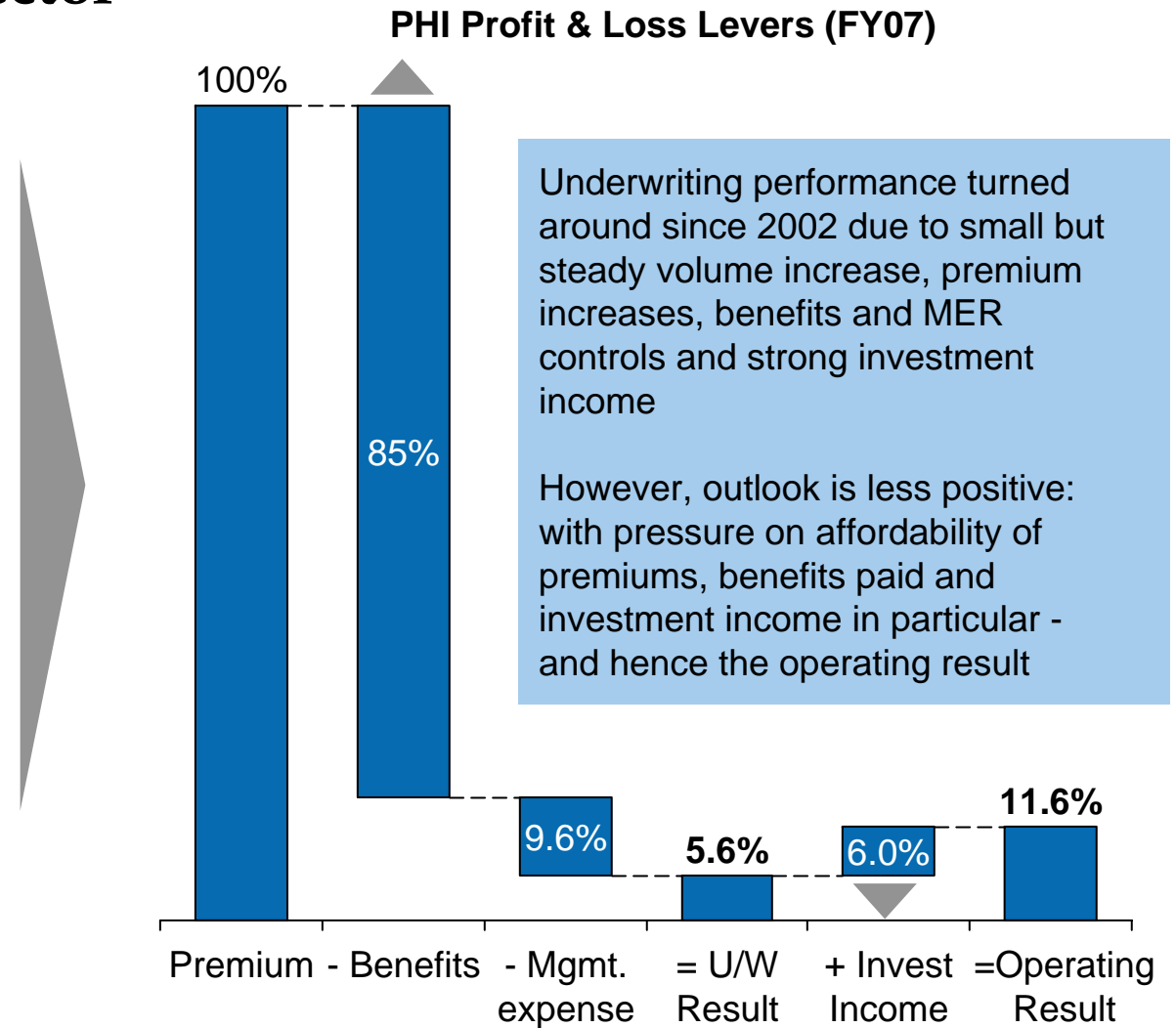
booz&co.

Financial Management within the Health Insurance Industry

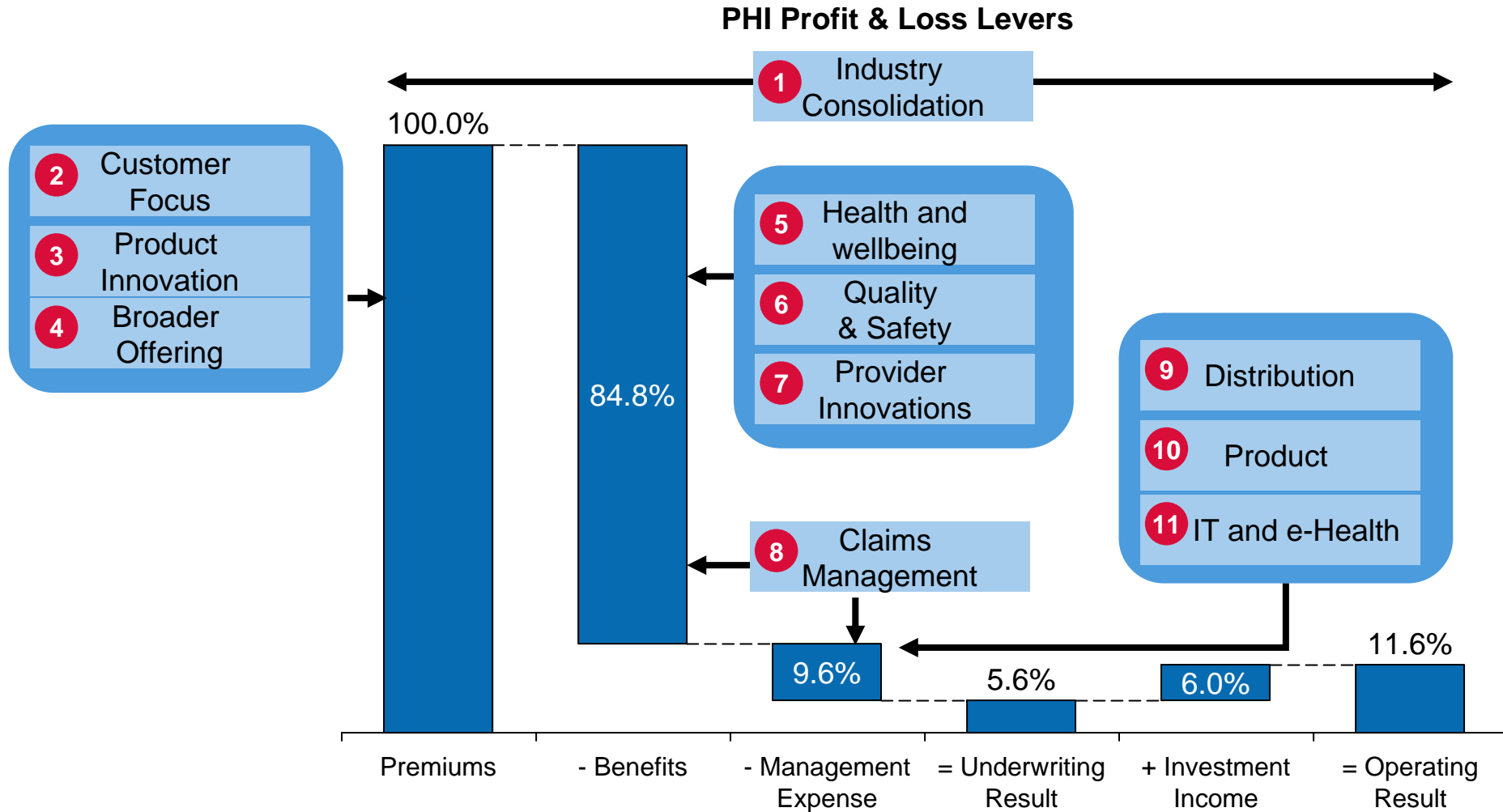
*Sarah Butler
Head of Insurance Practice for
Australia, NZ and SE Asia*

