IIHMR UNIVERSITY

Thesis Presentation

Financial Performance of Select Health Insurance Companies in USA: A Comparative Analysis

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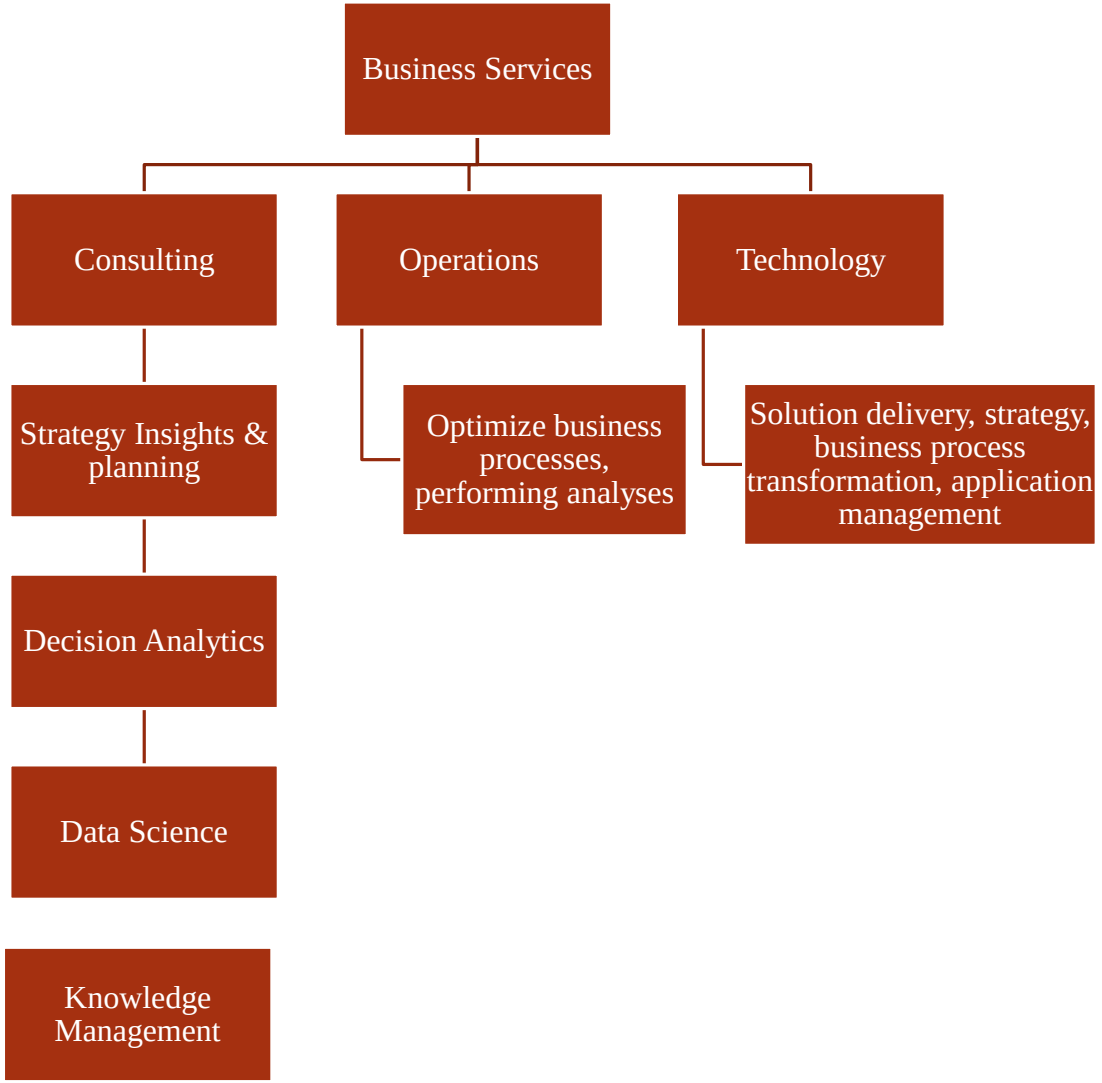
INTRODUCTION

ZS Associates, Gurgaon

Established by founders Zoltners and Sinha in 1983 as a professional firm that leverages technology, analytics and expertise to provide solutions

