4sight health
imagine better healthcare

November Indigestion:

The Idiocy and Promise of Benefit Selection

December 2, 2015

November Indigestion:

The Idiocy and Promise of Benefit Selection

By David Johnson and Nathan Bays

Dave's wife Terri Brady is a Senior Leadership Coach at the University of Chicago's Booth School of Business. She has management and law degrees from Harvard and Columbia respectively. Last month, Terri spent an entire evening analyzing healthcare coverage alternatives and enrolling in UChicago's 2016 benefits program.

Her choices included a Blue Cross Preferred Provider Organization (PPO) program, a Blue Cross High Deductible Health Plan (HDHP) and three Health Maintenance Organizations (HMOs). The selection process was mind-numbing, confusing and really important.

Terri narrowed the selection to Blue Cross' PPO and HDHP programs, which share a broad provider network. Determining the right health insurance plan became a complex mathematical problem. Here are the factors she sought to optimize: monthly premiums; deductibles; co-pays; out-of-pocket maximums; flexible spending vs health savings accounts; employer contributions to the HSA, drug costs and tax impact.

Terri emerged battered and bruised after selecting the HDHP. She hopes she made the right choice. The exercise resembles how investment bankers calculate break-even and strike prices on financial options. That's the point. Health benefit selection is a financial, not a human, transaction. Consumer preferences are an afterthought. Here's what benefit selection is not:

- Understandable
- Convenient
- Efficient
- Personalized
- Compassionate

Combine cumbersome enrollment with horrific claims approval, billing and payment processes and it's easy to understand why consumers love to hate health insurers. The health insurance "service void" creates a gaping opportunity for better products and services.

Health Insurer Vulnerability

Health insurers frustrate Americans. The American Customer Satisfaction Index (ACSI) released its 2015 Finance and Insurance Report on November 17th. ACSI surveys 70,000 customers annually regarding the products and services they use most. The ACSI assesses forty-three industries and over three hundred companies.

Only cable and internet providers have lower customer satisfaction scores than health insurers. Group policy holders are less satisfied than individual policy holders. The health insurance industry's score is its lowest in a decade and going lower.

The ACSI surveys ten service components (e.g. access to primary care doctors, ease of claim submission, call center satisfaction, etc.). The industry excels in none.

If the contemplated Aetna-Humana and Anthem-Cigna mergers close, three health insurers and independent Blue Cross plans will dominate the commercial insurance marketplace. Scale brings efficiencies, but it also amplifies organizational complexity and creates significant dis-economies. Overcoming incompatible legacy systems and cultures complicates service provision. Customers suffer.

Like airlines, banking, hospitality and retailing, the health insurance industry is consolidating into a handful of massive service providers. In other consolidating industries, successful "boutique" competitors have emerged and won market-share by delivering more relevant, user-friendly services. Given its underwhelming and declining customer satisfaction scores, health insurers are remarkably vulnerable to boutique, consumer-centric competitors.

Service Innovators on the March

Most disruption theorists focus on disruptive product innovation: automobiles replacing horse-drawn carriages; personal computers replacing mainframes; digital imaging replacing film.

While disruptive service innovation is not new (Starbucks transformed the coffee experience), the internet expands its impact geometrically. Innovative service companies employ technology to attack inefficiency and latency. Uber is crushing traditional taxi providers by using technology to offer personalized, convenient, lower-cost door-to-door transit services. Spot Hero seamlessly connects customers with garages to arrange low-cost parking where there's excess capacity. Hotels.com (Captain Obvious) does the same for excess hotel capacity.

Boutique competitors using superior technology are now attacking the health insurance marketplace. Oscar and Harken Health are examples of new insurance companies offering customer-friendly products supported by powerful technology platforms. Expect to see more of these boutique health insurers emerge as the massive commercial insurers consolidate and focus internally on platform integration.

Less obvious, but equally interesting, is the emergence of boutique competitors in benefit design and administration. They're attacking third-party benefit administrators, like Blue Cross, that frustrate Terri millions like her. Collective Health is this type of disruptive service innovation company.

Honor the Collective

Collective Health operates on the simple principle that "accessing and paying for healthcare ought to be simple, transparent and feel good." Like many early-stage companies, Collective Health traces its origin to personal experience.

One of the founders, Ali Diab, suffered a life-threatening medical event in 2013. Beyond a difficult recovery, Ali sparred with an intransient health insurer that refused to pay for much of his care. Abandoned by the system, he became his own advocate. Frustrated by the experience, he consulted with his friend and co-founder, Rajaie Batniji, first to understand the sources of system failure and then to create a company that would overcome them.

Like Willie Sutton who robbed banks because "that's where the money is," Ali and Rajaie are focusing on employers because they pay for the vast majority of private health insurance. In designing Collective's technology platform, they "ignored the status quo" and built integrated systems that interface easily with payors, providers, employers and employees. Here's how they describe Collective Health:

> *"Our complete employer sponsored health insurance platform replaces the complex, process driven world of health benefits with one product that simplifies and improves every aspect of how companies take care of their people."*

Their disruptive service model has the following four components:

- Simplified plan design built to meet people's actual needs;
- A transparent self-funding platform that centralizes and streamlines claim submission, adjudication and payment;
- Pro-active intelligence that monitors trends and identifies individuals at high risk for acute intervention; and
- A superior member experience that is accessible, comprehensive, intuitive, mobile and user-friendly.

Collective's powerful vision is drawing customers and investors into its orbit. Their clients include Activision Blizzard, Palantir Technologies and ZenDesk. Their "covered lives" exceed thirty thousand and are growing fast. Collective has raised over $80 million in three funding rounds from high-profile investment firms, including Google Ventures, Founders Fund, New Enterprise Associates and Maverick Capital. It now employs over one hundred thirty designers, engineers, data scientists, actuaries and operations experts. Collective has the talent and money to go the distance.

Purpose-Driven Disruption

The best disruptive companies infuse their vision with high purpose, personal narrative and crusading commitment. They're revolutionary. These purpose-driven companies bring people together to solve big problems.

Steve Jobs preached that Apple's mission was to empower those who want to dent the universe and build a better world. Collective Health preaches that "Americans deserve better." They strive to provide a service that employers are proud to share with their employees. Who doesn't want health insurance like that?

A torturous evening completing benefits enrollment forms, much less the anguish associated with medical claims, is more than enough to make consumers angry and demand change. Conventional benefits management is on its way to history's "dustbin." It's overstayed its welcome and deserves its fate. The future belongs to companies that enrich healthcare by making it better, more affordable, more accountable and easier to navigate.

Editor's Note: An earlier version of this commentary implied that Collective Health intends to operate its own national network by 2018. That is not accurate. Collective Health anticipates offering health insurance nationally by 2018 in partnership with health insurers that have nationwide physician and hospital networks.