October 2008

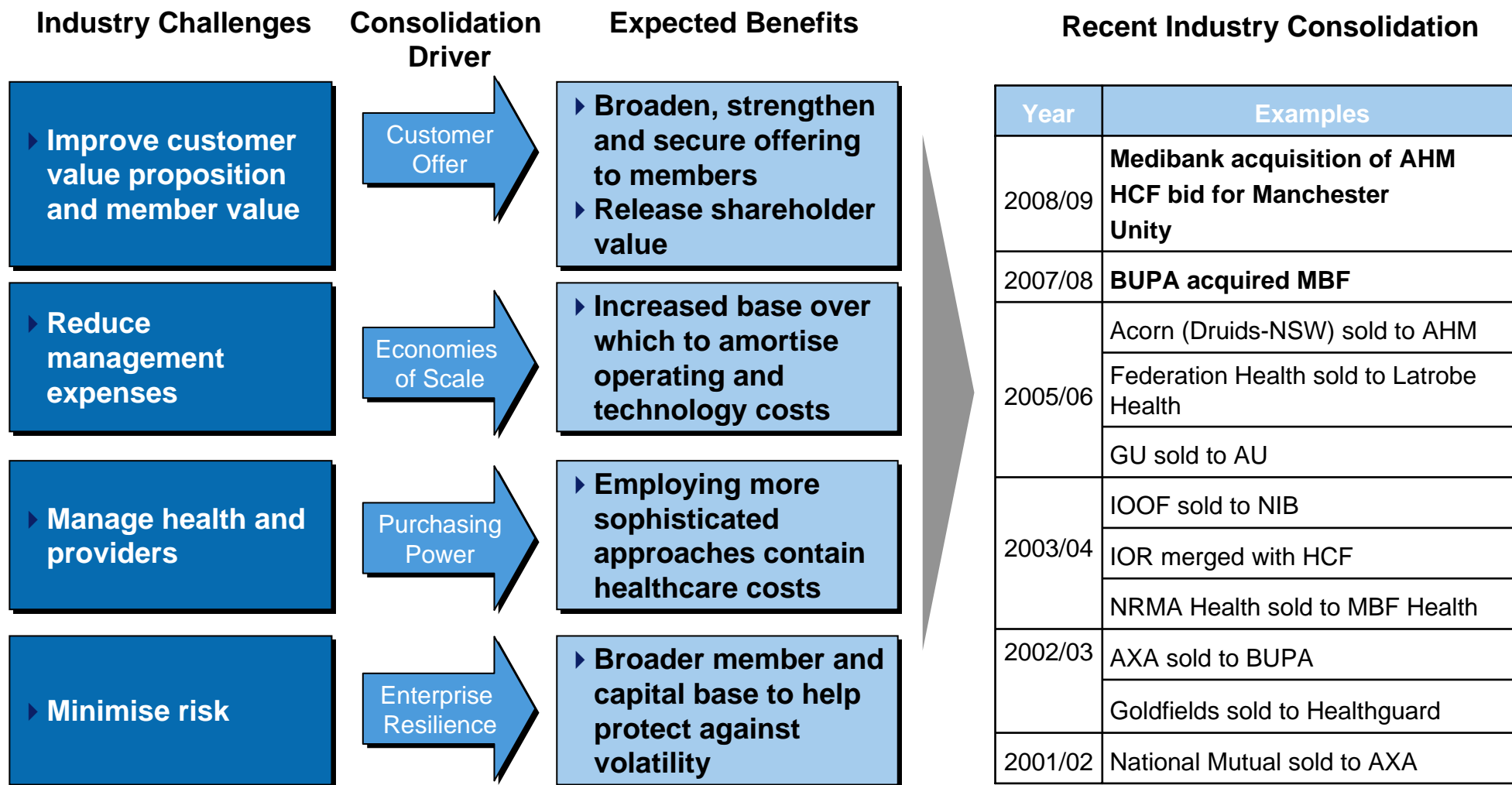
Seven key trends are driving the economics of the Australian private health insurance sector