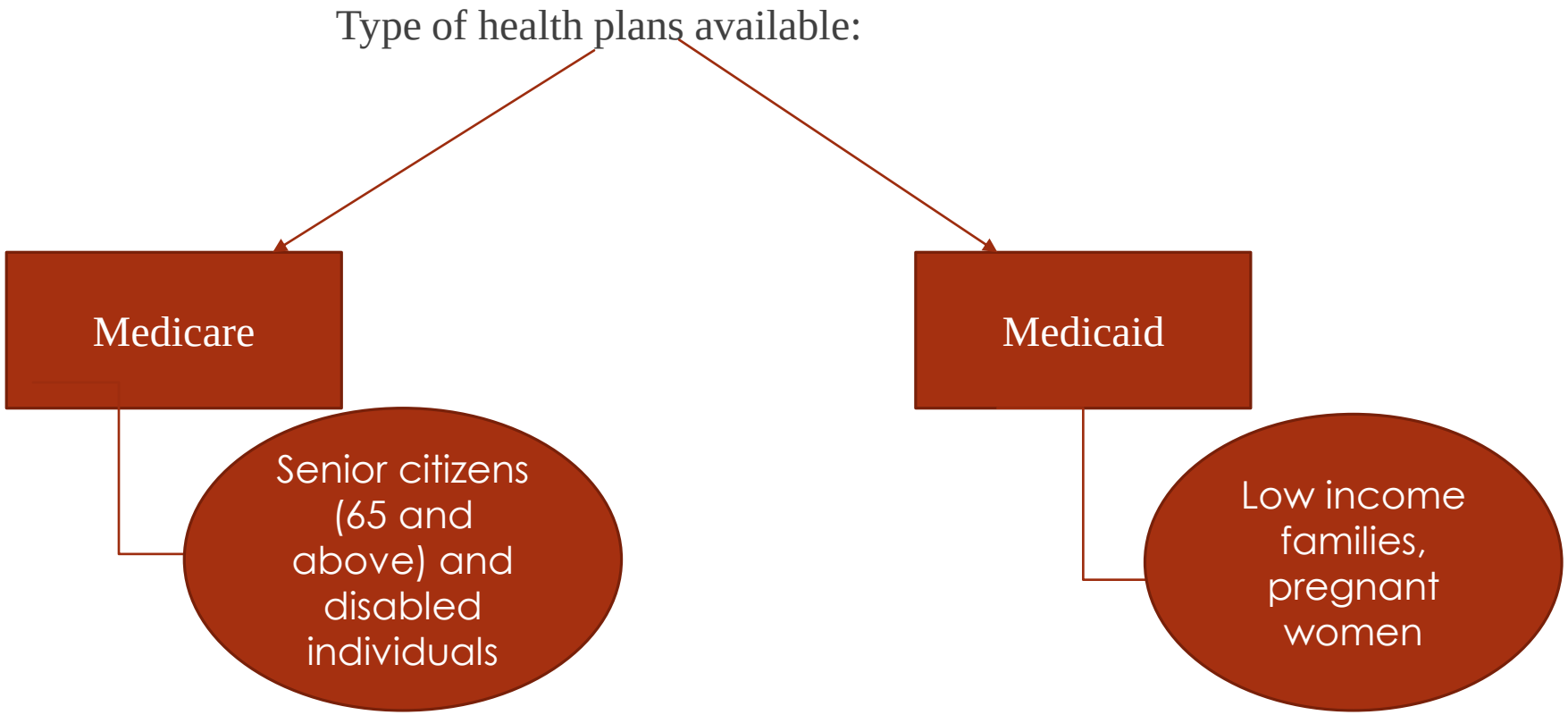
More than 6000 professionals serving in 23 offices across the globe

