



PSILOS

Psilos Group Managers, LLC

140 Broadway
51st Floor
New York, NY 10005

phone 212-242-8844
fax 212-242-8855

Psilos Group's 2014 Healthcare Outlook Reports Insurers Must Reinvent Their Business Model Now to Compete in the New Healthcare Economy

50-Year Legacy Business Model on the Brink of Irrelevance Warns Leading Healthcare Investor

NEW YORK – October 1, 2014 – Health insurers must change their business models now to address a fast growing wave of consumerism, according to leading healthcare investment firm Psilos Group's *2014 Healthcare Outlook*. The report was released today.

“The health insurance industry’s 50-year legacy as a business-to-business model is on the edge of irrelevance,” said Steve Krupa, Managing Member of Psilos Group. “The health insurance market is rapidly shifting to 40% individual policies from just 10% prior to the Affordable Care Act. A change of this magnitude affects every stakeholder in healthcare. However, with this change comes an enormous opportunity for forward-thinking companies and new investment.”

Psilos' *Outlook 2014* states that a dramatic shift toward more individual policies through both public and private healthcare exchanges requires that insurers reinvent their entire businesses to embrace consumer demands and expectations. Psilos argues that this transformation means an overhaul of the entire value chain -- including market research, benefit design, network development, operations, marketing, and sales -- essentially reinventing insurers' longstanding business strategy and value proposition.

Insurer's changes will need to be deep, strategic, and focused on new value propositions for the individual market. If successful, they have the potential to significantly improve the wellbeing of the U.S. healthcare system according to the report.

Vast Investment Opportunities

Opportunities to support this transition abound given the new market dynamics, and technological innovation will be essential in facilitating the shift.

Psilos Group identifies several areas ripe for investment including payer and provider clinical workflow and communication tools, mobile and telehealth strategies, and

new software and services to help insurers operate in this new consumer-driven market.

In 2012, money spent on health expenditures made up 17.9 percent of the country's GDP. The Center for Medicaid and Medicare Services (CMS) projects this number to reach nearly 20 percent by 2022, emphasizing the high stakes situation in which the health insurance industry—as a mediator of costs and connection between physician and patient—finds itself. It has also been estimated that expanding health insurance coverage to the uninsured could increase net economic wellbeing by roughly \$100 billion per year, further underscoring the potential impact of an effective business model transition by insurers.

Psilos argues insurers need to rebuild the insurance product as we know it today specifically for the consumer market. To achieve this, each component of the value chain must be considered and addressed, including:

- **Research:** Insurers must understand their new individual consumer base.
- **Product development:** Differentiation will come from value-added products and services beyond mandated baseline care, extending the 'one-size-fits-all' model.
- **Outsourcing and Supply Chain Management:** Plans will need to shift service focus to meet individual consumers' demands. Higher touch interaction will require contemporary technology and automation among insurers and their business process outsourcing partners.
- **Provider Network Management:** Price transparency, quality measures and other trends toward consumerism in healthcare will change the relationship between insurers and providers.
- **Customer Relations/Operations:** To meet consumer expectations, customer service and business transactions must become real-time, 24/7 and accessible via multiple platforms, including online and mobile.
- **Marketing and sales:** Insurers must articulate their new value propositions to various consumer segments and leverage exchanges as a primary distribution channel; in stark contrast to their experience selling group plans direct to employers.

“We’ve come to a point where insurers will have to make major changes to their business models in order to remain competitive in a post-ACA world,” said Al Waxman, CEO and Senior Managing Member of Psilos. “The good news is that technological innovations are addressing the full spectrum of needs—from cloud-based core administration platforms to clinical workflow and decision support tools to mobile and telehealth applications—all aimed at better aligning insurers, providers, and patients in the reshaping of America’s healthcare system. If approached correctly, we’re predicting the result will be a more outcomes-focused healthcare system in which the patient is the most important aspect of the business.”

Psilos Group has released five *Outlook* reports since 2009. For more information or the 2014 *Annual Healthcare Outlook*, go to www.psilos.com.

About Psilos Group

Psilos Group Managers, LLC (“Psilos”) is a New York-based healthcare investment firm focused on providing late stage venture and growth capital to companies operating in the healthcare economy. Founded in 1998, Psilos has nearly \$600 million under management and invests primarily across two core healthcare sectors: healthcare services, and healthcare information technology. Funds managed by Psilos have invested in companies such as ActiveHealth, Definity Health, Extend Health, HealthEdge, PatientSafe Solutions, and SeeChange Health, which have played, and continue to play, key roles in the transformation of the U.S. healthcare economy. www.psilos.com

Press Contacts:

Jennifer Jones, Jennifer Jones & Partners

650-465-5831

Jennifer@jenniferjones.com

Or

Hal Mackins, Torch Communications, Cell: (415) 994-0040

hal@torchcommunications.com

Jill Bongiorno, Torch Communications, Cell: (516) 729-2250

Jill@torchcommunications.com