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EVOLVING HEALTHCARE LANDSCAPE REQUIRES INSURANCE SOLUTIONS NOT JUST INSURANCE PRODUCTS

"There's somethin' happening here, what it is ain't exactly clear." This line –originally written by Stephen Stills in 1967 and made famous by Buffalo Springfield and Jefferson Airplane in the late 60's – seems particularly relevant when thinking about both the extent and pace of change in today's healthcare environment.

The Patient Protection and Affordable Care Act (PPACA), signed into law by President Obama on March 23, 2010, is exceedingly complex, requiring an unprecedented level of change over a period of 5+ years. But much of the required change must be implemented in the near term, when healthcare providers are already wrestling with an unyielding recession that is having a profoundly negative impact on revenue streams and the ability to raise capital for necessary infrastructure investments.

The goals of the PPACA are remarkably ambitious when one considers the current condition of today's healthcare system and what those goals actually include. Today's healthcare system is aptly characterized as a highly fractured, increasingly costly, fee for service model that struggles to make a margin while restricting access to approximately 32 million uninsured individuals. Meanwhile, the purported goal of reform is to achieve a highly coordinated system of providers, supported by an electronic backbone (EMR), who are compensated on outcomes-based quality and service, while providing significantly broader access. Today's reality and tomorrow's blueprint could not be further apart.

The entire US healthcare delivery system is being forced to consider how to enact transformational change in order to survive in a post-PPACA world. Healthcare organizations are adapting their business models in an attempt to effectively position for the anticipated change compelled by reform and, equally, in response to changing patient demographics, state budgetary pressures, capital constraints, an increasingly complex regulatory environment and the resultant pressure on margins. Some healthcare organizations will adapt well, others will struggle and likely lose their autonomy and some will fail outright. Already we are witnessing a sharp increase in consolidation and integration activity at all levels, as healthcare organizations look to provide and integrate care across the healthcare continuum. This consolidation and integration has taken on many forms including mergers and acquisitions, partnerships, affiliations, joint ventures, and other types of legal relationships.

"Within the health care services industry in 2009, hospitals accounted for 14 percent of the overall M&A activity, with a total transaction volume of $1.6 billion. While this activity level has continued in 2010, the recent health care reform legislation has most experts believing that consolidation activity will increase dramatically within the hospital sector. It is believed the large 501(c)(3) hospitals and for-profit hospitals, including those backed by private equity, will lead this consolidation." *Fourth Quarter 2010 – Hospital Mergers and Acquisitions Update,* Peter Huse, Healthcare Reform Insight.

In addition, a meaningful part of the PPACA legislation involves the creation of Accountable Care Organizations (ACOs), which are intended to provide accessible, effective, team-based integrated care – and to offer financial incentives to hospitals, doctor groups, and other outpatient providers that work together, coordinating care for Medicare recipients while lowering costs. ACOs must take responsibility for the quality, cost and overall care of their Medicare patient population. In addition, they must maintain a level of physician staffing that is adequate to address the healthcare needs of at least 5,000 beneficiaries. They must report on quality and cost and coordinate care of their patient population across all involved providers. While it is uncertain to what degree ACOs will be formed and utilized, the call to cost-effective and coordinated care cannot be (and is not being) ignored by hospitals, physicians, and outpatient facilities as those parties look to incorporate the objectives of ACOs, even if they do not actually become one. More and more integration along with scale and improvement in quality will act as the primary drivers behind the continuing evolution of healthcare delivery models as these are the forces that will most directly impact revenue relationships and reimbursement rates. Consider the following from the Executive Summary of a recent HFMA Study entitled "Integration in a Reform Environment, Strategies for Success": "As the nation moves towards healthcare reform, one of the key strategies that healthcare providers should deploy to succeed in a reform environment is integration."

Of course, integrating care has other implications, including the advent of "integrated risk." As healthcare business models adapt, their risk will change as well, leaking out of conventional silos and presenting in ways that expose the limitations inherent in the current methods of risk management and risk transfer. The challenge for those involved in managing risk (clinical, financial and enterprise risk managers, as well as liability underwriters) is to evolve with the business models by transcending conventional, limited (and limiting) risk management and risk transfer products. The integration of the healthcare delivery model and the resulting coordination of services is likely to blur, if not completely eviscerate, the traditional boundaries between and among those who provide and administer care. If not appropriately assessed and managed, "integrated risk" is likely to impair the progression of the healthcare business model.

To paraphrase an old saying, if your only tool is a hammer, then you approach every problem as if it were a nail. In the evolving healthcare world, the underwriter's tool kit must be expanded. One tool – or more aptly, the same old tool(s) – simply won't adequately address the needs of the healthcare industry. A liability insurer's relevance and value proposition will be measured by its ability to deliver broad and adaptable solutions that transcend today's conventional product-based response. Risk will need to be considered more holistically, and risk transfer solutions will need to address both the integrated exposures of myriad provider types practicing in an increasingly coordinated manner, as well as the increasing need of insureds to adapt their risk financing mechanisms – particularly for retained risk – during acquisitions or divestitures. The mindset of the underwriter matters. A "solutions sensibility" rather than a "product sensibility" means recognizing that a truly forward-looking response requires more than simply cutting and pasting pieces of various products together; a product collage is not the answer.

[1] See, for example, "As Interest in ACOs Wanes, It's Time to Do the 'Next Right Thing'," Steve Ronstrom, May 23, 2011, which can be found at http://www.beckershospitalreview.com/hospital-physician-relationships/as-interest-in-acos-wanes-its-time-to-do-the-next-right-thing.html.

Instead, the answer comes from designing insurance solutions that recognize and address the rapid evolution of healthcare insureds' incentives. Consider the business challenges of a healthcare provider in a post-PPACA world facing the prospect of higher patient volumes but decreasing reimbursements. In order to succeed in the new environment, that provider must become more efficient and focus on maximizing the benefits available under the new paradigm. So, that provider will look to capitalize on reimbursements tied to reducing preventable readmissions by focusing on, and investing in, quality of care initiatives; that provider will also look to integrate pre-acute and post-acute care into its delivery model in order to coordinate care and extract a sustainable margin from the new bundled payment reimbursement mechanism.

As any economist will say, incentives drive behavior. And behavior, whether institutional or individual, drives risk. Understanding risk and its drivers is the first step in designing responsive, comprehensive liability insurance solutions. And insurance *solutions*— as opposed to insurance *products* – are best suited to deal with evolving, integrated risk.

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