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Why digital is now crucial for private health insurers in Europe

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A digital transformation can enable private health insurers in Europe to control costs, attract new customers and retain existing ones, and influence the quality and quantity of delivered care.

Digital—the nearly instant ability to connect people, devices, and other physical objects anywhere—is now an integral part of many businesses and our day-to-day lives. From booking airline tickets to managing our finances to buying just about anything, digital has put a plethora of choices and services at our fingertips.

The European healthcare industry has been relatively late to the table, but this is changing. Many private health insurance (PHI) companies are now embracing digital to transform both how they interact with customers and how they manage their organizations.

McKinsey & Company convened the CEOs of ten European PHI companies for a roundtable focused on digital transformation. During the roundtable, which took place in London in January 2018, the CEOs reflected on their companies' approaches to digital and the opportunities for value capture that a digital customer experience presents. The roundtable concluded with a discussion of the factors that are most important for the success of a digital transformation.

Why is digital important for PHI?

Most European PHI companies have traditionally served as passive payers; they collected premiums based on relatively crude

actuarial analyses and paid out claims. Increasingly, however, these companies are moving from payer to player models—they are becoming more active agents, seeking to attract more customers with a range of product offerings, control costs, and influence the quantity and quality of provided care. This shift is requiring new business models, including digitization of many customer interactions and other activities. Indeed, digital has rapidly become central to innovation in PHI, making it a highly important topic for European CEOs (Exhibit 1).

Other European industries (especially retail) have been using digital extensively to mine opportunities to interact with and engage consumers, improve the customer experience, and increase operational efficiency. However, PHI companies have yet to capture the full potential of these opportunities. The CEOs agreed that digital transformation can help their companies in a number of areas; about half of them chose customer service as the area where digital would have the biggest near-term impact (Exhibit 2).

The CEOs expect digital to have a positive impact on customer satisfaction. Digital channels are already helping them improve the customer experience by increasing their contact frequency with customers and, in some cases, enabling them to offer seamless services and support (e.g., the ability

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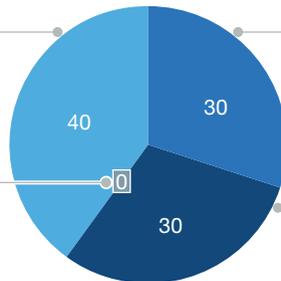
EXHIBIT 1 Many European private health insurance CEOs already regard digital as their most important strategic initiative

What statement best describes the role of digital for your company?

%, n = 10

Digitization is the most important strategic initiative we have to stay in business and create strategic advantage

We are doing digital because everyone is doing it, but do not expect it to change our company fundamentally



Digital is the new normal—we do not talk too much about it anymore

We have a portfolio of initiatives and digital is one of them—it's important but might not be the most important challenge

Source: PHI CEO Roundtable Survey

to create a new contract with only one click). The key, they concurred, is to remember that digital is not always a direct solution for customer problems—rather, it often makes possible a better customer experience.

Moving forward, digital could allow PHI companies to offer members access to high-quality medical services with greater convenience, such as zero waiting times. It could also help lower the companies' costs—both directly (e.g., through improved operations) and indirectly (e.g., through better utilization management). In addition, digital could make it easier for PHI companies to expand their offerings. For example, the companies could put a significantly stronger focus on adjacent services, such as telemedicine, many of which could be delivered digitally.

Digital success stories in PHI

Most of the digital innovations introduced to date in the European PHI industry have

focused on improving customer management and increasing customer satisfaction (e.g., by making it possible to submit claims through an app). Many of the innovations have been tailored to different countries or healthcare systems because both unmet needs and customer expectations differ significantly by market and region.

To develop the innovations, the companies generally started with two questions: Where in the process were customers having a less than optimal experience? And, what could be done about it?

However, the companies quickly learned that digital innovations can often achieve multiple goals. Telemedicine and video consulting, for example, were originally designed and implemented to lower the cost of medical treatments, but they quickly became a premium service because customers so highly valued the digital offerings. Similarly, loyalty programs capture real-time information about their customers' exercise levels and diet, and then use the data to offer price reduc-

tions or loyalty points. Although these programs were originally developed to improve customer retention, the incentives they offer also encourage healthier behaviors, which can lower overall medical costs.

