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# The uncertain future of group benefits in Canada

How shifts in health care are affecting Canada's life and health insurers

# Change is coming

## Are group benefits providers ready?

Like organizations in every sector, life and health insurers are not immune to external forces shaping their industry. That's particularly true for group benefits providers, who will be disproportionately affected as Canada's health care model shifts to a patient-centric system.

This massive transformation is already underway. New technologies and online offerings—such as wearables, health-care apps, and direct-to-consumer genealogy tests—are generating unprecedented levels of highly personal health data.

Decentralized and distributed forms of care delivery are giving Canadians better access to care providers.

Pharmacological breakthroughs are driving the development of precision therapies, laying the foundation for predictive diagnostics that will enable preventative care rather than only symptom treatment.

This gradual but fundamental shift toward increased personalization will provide unprecedented opportunities for group benefits providers in Canada.

Greater access to personalized behavioural and health data, as well as a better understanding of the related social determinants, should help life and health insurers craft more innovative products tailored to their clients' individual needs, even within the confines of mounting regulatory restrictions on the use of data.

Yet, group benefits providers may not be prepared to capitalize on this wave of change.

The issue is not about coverage. About 26 million Canadians currently have supplementary health insurance[1] and, in 2018, approximately 95 per cent of the $36 billion in supplemental health benefits paid to Canadians was delivered through employer-sponsored group plans.[2]

The issue may be underinvestment. According to a recent Deloitte survey, only 18 percent of Canada's top life and health insurers are planning changes for their group business.[3] Given the importance of group benefits to the industry, this seems particularly low.

To help Canada's group benefits providers adapt to a changing landscape, Deloitte conducted extensive research into the drivers of change in both the health-care and insurance industries. Following deep analysis, we developed a set of four scenarios that describe plausible futures for the group benefits sector in this country over the next 5 to 10 years. The hope is that insurers can use these scenarios to facilitate the shift that is needed to flourish in a data-driven, highly personalized health-care environment, where the focus is shifting from sickness and treatment to health and well-being.

# Toward personalized health care

## External forces shaping the future of group benefits

The products and services provided by life and health insurers depend heavily on the state of the health-care industry, which is why group benefits providers must keep a close eye on changes in the health system and consumer health trends.

The current health-care system places emphasis on the diagnosis and treatment of illness. The future promises to be different. There are several reasons for this:

### 1. Non-traditional care options

The explosion of individualized health data is creating new opportunities for companies to deliver care in non-traditional ways, and lessening the burden on provincial health-care systems in the process. Examples include medical technology companies such as Dot Health,[4] which gives patients access to their health records and prescriptions, and Dialogue,[5] which offers telemedicine for corporate wellness and employee mental health.

This trend toward non-traditional providers will accelerate as wearables, virtual care platforms, and health-care apps become more prevalent. One-third of Canadians already track their health through online apps,[6] and 17 percent use wearable fitness devices to do so.[7]

There is also the emergence of some non-traditional commercial players (e.g., League[8]) and employers, who have recognized that employee well-being is a strategic priority in retaining talent and controlling rising claims costs due to preventable or treatable illnesses. In other words, employers are seeing well-being programs as a competitive advantage.

### 2. Genome mapping

Direct-to-consumer genealogy tests are enabling unprecedented access to highly personal data, while technological innovation enables further genetic testing and interpretation.

The 13-year Human Genome Project spent US$3 billion to sequence the entire genome. An individual's DNA sequence can now be decoded for roughly US$1,000, and that cost may drop to US$100 per person.[9] Private health clinics and laboratories, such as Medcan[10] and LifeLabs,[11] are providing genetic counselling services that help patients interpret and use genetic data insights to achieve certain health outcomes.

### 3. The rise of precision medicines

As we unlock insights about our unique biological coding, predictive analysis can link genetic mutations to the onset of disease. This is enabling pharmaceutical breakthroughs, which in turn are driving the development of precision medicines, many of which have already passed clinical trials and entered the market. Coupled with pharmacogenetic tests, we are gaining the capacity to not only predict when patients may respond well (or poorly) to certain drugs, but also to treat the genetic cause of diseases rather than their symptoms.