To compete in this new era, Health Funds are innovating across the value-chain

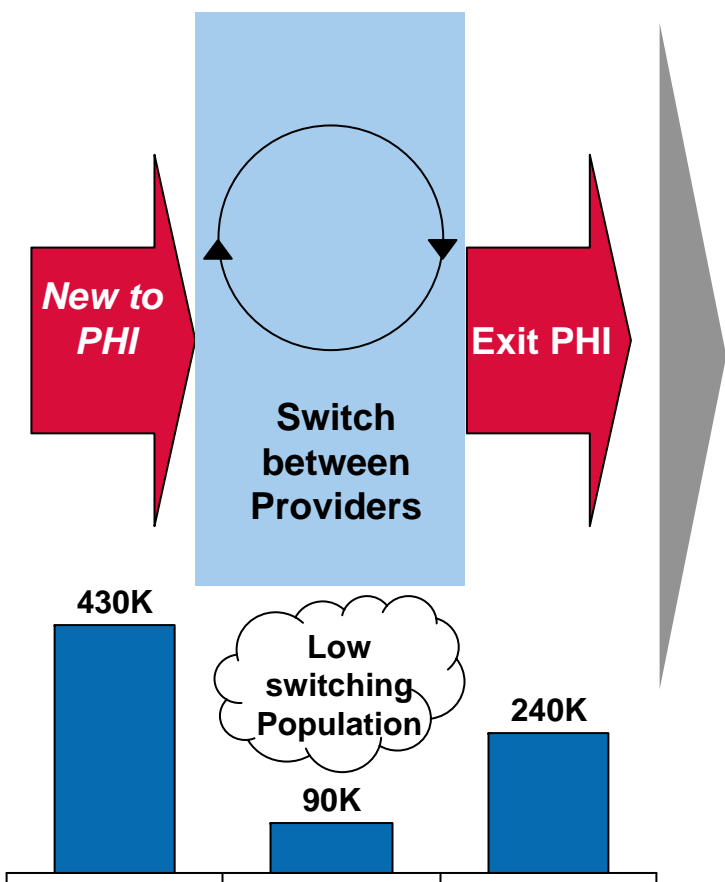


To improve customer value, reduce costs and minimise risks, the industry has recently seen increased M&A activity



To drive acquisition and retention, the Private Health Insurance industry is becoming increasingly customer focused

Australian PHI Market (FY07)



Customer Segmentation



Aetna (USA): Seven "Life Stage" segments

- New Graduate
- Getting Married
- Raising a Family
- Self-employed
- Between Jobs
- Empty Nesters
- Retiring Early

Tailored value propositions



Wellpoint (USA): Tonik offering

- Target: Gen Y 19 - 29 year olds
- Offer: Low cost health insurance that minimises financial risk and encourages prevention - e.g. low price/high deductible, limits on visits, preventive care covered

Emphasis on branding

nib "It's worth it"
mbf Take a positive step
HCF We're different.[™]
medibanki PRIVATE "You'll thank yourself later"
Australian Unity "If you're for health we're for you"

Insurers in Health (and General) Insurance are also developing innovative products that meet specific customer needs

New Product Innovations: Examples

Rewards Programs

- Enables the amount that can be claimed to increase each year of membership until a specific limit is reached - or discounts for not claiming



Wellness Offerings

- Variety of services focused on encouraging prevention of illness e.g.
 - Personalised on-line health managers
 - Discounts on gym memberships
 - Subsidised health assessments
 - Quit smoking/obesity initiatives



Health Service Accessibility

- PHI firms are starting to partner with retail health clinics in major drug stores in US to enable patients to have increased access to basic medical services, and locally there is increasing vertical integration



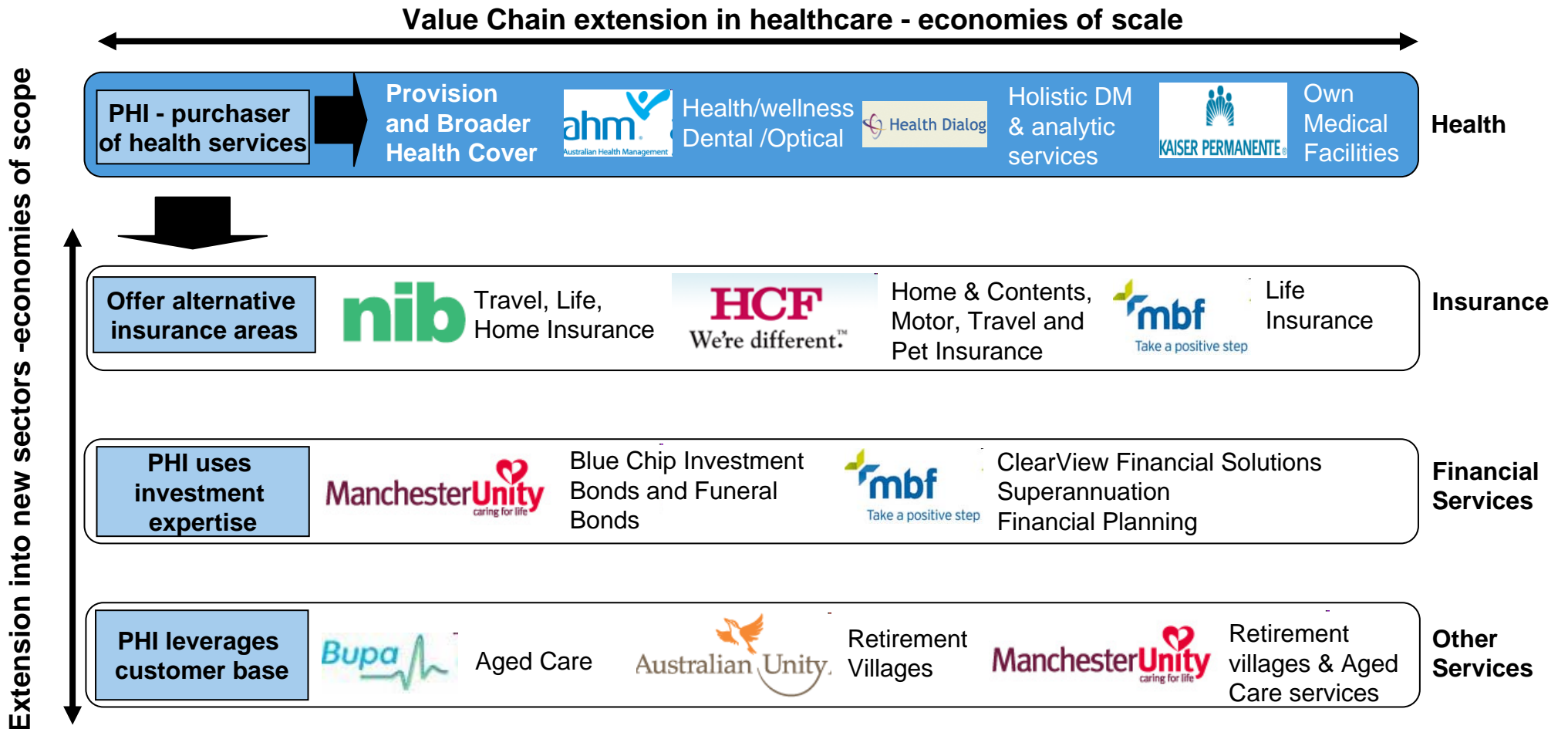
Dental and
Eyecare Centres

Segmented product & service offers

- Products & services designed to meet specific segment needs within the framework of Community Rating and broader regulatory environment, generally based on life stage or a specific interest

