Traditionally, providers and payors have had, at best, an arms-length relationship. Interactions are often limited to negotiations over reimbursement and coverage policies and (seemingly endless) conflicts related to denied claims or overpayments. This adversarial relationship is often exacerbated by the fee-for-service payment model, which creates conflicting incentives for payors and providers.

However, the shift to value-based payment models has altered the payor-provider dynamic, creating opportunities for new forms of collaboration. As providers assume greater financial accountability for cost and quality, they are investing in care coordination and other health management capabilities that have typically resided in the payor domain. Provider organizations also recognize that growth in a value-based environment hinges on capturing more covered lives, not just driving up volumes. As a result, they are seeking a greater voice in designing innovative health insurance products that are attractive to purchasers and consumers.

The convergence of payors and providers is also being fueled by forces at play in the payor space. Pressures on payors to more effectively control costs are significant – as are changing expectations around the products, services and experiences payors can offer to purchasers and consumers. At the same time, health plans are at risk of being disintermediated by new models that connect providers directly with employers. Provider-owned health plans are also emerging as a competitive threat in some markets, leveraging their fully integrated models to offer a value proposition centered around affordability, predictability and enhanced access to care that traditional payors are struggling to replicate.

Provider organizations ... recognize that growth in a value-based environment hinges on capturing more covered lives, not just driving up volumes.
New Models of Collaboration

In response to these market forces, payors and providers are forging a range of new partnerships. As depicted in the figure below, these models vary by the level of organizational and financial integration that is required by both parties. The bookend on the far left is the traditional contractual relationship of for service medicine – with limited integration and collaboration – and on the far right is the fully integrated model, e.g., a provider-owned health plan. Between these guardrails, an increasing number of payors and providers are experimenting with novel forms of collaboration.

Payor-Provider Partnership Arrangements

Although the payor-provider arrangements are far from standard, the following case studies highlight some of the common models that are emerging:

- **Loosely integrated contractual network arrangement: Aetna Whole Health** – Aetna has partnered with providers in select markets around the country to create private-label health insurance products. These new product offerings are built on narrow and tiered provider network, with benefit design and steerage mechanisms that incent members to use in-network providers.

- **Contractual network arrangement with equity investment: Community Advantage Plan (Cooper University and AmeriHealth)** – In 2013, Cooper acquired a 20 percent stake in AmeriHealth New Jersey. Through the partnership,
Cooper and AmeriHealth are offering co-branded products on insurance exchanges for individuals and small businesses. The plan is built around a tiered structure with their Tier 1 “Cooper Advantage” network including lower co-pays and out-of-pocket expenses for members. Members may also access the Tier 2 “Local Advantage Network,” which offers consumers greater provider options at higher out-of-pocket costs.

- **Newco joint venture: Innovation Health** (Aetna and Inova Health System) – Aetna and Inova have partnered in the creation of a 50/50 joint venture health insurance company. Innovation Health – which offers the full range of products across virtually all market segments – has a preferred network consisting of Inova providers and select independent community providers as well as a broader network with higher out-of-pocket costs for members. Aetna has folded most of its Northern Virginia business into the joint venture.

**Requirements for Success**

As providers and payors consider the value of co-developing product offerings or entering into a joint venture, executives should reflect on lessons learned from the initial round of payor-provider partnerships. Although most of these arrangements are in the nascent stages, some of the emerging imperatives include:

- **Align the strategic vision and performance expectations for the partnership:** At the outset, provider and payor executives need to develop an understanding of their shared vision and goals for the partnership as well as the role the partnership plays in the broader strategic ambitions for each organization. Along with alignment on the collective vision, prospective partners also need to reach consensus on the performance expectations for the jointly-developed product or newco organization. This requires coming to agreement on the tangible metrics (e.g., enrollment growth, profitability) as well as intangible metrics (e.g., enhanced brand recognition) that define success across both organizations. Aligning on performance expectations also requires defining the near-term and long-term milestones both organizations want to achieve.

- **Create a compelling, differentiated value proposition:** Before introducing a new product to the market, payor and provider executives should be able to articulate how the jointly-developed offering delivers on the unmet needs of the target purchaser group (e.g., large employers, Medicaid) as well as the end consumer – the new service offering must have a unique value proposition that sets it apart from existing products. The differentiating factors that payor-provider partnerships can offer will vary depending on the unique attributes of the parent organizations, but they often focus on affordability and predictability in pricing, enhanced access to a network of high-value providers and a seamless consumer experience.
Define the operating requirements and what each party brings to the table: The challenges associated with executing on the value proposition for the co-developed product (or suite of products) should not be underestimated. This requires a clear understanding of the specific operating requirements for the new product or joint venture—which run the gamut from sales and distribution channels to care management competencies and analytic capabilities—and which capabilities exist within one of the parent organizations or needs to be acquired or built out. Together, the organizations must be able to integrate their respective organizational capabilities and functions (or have a very clear means by which they divide and conquer along specific dimensions) so operations and the consumer experience are seamless. In the cases where existing assets or competencies are insufficient, the partners must have a plan in place to develop and/or acquire these capabilities.

Account for the partnership’s impact on existing relationships and lines of business: There must be clarity around how the new service offering or venture fits within the respective individual organizations’ other businesses and relationships. For example, payors must determine how a jointly-developed product offering may cannibalize business from their current portfolio of products. In a similar vein, providers must consider how working more closely with a specific payor may impact their ability to have productive relationships with other payors in the market. Failing to acknowledge the potential adverse consequences of the partnership can undermine the long-term commitment to the endeavor.

Demonstrate a shared commitment to the collaboration: Both organizations will need to invest in the development of new operating capabilities. For the creation of new insurance ventures, the payor and provider partners will need to determine how to cover the risk-based capital requirements. Beyond the financial commitments, it is essential for senior executives from both organizations to be involved in forming the partnership. This high-level engagement will send a clear signal to both organizations regarding the importance of the partnership.

**Partnership Dimensions**

In addition to the high-level requirements for success detailed above, there are multiple dimensions to consider in developing a collaborative arrangement. A few of these key elements are depicted in the following graphic.
Strategic Questions for Consideration

Before moving down the path to a more collaborative relationship, providers and payors alike should answer several critical questions:

- **What are your organizational goals?** In what ways may a closer collaboration with a payor or provider help to achieve those goals?
  - For each party, what can you achieve through a more integrated partnership that you can’t achieve independently?
  - Are there other models – either looser or tighter affiliations – that may support these goals?

- **Why are both organizations interested in the partnership?**
  - Are your expectations aligned?
  - Do you have a similar definition of what success looks like? Over what timeframe?

- **What does each partner bring to the table?**
  - What capabilities does each party offer?
• What gaps exist that would prevent the collaboration from delivering expectations?
• How would such gaps be addressed?

• **Can your collaboration successfully execute its value proposition?**
  • Collectively, can you offer something differentiated in the market (i.e., services or products)?
  • Is there a market of sufficient scale that would value the partnership’s offerings?
  • Can you make the economics work?
  • Can you achieve alignment on other dimensions: strategic, operational or cultural?

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