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## Frugal Innovation to Overhaul for Healthcare



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Aetna's "frugal innovation" strategy is helping transform the health insurer's current fee-for-service reimbursement model, which is both inefficient and expensive, to a value-based care model, according to a *strategy+business* blog article. The new approach is anchored on a pay-for-performance system that rewards providers for successful health outcomes for patients. Instead of getting paid to perform blood tests to ascertain a patient's cholesterol levels, for example, doctors would be paid based on their ability to keep a patient's cholesterol levels healthy.

Mark Bertolini, CEO of Aetna, believes that the only way to deliver better care at lower cost for more Americans is to radically reinvent the entire U.S. health system. It is along this line that Aetna has adopted a three-pronged disruptive strategy called frugal innovation:

- Re-engineering of the company's core business model so it can make money by saving people money. From now on, Aetna will pay doctors and hospitals based on positive health outcomes for patients, rather than the number of tests and procedures they perform.
- Using a low-cost, low-investment lean startup approach to rapidly test and scale up innovative ideas.
- Practicing what it preaches by adopting private exchanges and consumer engagement tools for its own employees.

Notably, the federal government — through the Department of Health and Human Services (HHS) — is already making some significant moves in support of value-based care. In January, HHS announced that the Medicare programme, which provides healthcare for nearly 50 million older Americans, is moving from a fee-for-service payment model to a fee-for-value model.

As part of this strategy, Aetna has set up a new business unit called Accountable Care Solutions that provides advice and programmes such as population health management to providers switching to the Accountable Care Organisations (ACO) model: Groups of doctors, specialists, and hospitals that collaborate and assume collective responsibility for the cost and quality of care. ACOs are able to deliver high-quality care faster, better, and cheaper.

As accountable care becomes the norm, Aetna is developing new lines of business that tap into the trend. Aetna teams up with doctors and hospitals to co-market new health plans that enable its members to get care from providers in that hospital's ACO network. For example, Aetna's ACO partnership with Banner Health Network led to a 5 percent reduction in medical costs for its members in the ACO-based health plan in 2013.

Consumer behaviour is one of the key forces that can help keep rising costs down. Aetna is now trying to convince Fortune 100 companies (two-thirds of which are its clients) to switch from offering their workers a small number of choices to participating in private health exchanges, where employees can compare many health plans and custom-build their own. These Aetna-powered platforms will enable individual employees and consumers to choose from products and plans offered by multiple insurers, including Aetna's own value-based products.

To enable collaboration among providers and empower consumers, Aetna also has made significant investments in new technologies. For instance, it set up Healthagen, which acquires high-growth businesses and acts as an incubator of disruptive digital healthcare solutions. It uses a high-velocity development approach to launch a new health-tech business in fewer than 18 months with limited investment (it generally takes millions of dollars and four to five years to launch a digital-health startup). Healthagen brings together designers, customers, and industry experts to identify pressing healthcare issues, and co-create and launch market-relevant solutions.

Finally, Aetna is practising what it preaches: It has shifted its own company health plan to a private exchange and is piloting its end-user engagement tools among its 50,000 employees.

Source: [strategy+business](#)

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