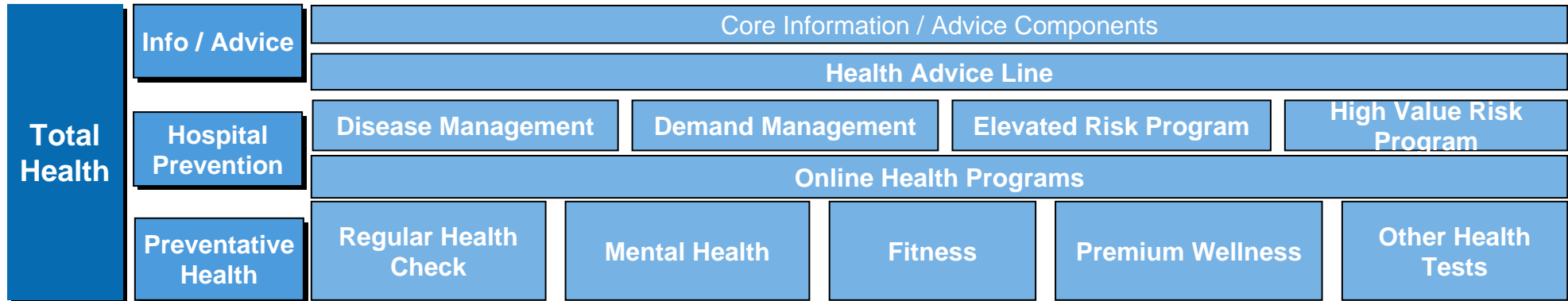


Some Health Funds are broadening their revenue streams through offering products related to PHI or relevant to their customers

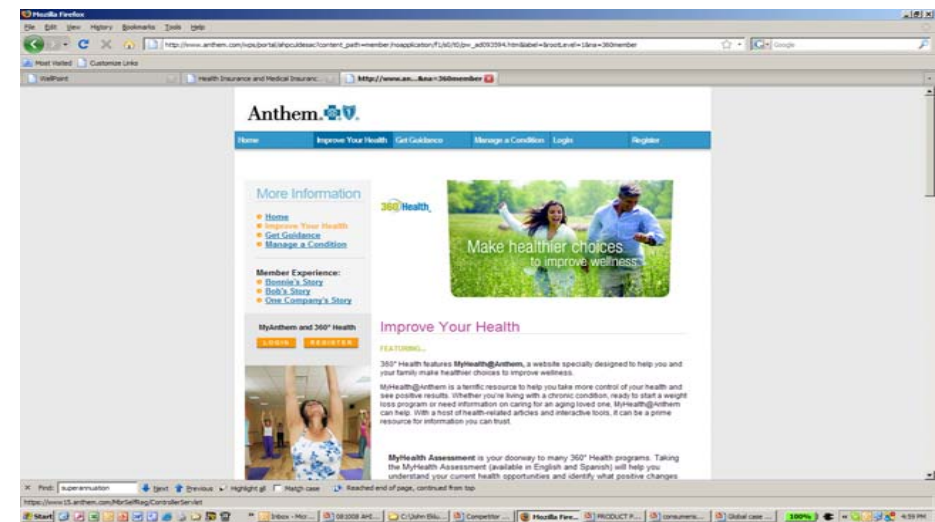
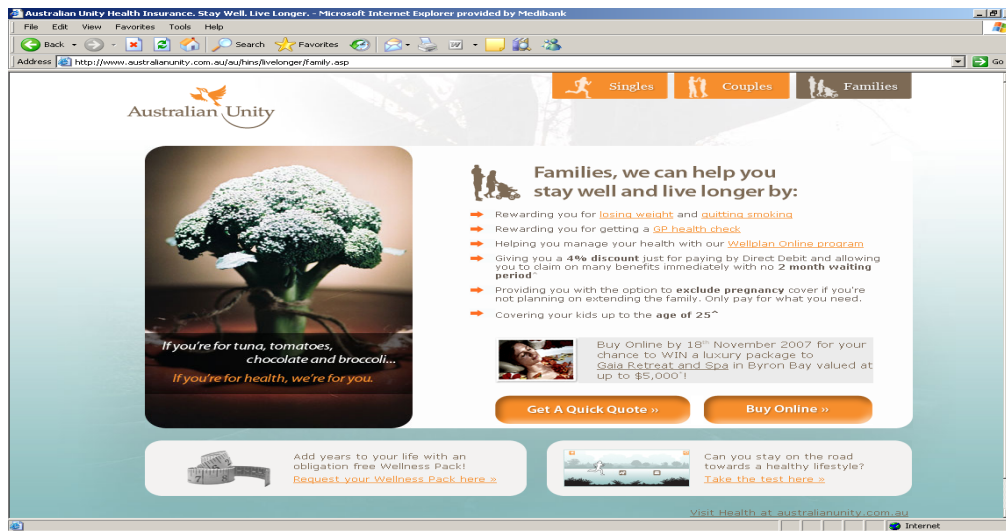


As an investment to improve outcomes and reduce benefits payouts, many Health Funds are investing in health and wellbeing

Key Services



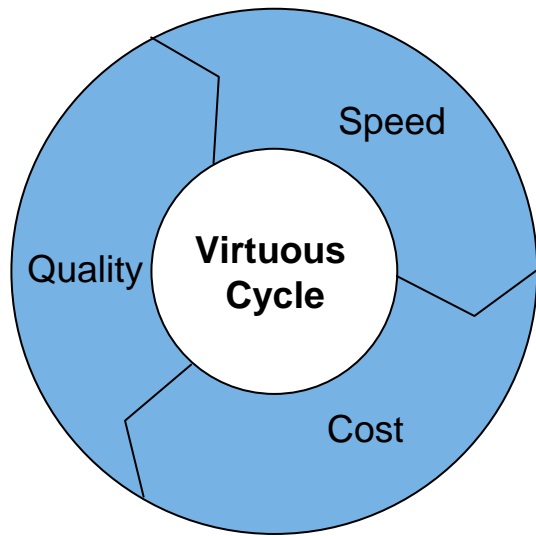
Australian Unity and Anthem provide examples of Wellness offerings