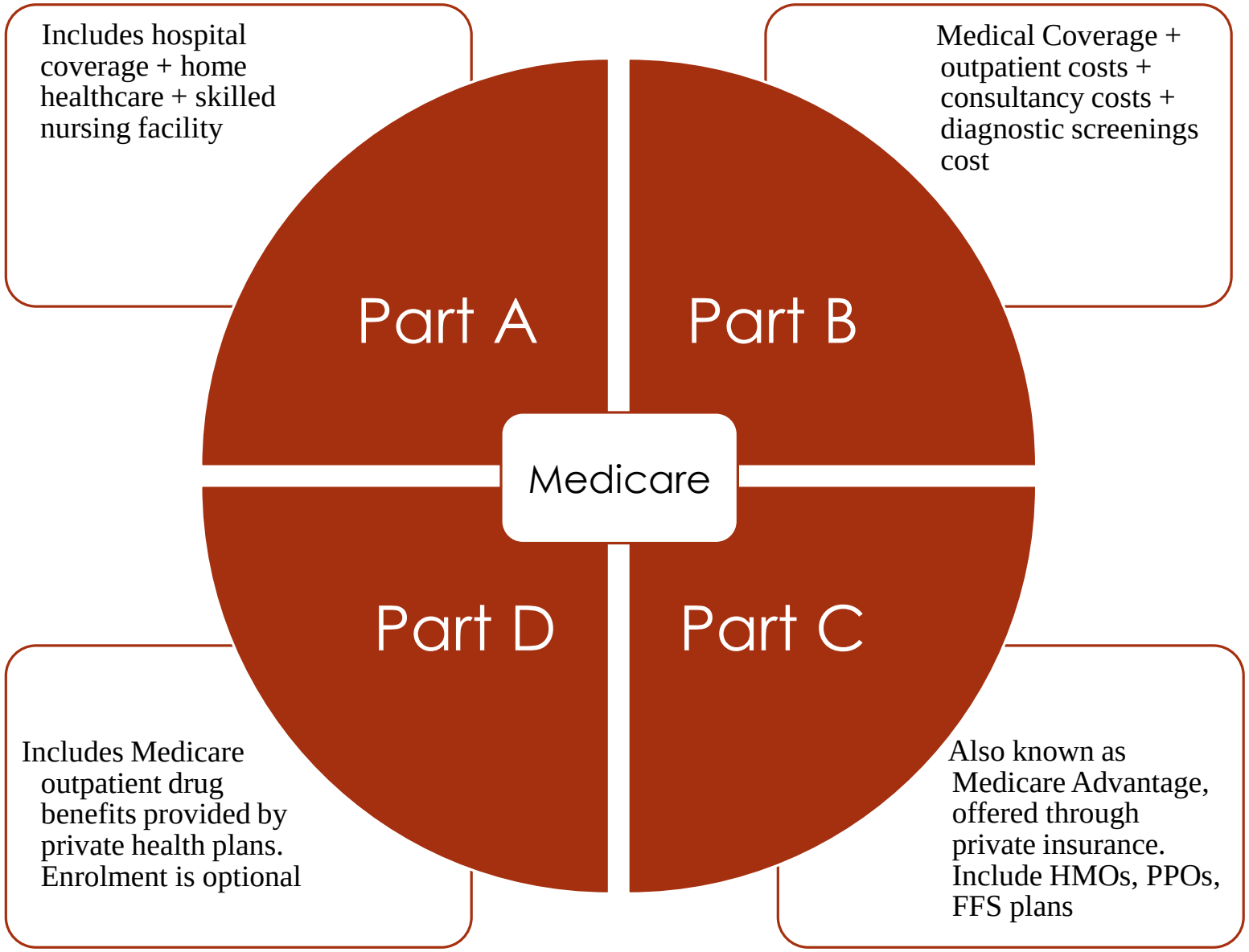
Provides clients vast range of marketing and sales-related services in the industry, from customer insight, product development, sales and marketing strategies to sales compensation planning and administration planning

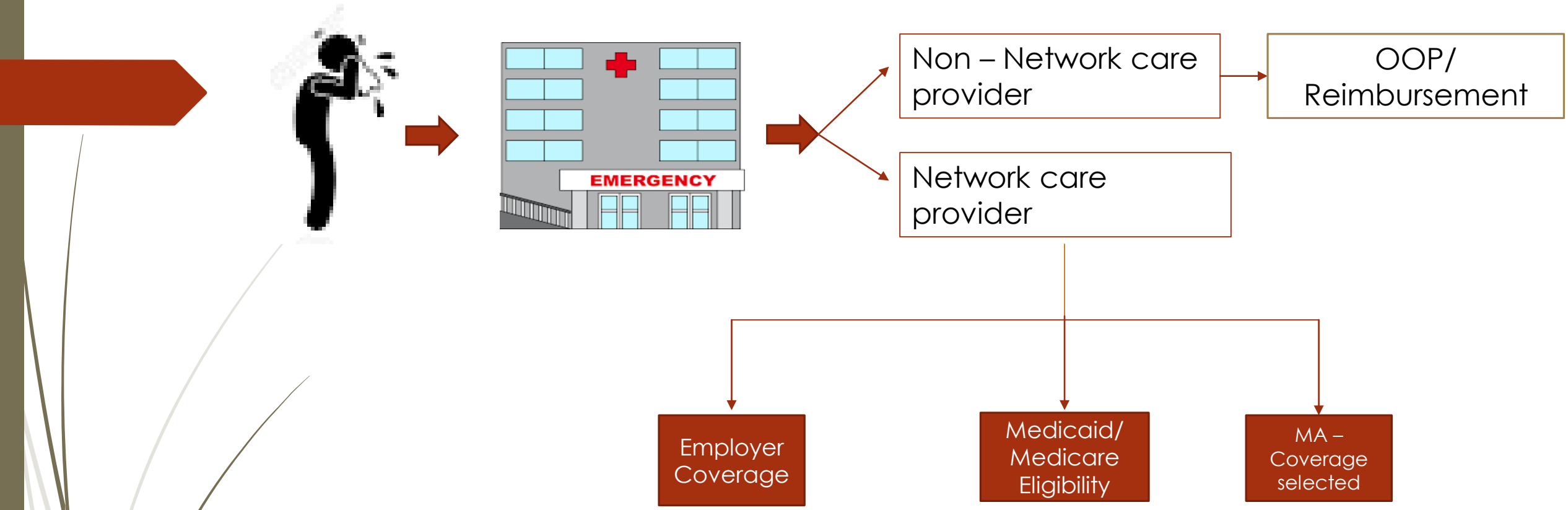


Health Insurance Industry, USA – At a glance

- Health insurance is a term used commonly to describe any program that aids beneficiaries in payment of medical expenses. The United States of America has a health system that offers several forms of health insurance which can be broadly categorized into private and public coverage.