### 4. Data-driven health care

The move toward data-driven health care is accelerating. A recent global survey conducted by Deloitte about data ethics and privacy found that 61 percent of respondents were willing to divulge their health history to help find a cure for deadly diseases.[12] As the volumes of personal health-care data surge, the need for enhanced data privacy and protection will grow. At the same time, however, organizations will gain a unique opportunity to use private health data to unlock new value and enhance their customers' product and service experiences.

Health care is changing in Canada. With greater access to better, deeper information, practitioners can use data to prescribe preventative care options—such as changes to diet or lifestyle, exercise, and more.[13]

Predictive data can also be used to develop personalized care plans that allow patients to mitigate future risks. Rather than waiting for symptoms to appear, patients will be able to predict and perhaps sometimes even prevent disease before ever falling ill.

# Crafting a response

## What personalization means to group benefits providers

The gradual shift towards increased personalization in health care will provide unprecedented opportunities for group plan providers in Canada.

While the insurance industry has always relied on actuarial data to guide risk assessment and drive product innovation, greater access to personalized behavioural and health data should help insurers craft more innovative products and services that are tailored to their clients' individual needs.

### Customized health-care experiences

Many companies are already using customer data to deliver enhanced digital experiences. For instance, with the Manulife Vitality program,[14] clients can earn rewards with leading lifestyle and wellness brands, and even save money on their insurance products by sharing their health lifestyle data.

Insurtech entrants to the Canadian market—such as League[8], Vivametrica,[15] and Optimity[16]—are finding ways to create health and wellness benefits tailored to individual group plan members.

The industry's Big Three players all offer pharmacogenetics as part of their group plans to better align treatments to an individual's genetics, which reduces drug waste and increases efficacy in the process.[17]

There's room for even further personalization.

In the 2018 edition of *The Sanofi Canada Healthcare Survey*, 66 percent of group plan members indicated interest in receiving health information from insurers based on their personal use of benefits.[18]

Members also expressed significant interest in preventative care offerings that use personal health data to identify, mitigate, and manage potential health risks, such as cancer, heart disease, diabetes, and mental illness.[19]

### Potential roadblocks

While the opportunities abound, group benefits providers may be prevented from fully capitalizing on the rapidly growing stores of individualized health data.

Canada's act to prohibit and prevent genetic discrimination (formerly Bill S-201) aims to prevent potential discrimination against individuals due to genetic mutations and risk markers. It calls for prohibiting insurance companies from using the results of genetic tests to determine coverage or pricing. Although the Quebec Court of Appeal recently ruled that the legislation exceeds the legal power of the federal government, similar regulations exist in other G7 nations.

Mounting regulations governing privacy and the appropriate use and ownership of data may further limit the scope of some initiatives that are founded upon the use of data.

This comes at a time when the composition of group benefits plans may change.

A report submitted earlier this year to the federal government by Dr. Eric Hoskins, chair of the Advisory Council on the Implementation of National Pharmacare, found that roughly 20 percent of Canadians either have inadequate or no prescription drug coverage.[20] The council recommended that Canada establish a new drug agency to cover an initial list of common and essential drugs by January 1, 2022, with an expanded comprehensive plan envisaged for implementation on January 2, 2027.

Should this come to pass (and it seems likely that it will), insurers will see a decline in their pharmacare benefits lines of business, as the federal and provincial governments institute a more robust national plan, with an estimated annual decline of $5 billion in prescription drug expenditure.[21] National pharmacare has been an issue in the 2019 Canadian federal election; benefits providers are now eagerly awaiting further guidelines from the newly formed government.

## An uncertain future

These roadblocks leave group benefits providers facing an uncertain future. The degree to which carriers will be able to design truly individualized plans will depend on their ability to effectively access and use data to shape their offerings, which may be restricted by legislation.