The CEOs reported that the results their companies have achieved to date with digital innovations have largely been positive (Exhibit 3). To quantify the innovations' success, they are using key performance indicators (KPIs), such as target Net Promoter Scores, to gauge improvements in customer satisfaction, and they are conducting in-depth financial evaluations. The CEOs agreed: to be considered a success, the innovations must deliver on the savings or other returns promised when they were designed.

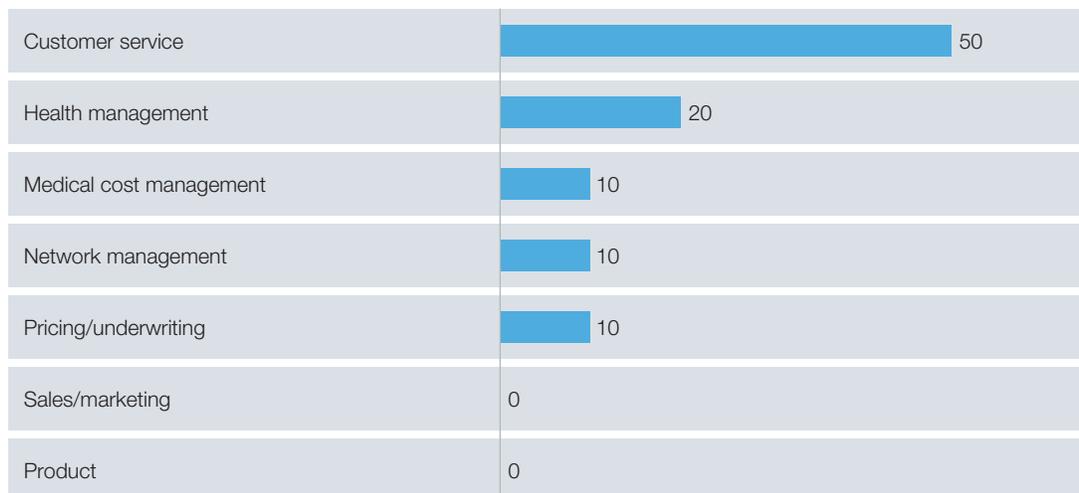
The CEOs believe that two factors have been crucial for the success of their digital innovations. First, the innovations must be based on a solid business plan and use all available data about impact. However, extracting value from the data often requires complex analytics. While it can be difficult to build the necessary capabilities, the results of the analytics can lead to new ways to measure healthcare costs and quality. For example, information about the volumes and types of care being delivered can help improve medical outcomes and reduce spending.

Second, involving the entire organization early in the development of digital innovations is pivotal. "We want them to feel the change themselves," said the CEO of one European PHI company. There was disagreement,

EXHIBIT 2 CEOs believe the most potential for innovation lies within customer service

In which functions do you see the most potential for innovation in private health insurance?

%, n = 10

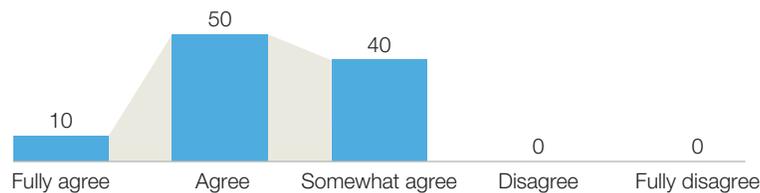


Source: PHI CEO Roundtable Survey

EXHIBIT 3 Private payers' digital projects have largely been successful

Agree or disagree: the digital projects and initiatives you have executed in the last 3 years have resulted in the impact and success you expected.

%, n = 10



Source: PHI CEO Roundtable Survey

however, about how this can best be done. Some of the companies are using “incubator hubs” staffed by 12 to 15 people from different backgrounds (including data analysts, marketers, and text specialists) to initially develop the innovations. As a result, their organizations operate at two speeds—fast projects in the incubator hub and slower, more typical projects in the rest of organization. However, other PHI companies have chosen to combine the work of what they term “agile digital teams” with “classic operations” so that everyone becomes involved at the same time.