Includes hospital coverage + home healthcare + skilled nursing facility
Medical Coverage + outpatient costs + consultancy costs + diagnostic screenings cost
Part A
Part B
Medicare
Part D
Part C
Includes Medicare outpatient drug benefits provided by private health plans. Enrolment is optional
Also known as Medicare Advantage, offered through private insurance. Include HMOs, PPOs, FFS plans



Key terms:

1. **Out of Pocket (OOP) expenses**: The amount that is paid for the medial expenses by the individual from their own cash reserves upon receiving health care
2. **Annual deductible**: It refers to the amount that is paid out-of-pocket before the insurer begins to cover any medical costs
3. **Copayment (or Copay)**: A fixed amount that the individual has to pay each time on receiving care
4. **Coinsurance**: When a predetermined percentage of the care cost is picked up by the insurer and the remaining has to be settled by the individual
5. **Premium**: It is the amount of money paid by an individual or business for their selected health plan

- Volume based
- Quality ✖
- Incentives based on volume
- Success = Higher profit margins
- Plans and providers independent of each other's performance

- Value based
- Quality, cost optimization incentivized (bundle payment)
- Population health management
- Collaborations – payers + providers + PBMs

Financial Performance of Select Health Insurance Companies in USA: A Comparative Analysis

- **Aim:** To obtain an understanding of the performance of five selected health insurance companies in USA based on their financial analysis
- **Objectives:**

I. To scan comparability between the five selected companies in terms of customers catered and services provided

II. To compare financial performance of select five health insurance companies over a period of five financial years (2014 to 2018) related to: -

   i. Revenue CAGR

   ii. Enrolment CAGR

   iii. Current Ratio

   iv. Solvency Ratio

   v. Efficiency Ratio

   vi. Medical Care Ratio

   vii. Per Member Per Month Premiums

   viii. Price-to-earnings Ratio

III. To study the strategic options implied by the companies derived from the performance evaluation

- **Materials and Methods:**

I. **Study Design** : A retrospective longitudinal analytical study design has been leveraged wherein secondary data sources have been capitalized to perform financial statement analysis using ratio analysis for the selected five health insurance companies over a period of five financial years

II. **Sample Size:** Five health insurance companies in USA

III. **Nature of Data Collected**: Secondary data -A systematic approach was adopted to research using key terms related to the study. A ratio analysis deep dive was done by using search strings that included "Ratio analysis for health insurance", "financial statement analysis + health insurance + USA". The searches were mainly carried through the medium of databases, authentic financial analytic platforms, articles, journals, trade platforms, analyst reports with a filter of time period for the past five years.

- **Data Tools**: The data tools that have been leveraged to derive relevant information for financial performance analysis and calculation of financial ratios for FY2014 to FY2018 for the selected health insurance companies have been listed below:

  i. Balance sheet

  ii. Income statement

  iii. Annual transcripts

  iv. Analyst reports

  Sources of secondary data

  i. Annual report, 10 K filling

  ii. Company website

  iii. Internet

Comparability of companies based on selected variables

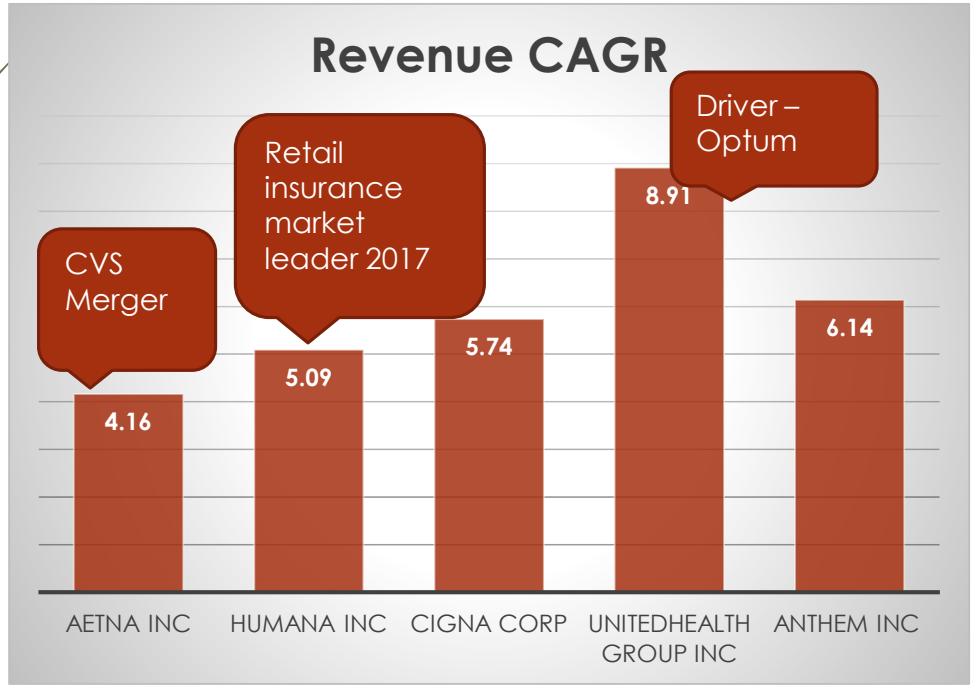
Company Selected	Product Segmentation	Insurance Services
Aetna Inc.	Healthcare, Group insurance, Large case pensions	Healthcare services - medical, pharmacy, dental, behavioral health, group life and disability plans, medical management capabilities, and health care management services
Anthem Inc.	Comprehensive Health Solutions Commercial Business	Network-based managed care plans to large and small employer, individual, Medicaid, and Medicare markets, health, dental and vision, and pharmacy benefits, life insurance, disability insurance benefits
Cigna Corp.	Integrated medical, Health Services, International Markets, Group Disability and Other Operation	Retirement, health insurance, life, accident, disability, supplemental, Medicare, dental annuity products
Humana Inc.	Retail, Group and Specialty, Healthcare Services and Individual Commercial	Medicare benefits, individual commercial fully insured medical benefits, including dental, vision, and other supplemental health products, pharmacy solutions, provider services, home-based services and clinical program, administrative services
UnitedHealth Group	UnitedHealthcare – insurance arm Optum- health services business arm	Employers products and resources to plan and administer employee benefit programs, specialized care services