Investing in improved quality and safety of healthcare provision can improve outcomes and reduce healthcare cost inflation

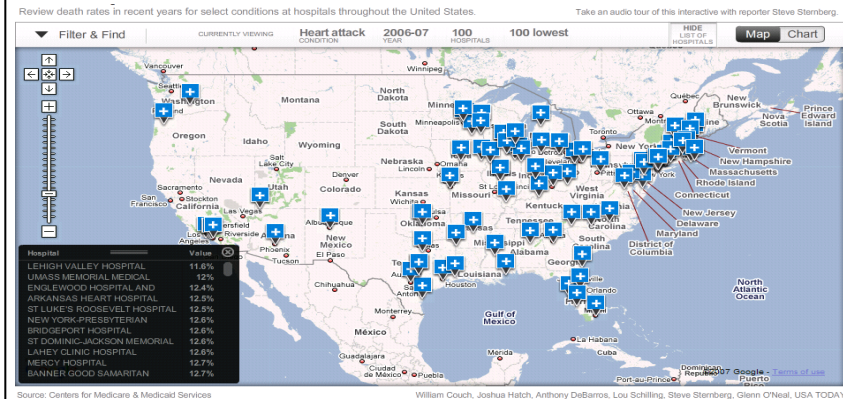
Improved Quality & Safety improves outcomes and reduces costs

Traditional view is that there is a compromise...however improved quality and safety can lead to lower cost and better service, for example through avoidable superbug infections and adverse drug interactions



Transparent Information in the hands of the consumer is critical

Accurate, published performance data




The screenshot shows a news article from 'THE INDEPENDENT' under the 'HEALTH & WELLBEING' section. The article title is 'A surgical revolution: checklist that could prevent thousands of deaths' by Jeremy Laurance, Health Editor, dated Wednesday, 25 June 2008. The page also features a navigation menu with categories like News, Opinion, Environment, Sport, Life & Style, and Arts & Entertainment.

Other initiatives

- Clinically agreed guidelines
- Best Practices Registries - cf. Cardiac, Prostheses
- Establish payments linked to outcomes
- E-Health enablers

To address ever-increasing claims costs there are opportunities for better provider management and “end-to-end” provider innovations

1



Tougher Contracting

- ▶ High consolidation of private hospitals and increasing consolidation in ancillary services
- ▶ Potential to leverage scale, linked to ability to influence customer

2



Encouraging Specialist providers

- ▶ Growing in the USA (e.g. specialist centres for specific conditions)
- ▶ Indian examples, e.g. Jaipur Foot, NH Cardiac Care
- ▶ Drives economies of scale/knowledge

3



Vertical Integration

- ▶ Common in the USA and providers in Australia are moving increasingly into owning Optical and Dental assets

Provider Management & Innovations

6



Convenient, Low-Cost Format Proliferation

- ▶ Introduction and growth of low cost, convenient provider formats (cost and service differentiation play)


5



Working collaboratively with providers to contain costs

- ▶ Key challenges include staff shortages/wage inflation and increasing technology costs
- ▶ Examples include National Joint Replacement and National Cardiac Registries

4



Payment Linked to outcomes

- ▶ For example, Geisinger (USA) offers fixed pricing and 90 day warranties on heart by-passes

Ultimately globalisation may play a role in driving down provider costs

Medical Tourism	<ul style="list-style-type: none"> ▶ Allows patients to obtain procedures at low costs (10-20% of the cost in the US) ▶ 500,000 Americans left the US last year to obtain treatment in a foreign countries ▶ Top Procedures: dental treatments (relevant) and cosmetic surgery (less relevant)
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Clear Value Proposition	<ul style="list-style-type: none"> ▪ Medical tourism can have significant medical cost savings ▪ Medical tourism offers a way to buy a convenient “bundle” of services
Attention from Health Plans	<ul style="list-style-type: none"> ▪ United FL and BCBS SC offer a plan for Bumrungrad Hospital in Thailand ▪ Aetna is exploring foreign facilities based on hospital criteria ▪ CIGNA is exploring the option
Quality / Safety	<ul style="list-style-type: none"> ▪ Loose accreditation, limited medical malpractice insurance, and low direct safety oversight

Key Players



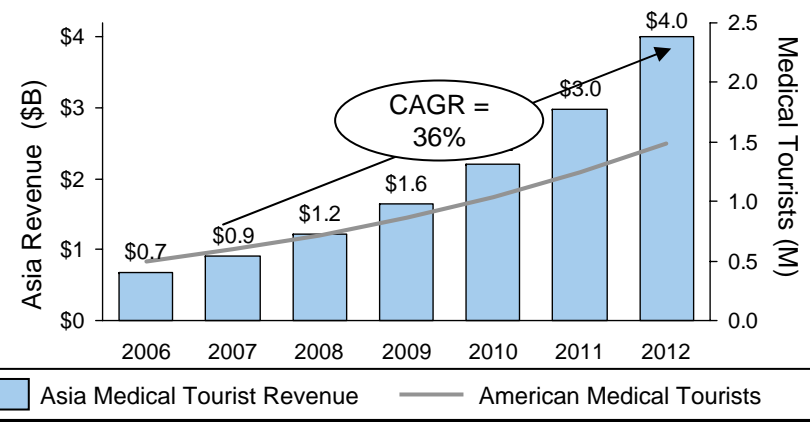
PLANETHOSPITAL

Indus Health



Global Choices

US Projected Growth of Medical Tourism



International trends highlight there are some “must haves” and choices in claims to improve effectiveness and efficiency

“Must haves” in Claims...