The ten critical success factors

Most of the CEOs acknowledged that their organizations have only started the journey toward digital transformation, and they had questions about how to maximize the likelihood of success. In response, we shared ten factors McKinsey has identified through its experience supporting large digital transformations in other industries. Focusing on all ten of these factors does not guarantee that a transformation will pay off, but it can help companies avoid major pitfalls and maximize their chances of success.

1. Informed, inspired, and accountable business leaders.

The full commitment of business leaders is crucial to an organization's digital transformation. The CEO must be committed to the strategy, understand the technology, and communicate the transformation's importance and benefits throughout the organization. The commitment of the CEO can change the mind-sets of all employees. Although some have wondered whether the current generation of CEOs is able to drive digital change, we believe that the answer is clearly yes, as long as the CEOs' preparation has been thorough. Most CEOs of European PHI companies are not members of the “digital native” generation, but they do have a track record of getting things done. Many of them have led other types of transformations, and they can use that experience to drive digital transformations forward.

2. An “unreasonable” agenda that reinvents the core business and builds digital businesses.

The CEO needs to formulate an actionable plan for the entire organization to follow. The aspiration should be a complete

reinvention of the core business, not an incremental change to an existing process, product, or activity. Successful digital transformation involves far more than merely digitizing existing processes or automating current activities; it is about building digital businesses (Exhibit 4). Therefore, CEOs should envision their businesses as fundamentally new digital organizations that play a crucial role in a digital world. Such an ambitious agenda might seem “unreasonable,” but it is essential for creating a sustainable digital business.

3. Razor-sharp clarity about the future business model, aspirations, and KPIs.

Effectively managing the introduction of the new digital business model is very important. The room for innovation is usually broad, but the model must be sharply defined if it is to be meaningful and give direction to a whole organization. The best way to express this clarity is to implement qualitative and quantitative objectives for the business and translate them into KPIs

that can be measured and tracked. Clear KPIs for the future business model allow management to maintain a constant perspective on the organization’s progress toward its goals—they are a fundamental point of orientation.

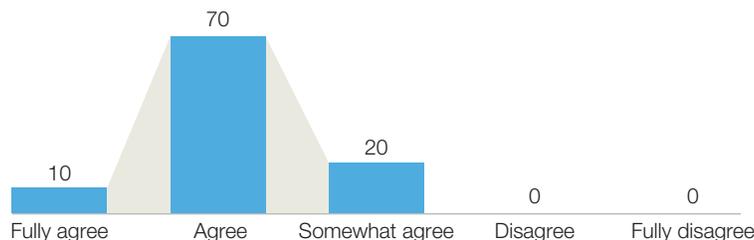
4. A multiyear, committed investment, commensurate with the value at stake.

Meaningful transformation and the foundation of a digital business model need an up-front—and substantial—investment of money. The investment will most likely require a multiyear commitment and thus must be based on a solid business case. However, the expected value can be generated across a range of business lines. (Both legal insurance and property and casualty insurance, for example, are under significant pressure to digitize. Often, investments in digitization made in these business lines can provide advantages to health insurance as well.) The multiyear investment should be clearly broken down into well-defined milestones and goals for value creations that will be

EXHIBIT 4 CEOs say that digitalization is predominantly requiring a fundamental redesign of the technology stack

Agree or disagree: digitalization has forced your company to fundamentally redesign its technology stack.

%, n = 10



Source: PHI CEO Roundtable Survey

tracked closely. This approach will enable the organization to spot problems and cut losses early in the transformation, and to maintain sufficient investment discipline.

5. Ruthless financial discipline, including recycling short-term cash benefits to fund scale-up efforts.

Given the size of the investments that digital transformation requires, financial discipline is crucial. For example, the company should carefully search for activities that would free up cash quickly and implement the changes needed to make that happen. Short-term cash benefits enable an organization to maintain liquidity over a longer period, allowing for scale-ups, which require a significant amount of up-front investment. Technical advancements, such as bots, can free resources, including employee time. When investing in digital business models, the sources of transformation and disruption can vary and thus companies may often have to place several different bets. However, an early focus on promoting technological advancements can be an important lever for generating additional earnings from existing businesses.