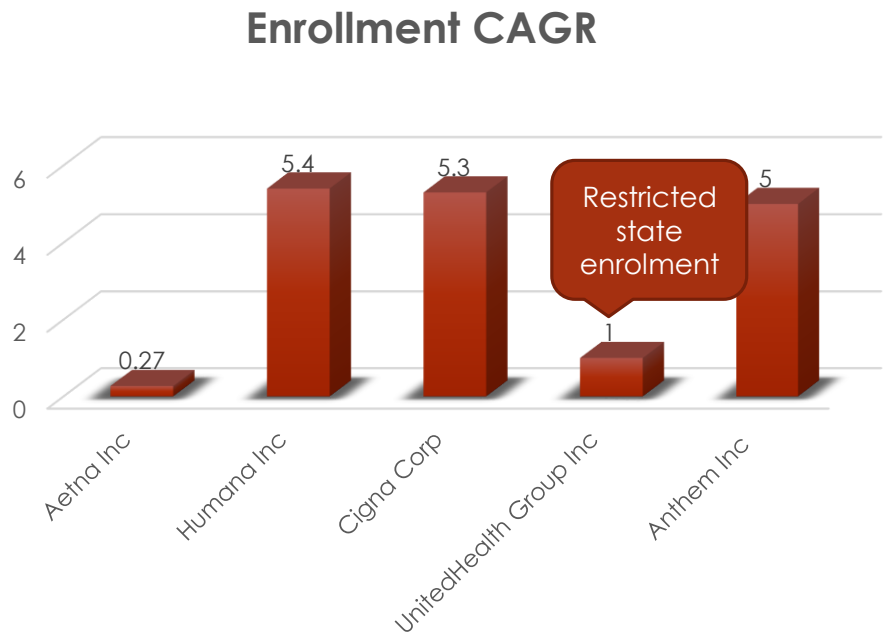
Value-based Services offered by the companies

Company Selected	Value- added services
Aetna Inc.	i. Shareablee – social intelligence platform ii. Fitness trackers- Apple watch purchase-discount incentive iii. Joint ventures with partners thereby offering plan expertise and analytics support
Anthem Inc.	i. Partnership with ACOs provides data and analytics support ii. Real time application verification process and streamlining enrolment process by transition into cloud-based technology
Cigna Corp.	i. Discount on policy premiums on achieving health goals through health coaching programs and wearable devices ii. Careallies subsidiary- provides advisory and management services to providers
Humana Inc.	i. Employee advocacy program to drive customer engagement on social media platforms ii. Artificial Intelligence bot Cogito analyses customer service interactions to refine the approach iii. Go365 – a wellness reward program that customizes fitness goals through coaching and wearables
UnitedHealth Group	i. Fitbit users - $1500 a year as reward for health goal achievement ii. Technology and data support to partner network providers