- 1 Greater customer focus
- 2 Proactive claims management, linked to risk
- 3 People are as important as IT
- 4 More sophisticated use of data
- 5 Active health and provider management

...with choices across the claims management value chain



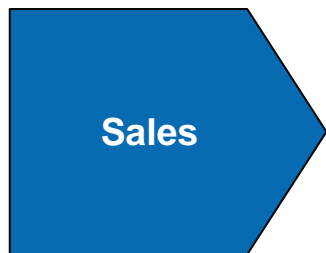
Examples



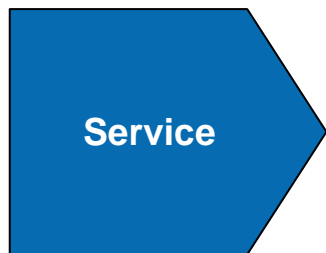
- Uses electronic lodgement and workflow system to auto-adjudicate 86% of all claims
- Electronic injury reporting gateway
- Tailored business streams: straight-through processing for simple claims and proactive management for complex
- Information analytics - high cost claim potential, fraud, mispayments
- 60% online claims and multi-channel lodgement - enables early notification
- Workflow tool used to stream cases based on risk
- Active provider management

Health Funds have to make strategic choices relating to channel mix, the role of each channel and how to operationalise this

Major Channel considerations



- Significant growth in online sales, especially across younger and more affluent and educated segments - with option of a direct connection to a call centre representative
- Greater focus on consultative sales in retail and call centre, especially for segments with high health engagement
- Some third-party and broker sales, but small



- Service shifting to lower cost online and self-service call centres to minimise impact on customers
- Increased claims through providers to minimise impact on customers

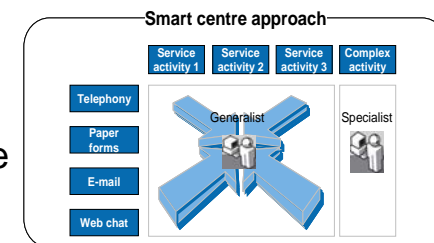


- Wellness tailored by channel and segment
 - Retail face-to-face
 - Online info
 - Call centre accessibility

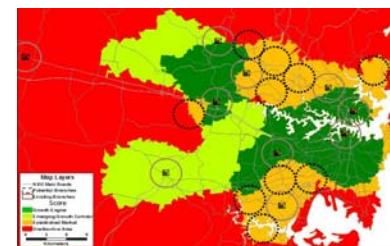
Specific Examples



- Players like iSelect have emerged



- Smart centres support multiple channels



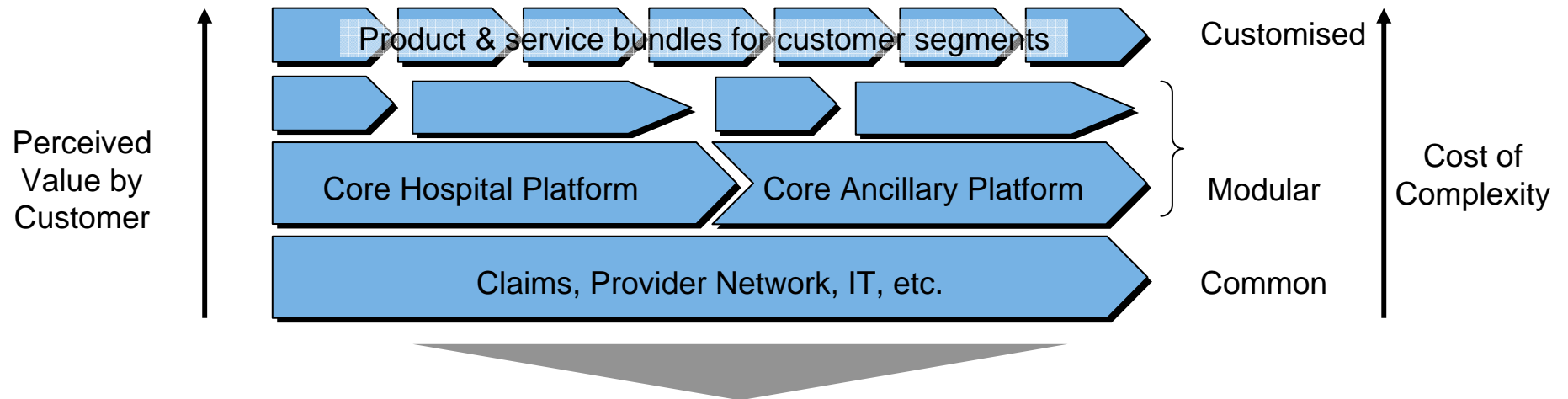
- Geo-mapping can help optimise retail footprint



- Wellness can be delivered in different formats

Product architecture can help balance customer choice and complexity in product, building on modular components