6. An ecosystem mind-set: own where you can differentiate and rent where you cannot.

Although digital businesses will play different roles in the future landscape of their respective national economies, they will be embedded in a large and tightly connected ecosystem. Therefore, it is essential for a digital business to clearly envision its role in this ecosystem. Equally important is that the business

identify its core factors of differentiation—if it is to use resources efficiently, it must decide on its differentiating factors and how to “own” them. Activities unrelated to the core differentiating factors should be sourced from outside entities that have a more effective and efficient cost structure.

7. A full suite of digital and artificial intelligence (AI) tools brought to bear.

Digital transformation affects a company’s entire value chain and thus takes different shapes and forms in different areas. Thus, the company will need to have available to it a full set of digital and AI tools—and must be able to keep up with rapid advancements in each area. (For example, online chats are roughly ten times more efficient than phone calls, and future advancements in bots are likely to make their application easier.) However, not all of the tools need to reside within the company. Today, partnership opportunities exist in basically every important operational area.

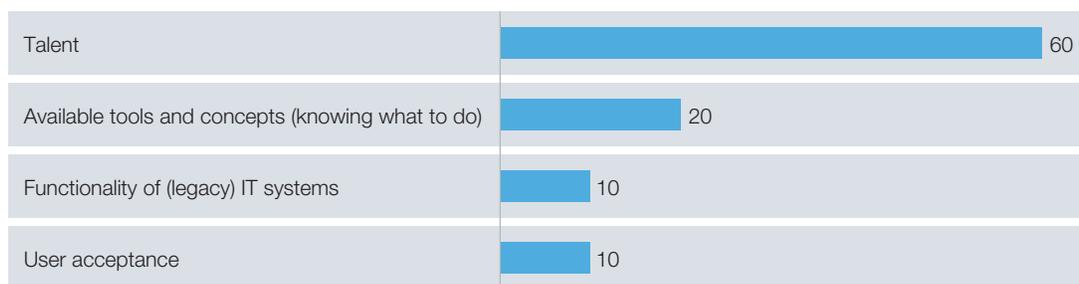
8. Digital capabilities, built in advance, powering execution rather than slowing it down.

Digital transformation of an existing business requires a whole team focused on that process and technological advancements, and having the right talent on the team is crucial for the transformation’s success (Exhibit 5). The key here is to build digital capabilities early and train people broadly. Retraining a project manager in digital technologies can easily take up to 12 months. Therefore, a strict and focused training schedule and carefully defined set of capabilities is

EXHIBIT 5 For digitalization, talent is the most relevant driver, say private payer CEOs

What is the importance of the following factors for digitizing your company?

%, n = 10



Source: PHI CEO Roundtable Survey

crucial to staff a successful team that can then fully concentrate on executing the organization’s digital capabilities.

9. A top-to-shop digital culture, enhanced by a significant talent refresh.

A digital culture can be a strong foundation for developing the digital mind-set of all employees and fostering their courage to place various bets. However, it is unlikely that an existing business can establish a digital culture simply by retraining project managers—new talent from the outside must also be sought. The new talent can create real disruption and help transform a company’s culture. An advantage that most European PHI companies have is their size—they tend to be small enough that a new hire’s contribution can make a big difference but large enough that the changes they make can be felt across the industry. Investments in talent need to be as rigorous as investments in IT and technical capabilities.

10. Shared ownership across the board, reinforced by governance and incentives.

Digital business building needs to be reflected in the incentives offered to board members and the success parameters applied to them. To achieve a digitization of the core of the business, European PHI companies must ensure that board members share ownership of the transformation and align on the direction in which the business is heading. Clear governance is needed to ensure that ownership and alignment are in place, and the incentives offered to individual board members should be tied to the overall digitization strategy.



Digital has already disrupted multiple industries—and it could happen in healthcare as well. The probability that newer technology players will disrupt the European health insurance industry has yet to be quantified,

but it cannot be discounted. Recent announcements from some of the world's top technology companies have revealed their interest in healthcare, and those companies are the world's front-runners in how to mine customer data. Thus, CEOs of European PHI companies need to be prepared.

Fortunately, those companies are in a good position to digitize because they already own the link to the customers and understand the regulatory issues that must be addressed. But the time to act is now—the companies should continue to explore how and where to innovate their business model to employ digital to best effect. ○

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