OLIVER WYMAN

ASIA HEALTH ECOSYSTEM SERIES

DISRUPTION BY COLLABORATION

A NEW WAY AHEAD FOR INSURERS AND LIFE-SCIENCES IN ASIA

MEDICAL MIRACLES ARE HERE, BUT THE MILLION-DOLLAR QUESTION IS STILL "WHO PAYS"

Cancer has long been considered the last frontier in medicine. In the last decade, a new form of cancer therapy, immunotherapy, has started to move from the realm of clinical trials to mainstream treatment. This highly personalized therapy has produced some astounding results. In certain types of B-cell leukemias and lymphomas, which haven't responded to any other treatment, 80% or more have seen their cancers disappear. It was immunotherapy which sent former US President Jimmy Carter's melanoma, which had spread to his brain, into remission seemingly overnight. This should be good news for patients, right? But there is a catch – the therapy can cost upwards of $200,000 for a patient. So, who pays for this? The insurers are looking at their books and still unsure of how to cover this. And this is only the preview of the challenges to come. In the next 5 years, immunotherapy is going mainstream with more than 100 such therapies expected to be launched in the market. But the question remains:

"Are payers ready for it?"...

"More so, are payers in Asia ready to foot the bill for high cost therapies given that premiums in this part of the world are at much lower levels than in the West?"...

"Without the payers coming on board, how feasible is it for the drug makers to bring these innovative therapies to Asia?"

ASIAN MARKET REALITIES FOR INSURERS & LIFE-SCIENCES

ASIAN INSURERS FACE THE DOUBLE WHAMMY

There is no debate that healthcare costs have been increasing continuously, even at double digit rates in some markets. The players – providers, payers, and life-sciences (including both pharmaceutical and device manufacturers) – have been continuously adapting their business models, but slowly and moderately and not in sync with each other. The health insurer has long relied on its traditional actuarial models to estimate its costs and price its products. However, the changes in the coming years are expected to be anything but incremental. Asia is one of the fastest growing and attractive markets for health insurance, however Asian health systems also pose unique challenges for insurers. Introduction of high cost therapies, like immunotherapy for cancer, is just at one end of the spectrum of care. The care model itself is changing and proven all the more challenging for insurers who are used to their traditional lens of reimbursement for "usual, customary and reasonable" charges only. Insurers in Asia are further handicapped by the limited tools at their disposal and the still evolving sophistication of insurance practices. (See Exhibit 1)

LIFE-SCIENCES PLAYERS ARE GRAPPLING WITH THE "ACCESS" CHALLENGE IN ASIA

Emerging markets, particularly Asia, are increasingly seen as the growth engine of the future for drug and device manufacturers. As developed economies continue to constrain or cut healthcare funding, governments in Asian markets are making healthcare a priority. Public systems are thus investing in infrastructure, funding services, encouraging the development of domestic industry, and expanding health insurance to a broader population. In developed markets, the market access function is chiefly concerned with pricing and with satisfying local regulations. However, in Asian markets, the access challenges are more complex. (See Exhibit 2)

THE TUG-OF-WAR BETWEEN INSURERS AND LIFE-SCIENCES

The traditional business model has pitted healthcare players against each other with conflicting business incentives. Insurers see medical therapies as an unsustainable cost which needs to be strictly managed. On the other hand, drug makers see the insurers as the irrational gatekeepers who are restricting patients' access to innovative and effective medicines. As consistent with the theme of this ecosystem series, we believe that amid such market forces, both health insurers and life-sciences players risk losing market share if they fail to adapt. At the same time, the rapidly changing landscape provides an opportunity for insurers as well life-sciences players in Asia to break down traditional boundaries and adopt new roles and business models.