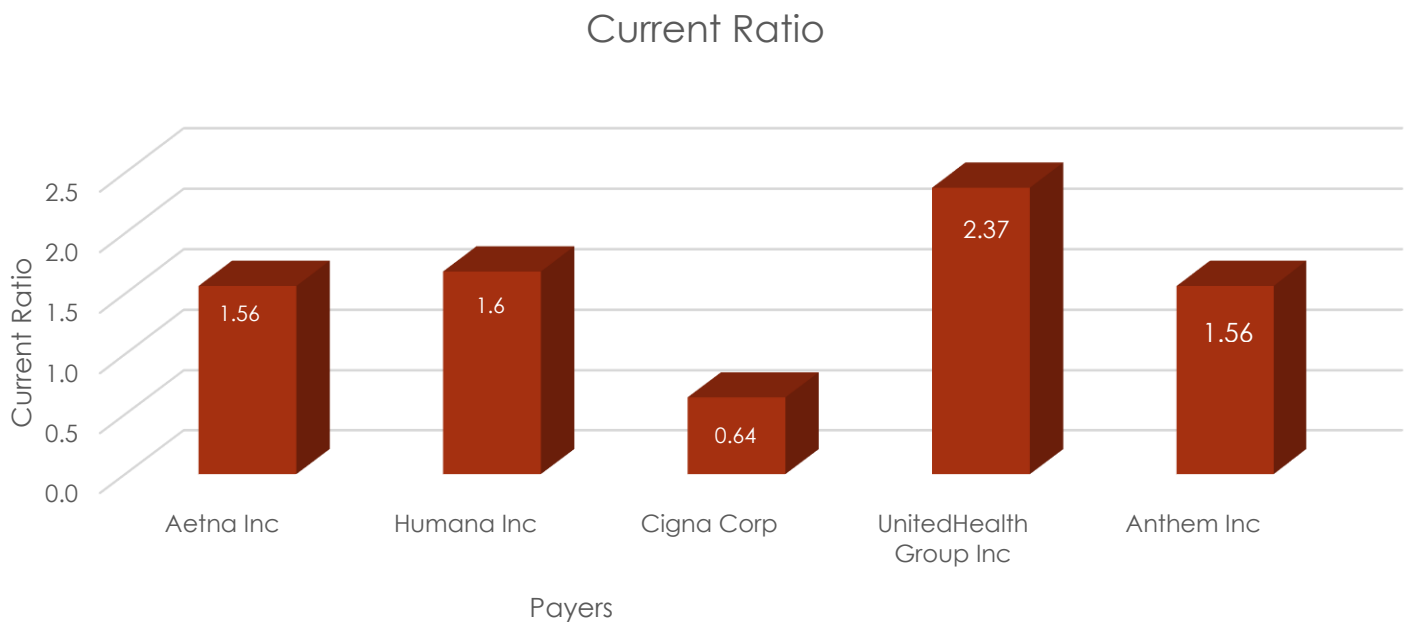
Results

- Revenue CAGR vis a vis Enrolment CAGR
- CAGR has been selected to understand the basic earnings of the health insurance companies and draw comparisons in their performance considering they all belong to the same industry and market their services to the same customers, hence making the end results comparable





- Liquidity Ratio:
- Current Ratio (Working capital ratio)= Current Assets/ Current Liabilities
- A short-term measure to estimate whether a business can pay off debts within one year of the debts due using the current assets
- Standard interpretation: Ratio >1 implies adequate capital to meet obligations. Normal range: 1.0 – 3.0



- Solvency Ratio: A long term analysis that helps measure a company's ability to meet total financial obligations
- Debt to Equity Ratio = Total Debt (liabilities) / Total Equity
- The ratio helps in identifying how much of the business is funded by debts and how much of it is running on equity
- Standard interpretation: Higher the ratio higher the risk of debt obligation.

Organization	Solvency Ratio
Aetna Inc.	0.42
Humana Inc	0.61
Cigna Corp	1.03
UnitedHealth Group	0.71
Anthem Inc	0.60

→ Increase in ratio in the past year – Debt funding

→ Merger with Express Scripts – assumed $15 Bn debt of PBM

→ Decreasing trend over past 5 years

- Efficiency Ratio:

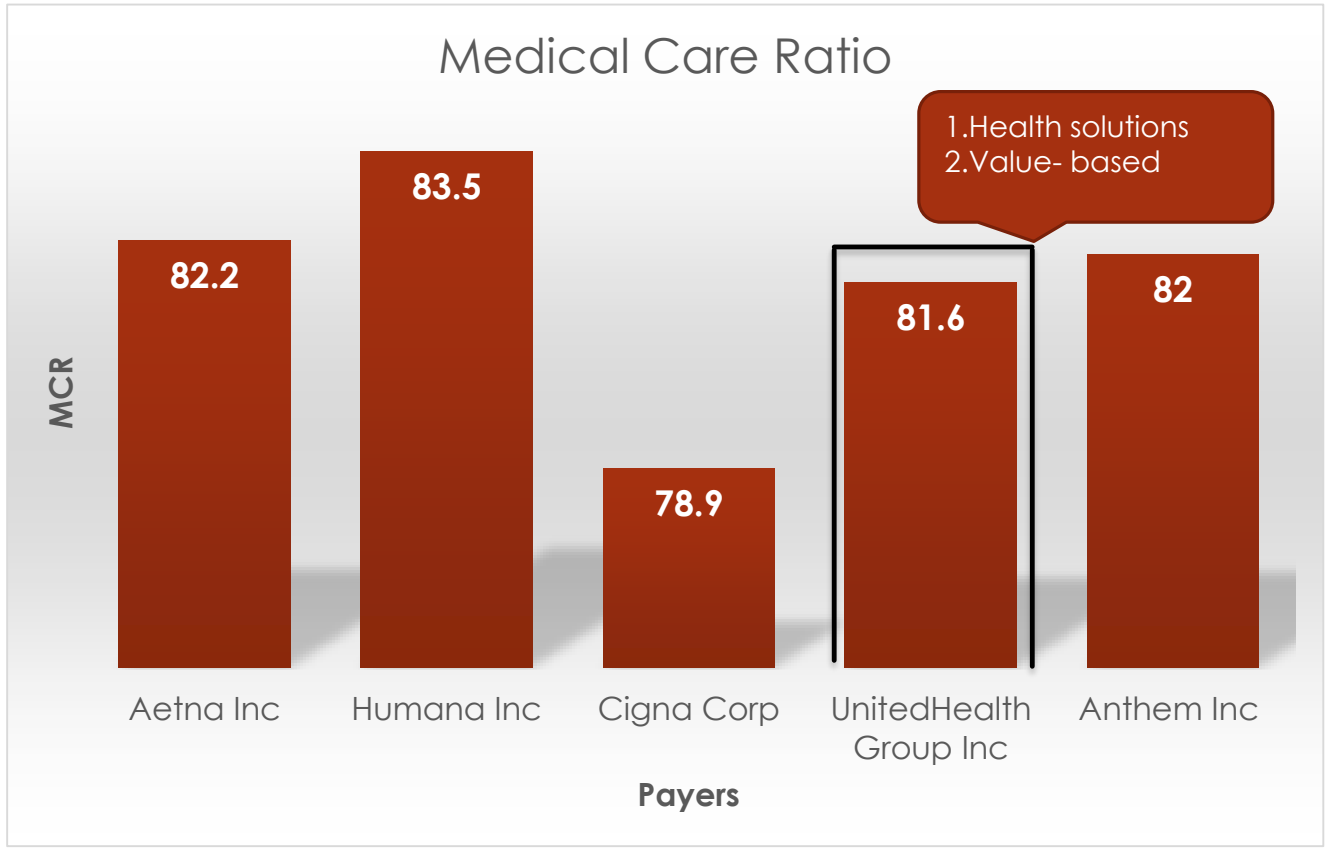
Assets turnover ratio= Revenue/Total Assets

- Asset turnover ratio measures the use of assets by the company management. It measures the ability to efficiently generate revenues from the assets
- Standard Interpretation : Higher the ratio more efficient is the management of assets in relation to net sales
- Industry average = 1.32

Organization	Assets Turnover Ratio
Aetna Inc.	0.27
Humana Inc	2.24
Cigna Corp	0.31
UnitedHealth Group	1.48
Anthem Inc	1.29

Performed better than the industry standards

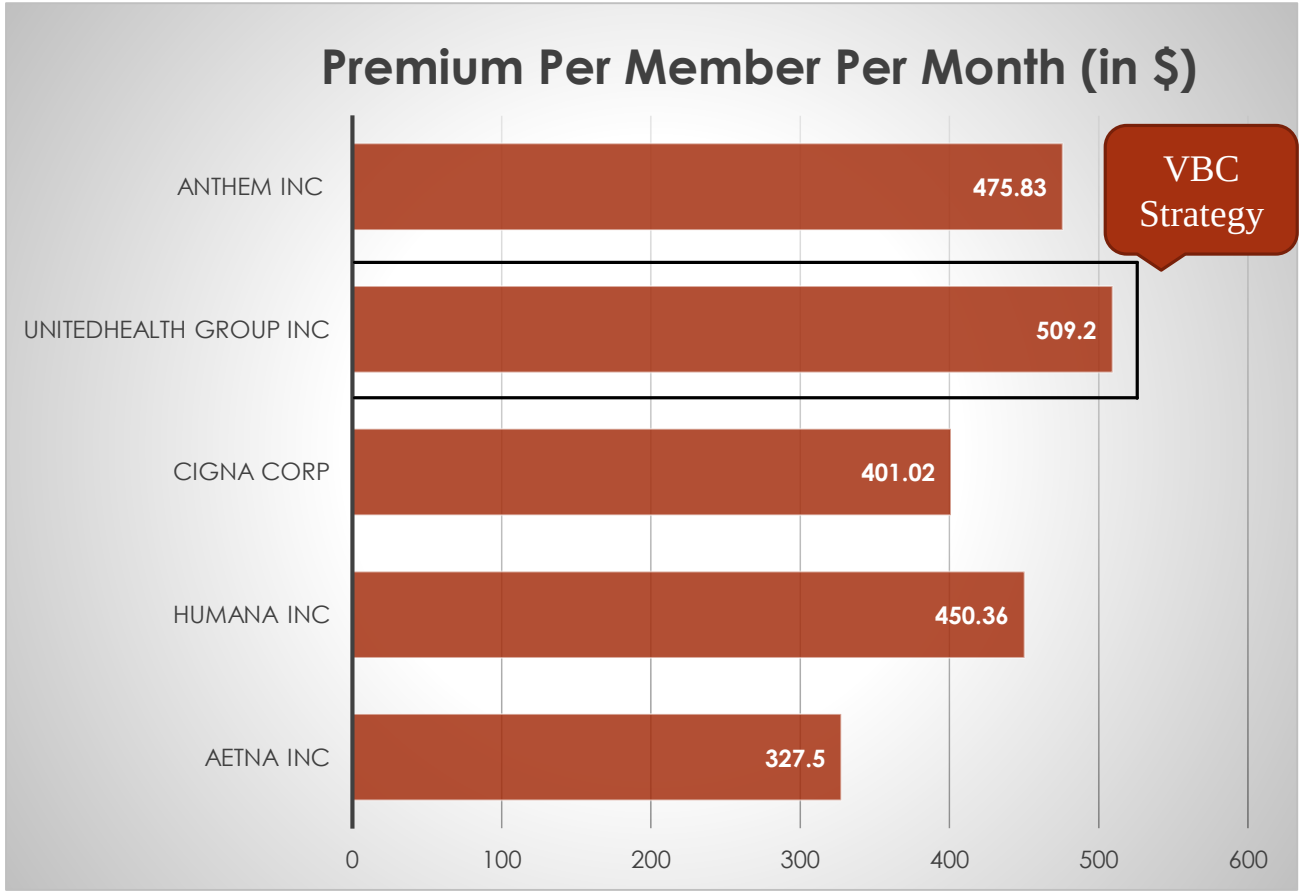
- Medical Care Ratio:
- MCR is a measurement of the percent of premium spent by the insurer on claims and value-added services that improve the quality of care. A minimum standard has been set at 0.85 for large groups and 0.80 for small groups
- MCR= (Cost of total medical claims paid + adjusted expenses)/Total premium collected