Striking a balance between complexity and differentiation



Product Design Principles

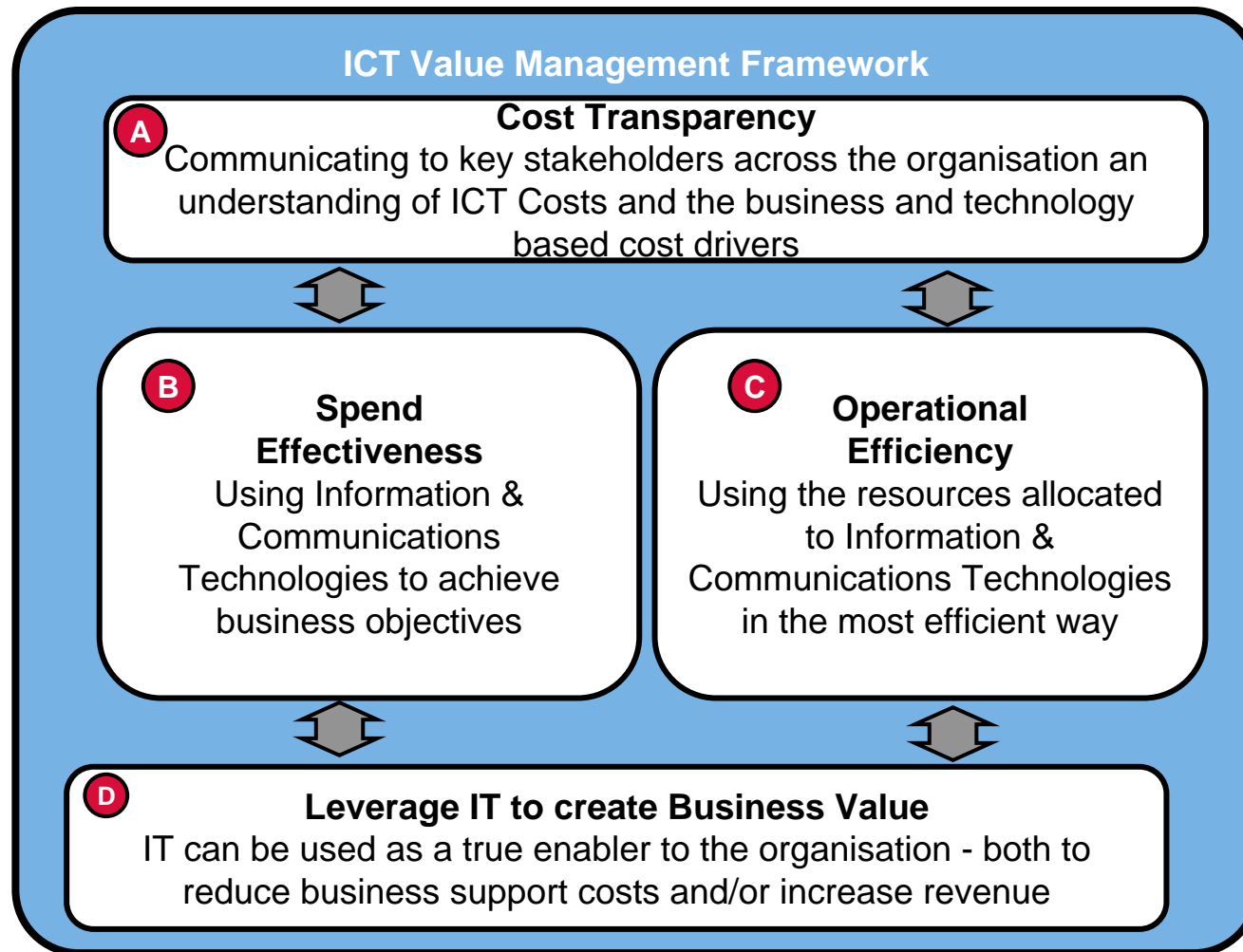
- Few product & service bundles, aligned to segment needs
- Degree of individual customisation focused on excess and individual packaging of pre-defined bundles
- Employ a customer facing modular architecture that uses common components across breadth of product array

Hospital & Extras products						COMPARE
Products Included		Level of Cover		Price per month*		
Hospital	Extras	Hospital	Extras			
Top Plus	Super Multicover	■■■■	■■■■	\$146.70	Apply	Cover details
Top Plus	Multicover	■■■■	■■■■	\$135.50	Apply	Cover details
Hospital Savings	Multicover	■■■■	■■■■	\$119.75	Apply	Cover details
Hospital Savings	General Extras Plus	■■■■	■■■■	\$98.65	Apply	Cover details
Hospital Advanced Savings	Multicover	■■■■	■■■■	\$96.55	Apply	Cover details
Hospital Advanced Savings	General Extras Plus	■■■■	■■■■	\$75.45	Apply	Cover details

Hospital Only products						COMPARE
Products Included		Level of Cover		Price per month*		
Hospital	Extras	Hospital	Extras			
Top Plus		■■■■	-	\$90.60	Apply	Cover details
Hospital Advanced Savings		■■■■	-	\$51.65	Apply	Cover details

Extras Only products						COMPARE
Products Included		Level of Cover		Price per month*		
Hospital	Extras	Hospital	Extras			
Multicover		-	■■■■	\$58.80	Apply	Cover details

A robust ICT strategy can optimise effectiveness and efficiency - supported by a broader e-Health strategy