Exhibit 1: Challenges for Asian insurers

A. EXTERNAL CHALLENGES – THE "NOT SO CUSTOMARY" NEW CARE MODEL

THE CHANGING CARE MODEL	CHALLENGES WITH CURRENT INSURANCE PRACTICES
Increasing shift towards managing chronic conditions in the primary care setting Example – Most chronic conditions like diabetes can be managed in the primary care setting, and if well-managed the need of specialist services and hospital care is reduced	Hospitalisation coverage only plans are the most prevalent indemnity products in Asia. Under these plans, insurers have to reimburse for emergency and inpatient admissions associated with complications of chronic conditions but are unable to cover the outpatient treatment costs which would have prevented the complications in the first place
Drug and device makers are increasingly offering "Beyond the pill" proposition Example – Drug companies are providing additional resources and tools to facilitate medication reconciliation, identify high risk cases, and assess non-compliance and build apps or portals to support clinicians as well as patients in managing their conditions	Insurers find it difficult to quantify the value-add benefits under the "usual, customary and reasonable" evaluation framework and limit reimbursement to the base cost of the drug or device only
More therapeutic options are becoming available for primary and secondary prevention Example – Homozygous Familial Hypercholesterolemia is unresponsive to the standard statin treatment and is associated with a high risk of heart attacks and death before age 30. Recent drugs like Mipomersen and Lomitapide are effective but carry a price tag of $175,000+ per year	Preventive therapy often falls outside the insurer definition of "medically necessary" care and thus not covered. Insurers may then face high costs downstream for the hospitalisation and clinical sequalae
Emerging innovative therapies reduce the life-time cost of care for the patient but have a high upfront cost Example – Multiple Sclerosis is a disabling disease with a steady progression of symptoms over the years. New therapies like Alemtuzumab require only 2 short courses of infusions in the first 2 years with benefits (preventing the MS from becoming active and progressing) for 5 years	The prevalent practice is for insurers to reimburse for drugs and devices in a given year only up to the specified cap for that year. Even if the therapy can lower the total medical costs over 5 years, patients may not be able to get access to the therapy if the annual cost exceeds the reimbursement cap for the given year

B. INTERNAL CHALLENGES – STILL PROGRESSING UP THE MATURITY CURVE

INSURER CAPABILITIES	CHALLENGES FOR INSURERS
Negligible use of Diagnosis Related Group (DRG) based reimbursement Almost all indemnity plans in Asia are based on "As charged" model with separate caps for physician fee, surgery, drugs, devices etc.	With the claims broken down across several categories, insurers find it difficult to understand the total cost of care for a specific condition and how it relates to patient outcomes
Lack of strong "middle office" function Most insurers do not have the expertise or the resources for medical management, network management, pharmacy benefits, informatics and quality improvement	Insurers have limited understanding of how to manage medical risk and costs (both supply and demand driven), and thus unable to identify the value levers
Weak relationships with physicians While insurers are forming their physician panels, the relationship is often passive and limited to having pre-agreed charges or discounts for services	Insurers have negligible influence on physicians' prescription behaviours and the chosen care pathways for the patients
Limited tools for conducting sophisticated analysis Most Asian insurers lack in-house capabilities to conduct cost-benefit analyses across the various treatment options	Lack of experience in performing sophisticated cost-benefit equations leads to simplistic price comparisons and crudely applied caps that deny patients access to cost-effective therapies

Exhibit 2: Market access challenges for life-sciences companies in Asia

MARKET ACCESS CHALLENGES	IMPLICATIONS FOR LIFE-SCIENCES PLAYERS
 Restrictive public insurance coverage and low out-of-pocket affordability Most Asian markets have lower per capita health spending, and public insurance programmes often reserve coverage for basic therapies, offering access to innovative treatments only exceptionally	Without payer coverage, the target market for innovative therapies becomes smaller, often failing to meet the minimum sales requirement, thus limiting the viability of launching these therapies in Asia
 Lack of organised patient groups Compared to the West, there are few organised patient groups, forums or channels for the patients to come together or to be engaged on common platforms	Life-sciences players do not have many channels for reaching out and engaging the relevant patients with information and understanding the local patient needs, and thus have limited options for designing a "Beyond the pill" value proposition
 Limited local data In most Asian markets, life-sciences companies predominantly have sales and marketing functions and do not have the resources to collect data on disease patterns, therapy utilisation and effectiveness	Without accurate market data on therapy utilisation, cost to the customers and associated benefits realisation (e.g. decrease in complications and re-admissions), the drug and device makers are unable to articulate a compelling value story in the local markets

WHAT ARE THE OPPORTUNITIES?

