Thriving in a changing world
Opportunities and challenges for private health insurance (PHI) companies

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- Dr. med. Tobias Schneider is an associate partner in McKinsey’s Cologne office. He holds a medical degree in epigenetics from Ludwig Maximilians University Munich.

- He joined McKinsey in 2012 and has focused his work in the health insurance industry on topics such as strategy, improvement of operations, cost containment, organization, and data and analytics.

- Tobias has studied medicine at the Technical University of Munich, as well as at Harvard Medical School Boston and Johns-Hopkins Medical School Baltimore, US.

- Prior to joining McKinsey, Tobias did research in the context of his MD with focus on mass spectrometric and chromatographic protein analysis, embryology, epigenetics and pluripotency as well as stem-cell research.

- Tobias has also worked as a physician in Switzerland.
What changes can we see in the short term?

- Health insurance will have a >20% higher growth globally, compared with life or P&C insurance.
- There will be great opportunities for PHI, as ~70-90% of patients see more potential in Polish healthcare.
- Healthcare risk will be shifted significantly from public to private in the Polish healthcare system.
- Demand will rise for integrated models in healthcare, adapted to patient journeys.
- Due to the current healthcare challenges, new niches and business models will emerge for PHI.

Globally, health insurance outperforms life and P&C – in Poland, PHI outgrows the public payors

**Growth and profitability** of different insurance lines of business globally, 2015 - 2025

<table>
<thead>
<tr>
<th>Year</th>
<th>P&amp;C</th>
<th>Life</th>
<th>PHI</th>
<th>Public payors</th>
<th>After-tax RoE average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>63</td>
<td></td>
<td>34</td>
<td>63</td>
<td>0%</td>
</tr>
<tr>
<td>2017</td>
<td>74</td>
<td></td>
<td>45</td>
<td>74</td>
<td>4.4%</td>
</tr>
<tr>
<td>2021</td>
<td>83</td>
<td></td>
<td>58</td>
<td>83</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

**Healthcare market value by payor**

<table>
<thead>
<tr>
<th>Payor</th>
<th>2012</th>
<th>2017</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>PHI</td>
<td>34</td>
<td>45</td>
<td>58</td>
</tr>
<tr>
<td>Public payors</td>
<td>63</td>
<td>74</td>
<td>83</td>
</tr>
</tbody>
</table>

Still the majority of private health expenditure is out-of-pocket

**SOURCE:** PMR, CBOS survey; McKinsey Global Insurance Pools (GIP), June 2016
The Polish healthcare is currently experiencing challenges, which drives the rise of PHI

**Satisfaction with the health care system**

- **Satisfaction**
  - ECHI points

- **Healthcare expenditure per capita**
  - EUR

- **Size of population**

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**Patient dissatisfaction with public systems**

- **Percent**

- **Describe the health care system as "bad"**
  - Percent: 62

- **Believe hospital could harm them**
  - Percent: 73

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"CBOS indicates that invariably from 2001 satisfied with health care remain in the minority – Pap.pl"
Extremely long waiting times contribute to a low degree of satisfaction with the public healthcare system

Average waiting time from specialist assessment to treatment, days

**Cataract surgery**
- Average: 107 days
- Range: 37 to 253 days
- Increase: +334%

**Hip replacement**
- Average: 130 days
- Range: 42 to 290 days
- Increase: +212%

**Knee replacement**
- Average: 208 days
- Range: 42 to 393 days
- Increase: +160%

SOURCE: OECD, 2015
The continuous shift towards more predictable risks requires a higher degree of complete health management.

Causes of non-natural deaths driven by aging population and advancements in treatment
Worldwide, millions

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2015</th>
<th>2030e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Injuries</td>
<td>58</td>
<td>63</td>
<td>73</td>
</tr>
<tr>
<td></td>
<td>9%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Communicable</td>
<td>30%</td>
<td>25%</td>
<td>21%</td>
</tr>
<tr>
<td>diseases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chronic diseases – predictable risks</td>
<td>61%</td>
<td>65%</td>
<td>69%</td>
</tr>
<tr>
<td></td>
<td>0.4</td>
<td>-1.4</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Shift to predictable risk has impact on ...

- Risk-Management
- Capabilities
- Products

SOURCE: WHO Core Health Indicators; ICP Global Results, EIU; McKinsey analysis
Risk sharing along the value chain is important in order to cope with increasing risk, ensure system efficiency, and improve patient outcomes.
Classical business models are evolving

A number of med-tech companies and start-ups are closing the gap for a fully integrated patient health journey.

SOURCE: McKinsey
Various companies, providers and nonprofits in the health industry aim for an efficient health system using efficient, digital business models

Competitive advantages per each industry group

<table>
<thead>
<tr>
<th>Technology companies</th>
<th>IBM</th>
<th>Apple</th>
<th>Amazon</th>
<th>Google</th>
<th>Facebook</th>
<th>CGM</th>
<th>verily</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payors</td>
<td>Allianz</td>
<td>HUK-COBURG</td>
<td>PROGRESSIVE</td>
<td>ZURICH</td>
<td>Techniker</td>
<td>B}\text{Arzneimittel}</td>
<td>Cigna</td>
</tr>
<tr>
<td>Providers</td>
<td>ASKLEPIOS</td>
<td>KAISER PERMANENTE</td>
<td>MEDIAN Kliniken</td>
<td>RHÖN-KLINIKUM</td>
<td>ARTICHOPELSCHAFT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pharma/med tech</td>
<td>PHILIPS</td>
<td>BAVEN Healthineers</td>
<td>SIEMENS</td>
<td>GE</td>
<td>Roche</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Start-ups</td>
<td>mydoc</td>
<td>almeda</td>
<td>Tinnitracks</td>
<td></td>
<td></td>
<td></td>
<td>Stride H\text{EALTH}</td>
</tr>
</tbody>
</table>
Three opportunities arise from this rapidly changing environment

- **Upgrading relationship with consumers through better products**
  - In a complex and volatile world, customers are seeking **qualitative, convenient and transparent solutions**
  - Opportunities to win these customers by offering **integrated services** along the entire customer journey

- **Generating value for the whole system and improving outcomes**
  - In a world of uncertainty, **risk management is key to success**
  - Opportunities to **leverage risk prediction and reallocation of risk** along the value chain to generate value and improve outcomes for patients

- **Tapping into new value pools by reinventing business models**
  - A rapidly changing world demands for **non-traditional and agile business models**
  - Opportunities to win in this environment by **smart partnering** inside and outside the healthcare space and **redefinition/broadening of value propositions**

**Technology and digital reshaping unlocks opportunities in all three areas**