Examples of typical national e-Health initiatives

Electronic Health Record



Medication Documentation



Patient eReceipt



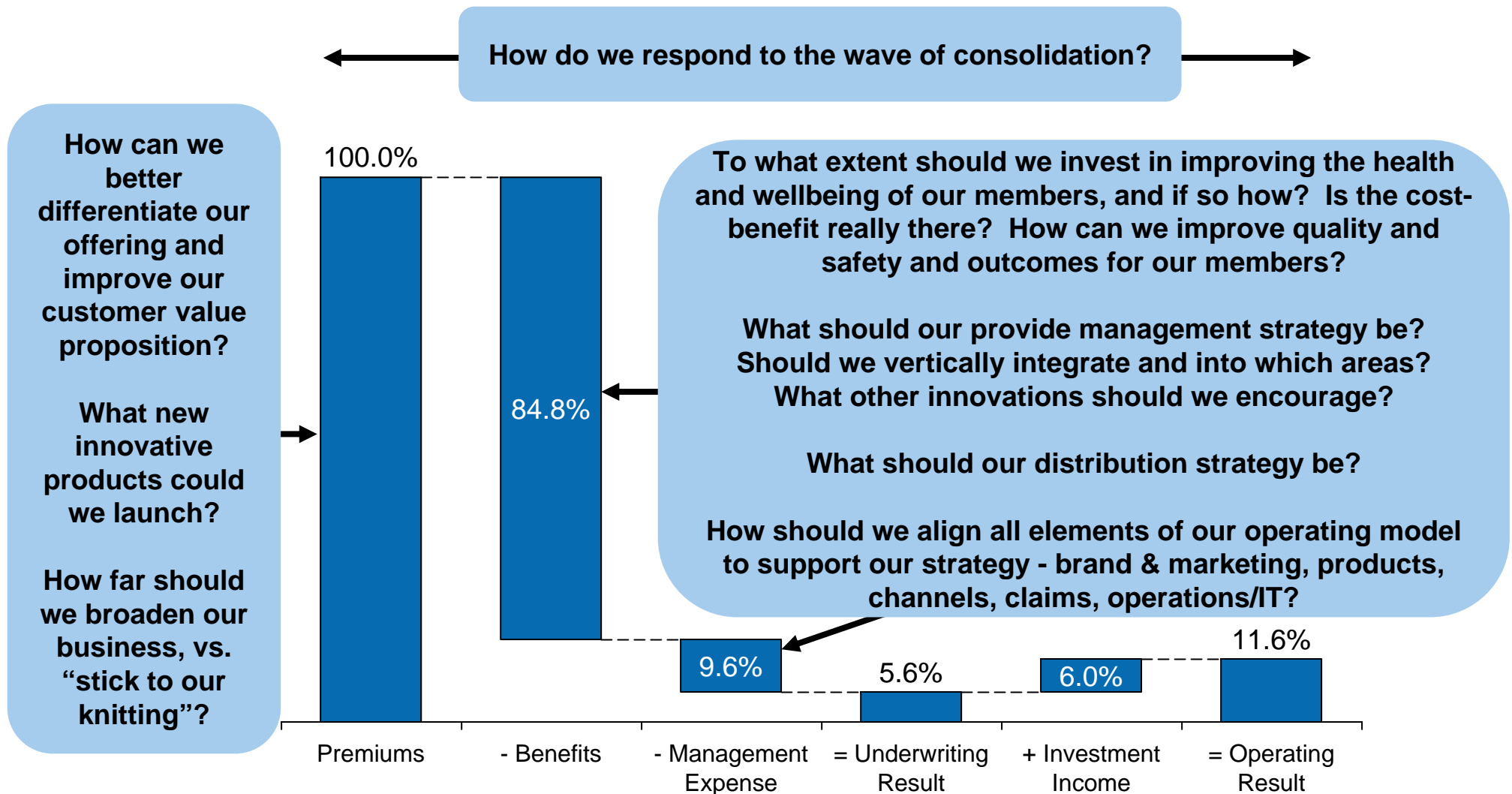
Physician eCommunication



Patient eFile



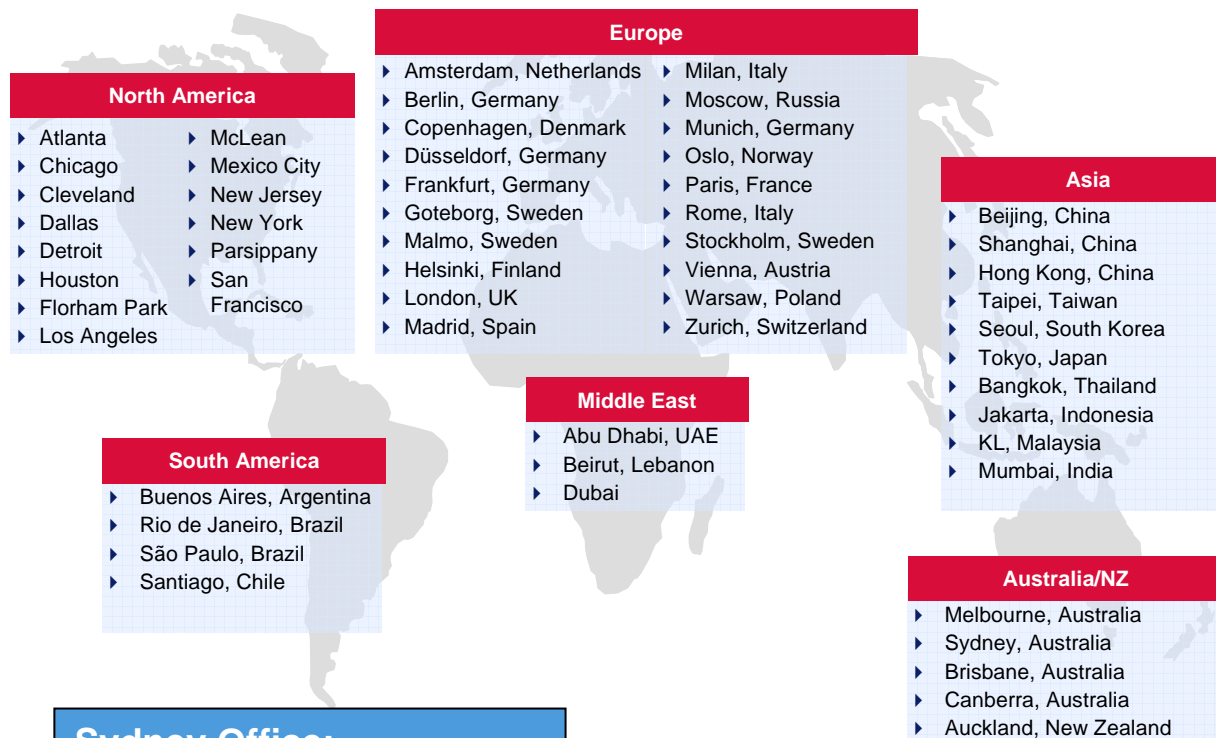
In summary, improving financial management will require Health Insurers to determine their best strategic and operational response



Appendix: Booz & Company Profile

Booz & Company is a global management consulting firm, with over 90 years experience serving the senior agenda of our clients

Booz & Company Offices









Booz & Company Profile

- **Known for the relevance of our ideas and our practical impact**
- **90+ years** experience serving the senior agenda of **prestigious clients** – world’s leading institutions, public and private
- **Global firm: revenue: \$1+ Billion with 3,300 staff and around 60 offices**
- **Collaborative spirit:** with our clients and our global colleagues
- Incentive to bring the “**best of Booz & Company**” to any client engagement as rewarded on global performance
- Privately owned by 200 partners – guaranteeing firm’s **independence**
- **Success based on client results** - 85% of our assignments come from existing clients

Sydney Office:
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Sydney NSW 2000
Telephone: 02-9321-1900

Booz & Company's senior team has deep, relevant experience in Insurance and Health

<p style="text-align: center;">Sarah Butler</p>  <ul style="list-style-type: none"> ▪ Director – 18 years ▪ Leads our Insurance practice, with experience across the value-chain 	<p style="text-align: center;">Vanessa Wallace</p>  <ul style="list-style-type: none"> ▪ Director – 20 years ▪ Leads our Financial Services practice, with experience in Health and government 	<p style="text-align: center;">Simon Gillies</p>  <ul style="list-style-type: none"> ▪ Director – 20 years senior management and consulting experience ▪ Leads our office in Melbourne, with experience in PHI
<p style="text-align: center;">Andrew Johnstone-Burt</p>  <ul style="list-style-type: none"> ▪ Director – 15 years consulting experience ▪ Leads our Civil Government practice, with public sector experience including DHS 	<p style="text-align: center;">Klaus Boehncke</p>  <ul style="list-style-type: none"> ▪ Principal – 10 years ▪ Leads our Health practice with deep experience in networked health care and eHealth 	<p style="text-align: center;">Les Haines</p>  <ul style="list-style-type: none"> ▪ Associate with >25 years ▪ Deep experience in the health care sector including providers and government