Insurers and life-sciences companies have the same pool of customers – especially considering private health insurance is the general means of access to many branded or patented drugs, which are generally restricted in the public care systems. Both insurers and life-sciences companies also have similar business objectives (and challenges) in Asia

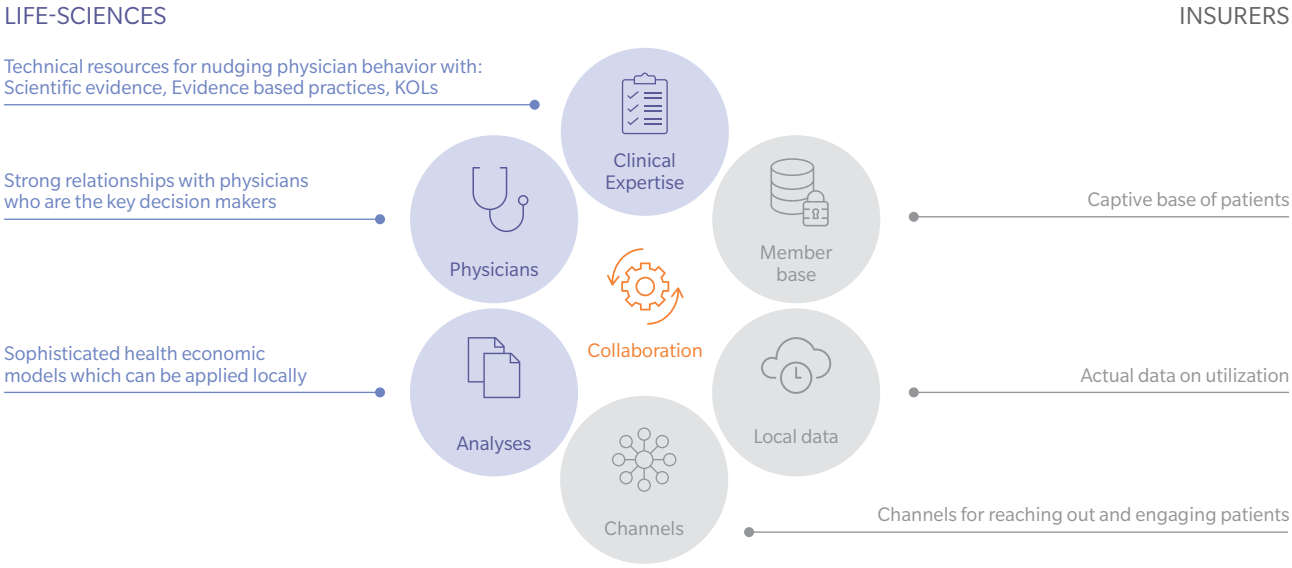
How can they increase their penetration, tap on to the immense opportunities in the fast-growing markets and establish their beachheads?

How do they differentiate from the competitors in a sector which is fast becoming commoditised?

How do they effectively engage the decision-makers i.e. the physicians to steer them towards appropriate and cost-effective therapies?

How do they bring a greater value proposition to their customers?

Exhibit 3: Complementary attributes of insurers and life-sciences companies



Healthcare players have realised that solutions in isolation i.e. a better drug, a better care pathway or a better coverage plan are less effective. Major healthcare players have reached across the aisle to work with unlikely collaborators to reduce costs, increase efficiency and better understand and solve the patient's problems. For instance, the United States is witnessing an increasing slew of partnerships between health insurers and retailers, such as the CVS-Aetna merger and the Walmart-Humana partnership.

Instead of seeing each other at the opposite ends of the tug-of-war, both insurers and life-sciences players should see an opportunity to reset roles and relationships in the Asian markets. Each of them brings complementary strengths in addressing the Asian challenges for providing higher quality and lower cost access for healthcare therapies as shown in Exhibit 3, and together they need to envision how they can leverage these strengths to create synergies.

There is great opportunity to unlock value if the insurers and life-sciences companies marshal their collective strengths and create innovative solutions. Working together, there are several areas where collaboration with life-sciences can add value for insurers, as shown in Exhibit 4. On the other hand, a partnership with insurers gives life-sciences expanded access to the target consumer segments.