- Premium per member per month

Total cost of benefits/ number of member months

- PMPM is a unit measure of capitation payments by health plans to providers
- It forms the basis upon which managed care organizations pay the providers under capitation revenue stream



- Price to Earnings Ratio:

P/E = Market value per share/ earnings per share

- Used by analysts or investors to determine the valuation of the stocks. It provides insight on not only the stock valuation but also how a company's performance stands in comparison to others from the industry. It reflects the willingness of the market to pay for the stocks based on the past or future earnings of the company

Organization	P/E Ratio
Aetna Inc.	18.23
Humana Inc	23.6
Cigna Corp	17.75
UnitedHealth Group	19.20
Anthem Inc	18.5

In contrast to the debt equity ratio, Humana Inc. has been given a high valuation keeping its low premium strategy couples with aggressive value-based service provision (e.g. collaboration with Lyft, Fitbit, AI Cogito)

Summary

Company	Revenue CAGR ($ millions)	Enrolment CAGR	Liquidity Ratio	Solvency Ratio	Efficiency Ratio	MCR	Premium PMPM ($)	Price to earnings Ratio
UnitedHealth Care	8.91	1	2.37	0.71	1.48	81.6	509.2	19.20
Humana Inc.	5.09	5.4	1.68	0.61	2.24	83.5]	450.3	23.6
Anthem Inc.	6.14	5	1.56	0.60	1.29	82	475.8	18.5
Cigna Corp.	5.74	5.3	0.64	1.03	0.31	78.9	401	17.75
Aetna Inc.	4.16	0.27	1.56	0.42	0.27	82.2	327.5	18.23

Conclusion

- UnitedHealthCare worked up the highest revenue CAGR with the largest market share even though it had a modest enrollment CAGR in comparison to its competitors selected for the analysis. Its decreasing trend in the solvency ratio indicates towards its inclination to finance by equity rather than debts. UHG reported one of the highest efficiency ratios of 1.48, which interprets into the management efficiency of the company in earning 1.5 times for every asset investment made and has the second highest valuation of company stock, after Humana Inc.
- Humana Inc. results were comparable to those in UHG in many aspects, having the highest efficiency ratio among the five companies, highest enrolment CAGR. The P/E ratio indicated a high valuation of the company stock by investors and analysts which could be attributed to its low solvency ratio and moderate premium PMPM.
- Anthem Inc. had a moderate performance according to the analysis results wherein the distinctive findings were its highest enrolment growth rate over the last five financial years and a positive efficiency ratio of 1.29.
- Cigna Corp. and Aetna Inc's performance were mostly skewed to the left in quite a few of the ratios and variables selected for the analysis. Most of Aetna's numbers can be attributed to its merger with CVS, a pharmacy benefit and solutions manager while Cigna found a lot of skewed ratios due to its merger with Express Scripts, a pharmacy benefit manager

The financial analysis for the study helped in creating the bigger picture of the companies' approach and financial health. It gave an insight as to how companies are trying to maintain their financial stability, attract new business prospects and deal with the transition towards value-based care

Thank You