Exhibit 4: Across the insurer-patient interaction pathway, there are several areas where life-sciences companies can add value to the insurance chain

Marketing

Co-development of condition specific products/add-ons

Embedded programmes

Value proposition of investment in consumers' health

Customer Retention

Access to value-added services to maintain customer loyalty

Medical Cost Management

Clinical understanding of conditions

Cost savings through better care management and reduction in admissions or readmissions

Physician Engagement and Mobilization

Physician outreach through pharma's sales network

Pharma expertise on KOL and PCP arrangement

Financing

Discounted prices for insured members

WHAT IS HAPPENING IN ASIA TODAY

There is increasing recognition across both sides of the benefits of collaborating. Pharmaceutical firms and insurers have been testing the waters with pilot collaborations and joint ventures as shown in Exhibit 5.

There have been some notable successes like the Roche-Swiss Re partnership in China where Roche supports with the clinical know-how, data and analytics around cost-efficient means for cancer treatment, and Swiss Re provides reinsurance for excess losses. Together, they have expanded this partnership to other countries like Vietnam where they partnered with Bao Viet insurance to develop the first cancer specific insurance product there. Apart from this, most collaborative efforts so far have been confined to individual markets and based on ad hoc initiatives, some of which are ongoing, some of which are on a tenuous base, and most have had a very short life. While there have been several exploratory efforts by life-sciences firms to partner with insurers in Asia, the road towards a definitive partnership has been fraught with several barriers. In our discussions with Asian insurers and life-sciences players, 8 key themes emerged which often have led to unfruitful efforts as shown in Exhibit 6.

Exhibit 5: Collaborative efforts between insurers and pharmaceutical firms in Asia

China	Cancer care product collaboration. Roche, the cancer drug-maker, provides the analytics around cost-efficient means to cancer treatment and Swiss Re, the insurer, provides re-insurance for excess losses
Vietnam	Cancer care product partnership. Swiss Re and Roche expanded the cancer product to Vietnam, with local manufacturing by Bao Viet
India	Insurer & implant manufacturer partnership for standard prices for high cost implants across hospitals Insurer & diabetes drug manufacturer partnership for patient education in diabetes management Partnership exploration between insurer & drug manufacturer to set up a formulary with preferred pricing
Hong Kong (HK)	Insurer and cancer drug manufacturer partnership to provide rebates on cancer drugs for the insured patients Exploration of partnership models for high cost drugs across cardiology and rare diseases
Thailand & Indonesia	Insurer & vaccine manufacturer partnership for flu vaccination program

Exhibit 6: Key barriers for insurers and life-sciences firms in developing collaborative partnerships

1 **Lack of a compelling business case**
In spite of well structured partnership constructs and conceptualised qualitative benefits to both parties, the financials are often not attractive enough to justify the investment of effort required

2 **Immediate commercial needs versus long-term benefits**
Preventive care requires an upfront investment in care models however the benefits are realised over the years. The commercial teams on both sides are often under pressure to show quick wins in order to proceed with the partnership

3 **Unequal appetite for risk**
Insurers perceive that they have to bear all the commercial risk in the partnership and would like the other party to share some of the risk, however life-sciences companies are often restricted by their commercial models to commit to a risk sharing agreement

4 **Need to include providers in the partnership**
Bringing physicians on board is a critical requirement for successful roll-out of any partnership solution, as they are the decision makers for the care provided

5 **Existing ideologies on model of care and product design**
Insurers and life-sciences companies have been working on solutions, such as for chronic care, on their own and these can be in conflict with the other party's solutions

6 **Limited potential to scale with niche solutions**
Drug and device makers often see value in partnering for highly specialised and costly drugs and devices, whereas, insurers' prefer a broad-based portfolio of solutions which are applicable to a larger patient pool and can be scaled up

7 **Lack of internal readiness at either side**
In many cases, the initiation of discussions were not at the opportune time for one of the parties which had competing priorities at the time or did not have the buy-in from all internal stakeholders to make a firm commitment

8 **Expecting the other party to lead the follow-up**
This may sound simple but in our experience this has been one of the most common reasons for initial discussions losing momentum

THE WAY FORWARD

To overcome these barriers, the potential partners need to shift mindset towards an integrated cross-brand approach and away from the traditional commercial model of sales and marketing. Shifting to an integrated model focusing on access (patient and physician) represents a major business challenge. In our experience, a 5-step approach as outlined below is a must for both insurers and life-sciences player to develop the right partnership for change.

CONDUCT AN INTERNAL READINESS ASSESSMENT

For each of the partners, it is critical that there is alignment in the early stages between the internal teams on the potential opportunity, the feasibility of the potential approaches, the resources that can be committed, the appetite for risk and time-horizon for success. For example, the market access team needs to be aligned with the commercial teams on priorities for brands and access initiatives. Similarly, in instances of matrix organisational structures, the country team and the portfolio/product team need to be aligned on the shortlisted opportunities in a given market. There should be clarity at the organisational level that if the partnership discussions progress, how would a unified plan be developed across the various functional units to coordinate internal stakeholder engagement, and who would be accountable for leading the development and implementation of the partnership proposition.

UNDERSTAND THE LOCAL MARKET AND STAKEHOLDER NEEDS

Policy coverage and market access happen at a local level, so both partner organizations need a good understanding of the local access landscape and the stakeholders who shape it, not only those who are the formal decision makers but also those who influence them directly and indirectly. To create pragmatic solutions, both partners need to look at the barriers from the patient's, physicians' and each other's point of view. For instance, do barriers lie in affordability or awareness in the physicians or awareness in the patients or the way how care is organised? Any one organisation may not have the complete picture and hence both partners need to pool in their collective insights and market intelligence to identify the gaps where a collective solution would be feasible as well as impactful.

HAVE AN INTERNAL FRAMEWORK FOR A BUSINESS CASE CAPTURING THE SHORT-TERM AS WELL AS LONG-TERM IMPACT

Lack of a compelling business case would be a non-starter for the partnership, so both partners need to start thinking early about the business elements and what would be required for success, e.g.

What are the potential benefits for each partner with the given partnership construct?

What is the minimum cohort size to demonstrate significant cost-effectiveness and savings?

What are the savings or incremental sales thresholds for the partnership to be commercially viable?

What are the therapies or solutions that can be included in the portfolio to get short-term impact (e.g. flu vaccinations) as well as long-term impact (e.g. care models for chronic diseases)?

Which therapies can be progressively included to upscale the partnership scope over time?

What evidence is needed to back a compelling value story?

Having internal clarity on the acceptable minimum viable proposition would drive more focused, structured and productive partnership discussions and enable an early "Go/No go" agreement.

FACTOR IN THE PHYSICIANS

The partnership solution when implemented would need some form of buy-in from the physicians to align their prescription behaviour with the proposed care model. Relationships with local networks of physicians and providers is therefore vital to the success of such initiatives. As part of a broader approach, both partners should consider how they can leverage their networks, relationships and know-how to get physicians on-board.

START WITH A DE-RISKED PROPOSITION

With an eye on the bigger prize but still cognisant of the inherent risks of a full rollout, the partners should consider doing a 'proof-of-concept' first with a smaller target population and selected therapeutic solutions. This would demonstrate the feasibility and effectiveness of the partnership solution as well as be the "quick win" for getting wider support in both partner organisations. Further, this would also be a good test bed to try out a risk-sharing model with only a small investment at risk and assuage the concerns of financial controllers on both sides.

The collaboration efforts between insurers and life-sciences companies are still at a nascent stage with both sides facing challenges in aligning their interests and not knowing how the process will evolve and how to maintain accountability for the follow-up actions. Further there is reluctance in sharing proprietary data with each other which is essential for the analysing the economics of the partnership construct. In such cases, we have seen it is helpful for both sides to engage an "honest broker" – a third-party independent advisor, who coordinates the overall effort and directs the partnership structuring process.

CONCLUSION

Healthcare in Asia is transforming, and the players need to figure out where they are in this transformative process, and whether they can stay relevant by continuing with the fragmented model of the past. Winning companies are embracing the shift towards ecosystem solutions wherein they create greater value for the patients as well as differentiate themselves from the rest of the pack. Convergence of payers and providers has already started the shift towards value-based care. While the maturity of insurance and life-sciences practices in Asia still lags behind the maturity levels seen in developed countries, it is timely for insurers and life-sciences players in Asia to come together to create bold solutions or face the risk of continuing in the "catch-up" mode.

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

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