At the same time, consumer interest in predictive and preventative care services may put the Canadian health care system under pressure to deliver increasingly personalized care offerings. Such offerings currently fall mostly within the gambit of private care facilities, while the public medical fraternity acts as the decision makers regarding the level of access to publicly funded health care.

Access to medical data remains crucial in facilitating personalized health care. The federal government has taken a step in the democratization of data by launching the ACCESS and PrescribeIT program.

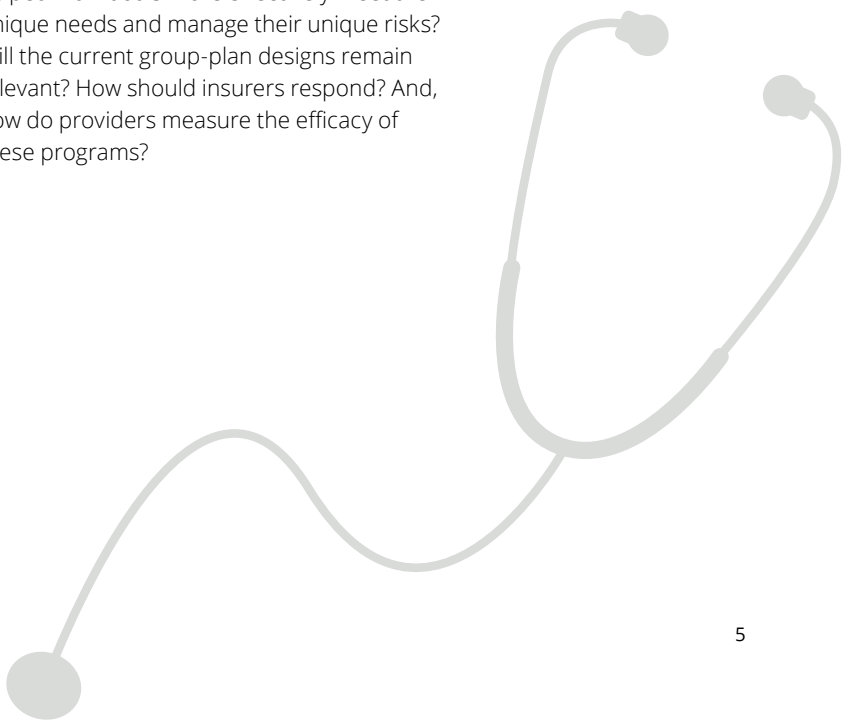
Armed with more data, insurers can help group plan members manage and mitigate their health risks, obtain customized treatment, and access preventative care options.

Along with enhanced prescription precision and improved care delivery, individualized group offerings can also help lower drug costs, leading to the more efficient use of benefit plans and a healthier workforce. This is good news for employers interested in enhancing employee productivity while reducing total plan costs.

Planning for this future is no easy task.

To date, most group benefits products and services are designed to address generic health issues, which means they typically react to the onset of symptoms. As predictive and preventative health- care options expand, the design of group benefits as a whole will be called into question.

This requires insurers to answer some difficult questions. What would a plan designed around preventative care look like? What would it mean if health-care management services helped individuals more effectively meet their unique needs and manage their unique risks? Will the current group-plan designs remain relevant? How should insurers respond? And, how do providers measure the efficacy of these programs?



# Four scenarios for the future

## A glimpse at group benefits in 5 to 10 years

To help group benefits providers find answers to these questions, Deloitte conducted research into the underlying drivers of change in both the health care and group benefits industries. The objective was to use scenario-planning to develop plausible futures for the group benefits sector over the next 5 to 10 years.

First, we took into account two critical uncertainties: the extent to which health data might be regulated, and the extent to which predictive and preventative care solutions might be adopted by health-care service providers and individual consumers.

Next, we layered several drivers of change into the analysis. These included sensitivity regarding data privacy, consumer interest in and comfort with predictive and preventative care services, advances to insurers' underwriting practices, and the emergence of private health-care providers, among others.

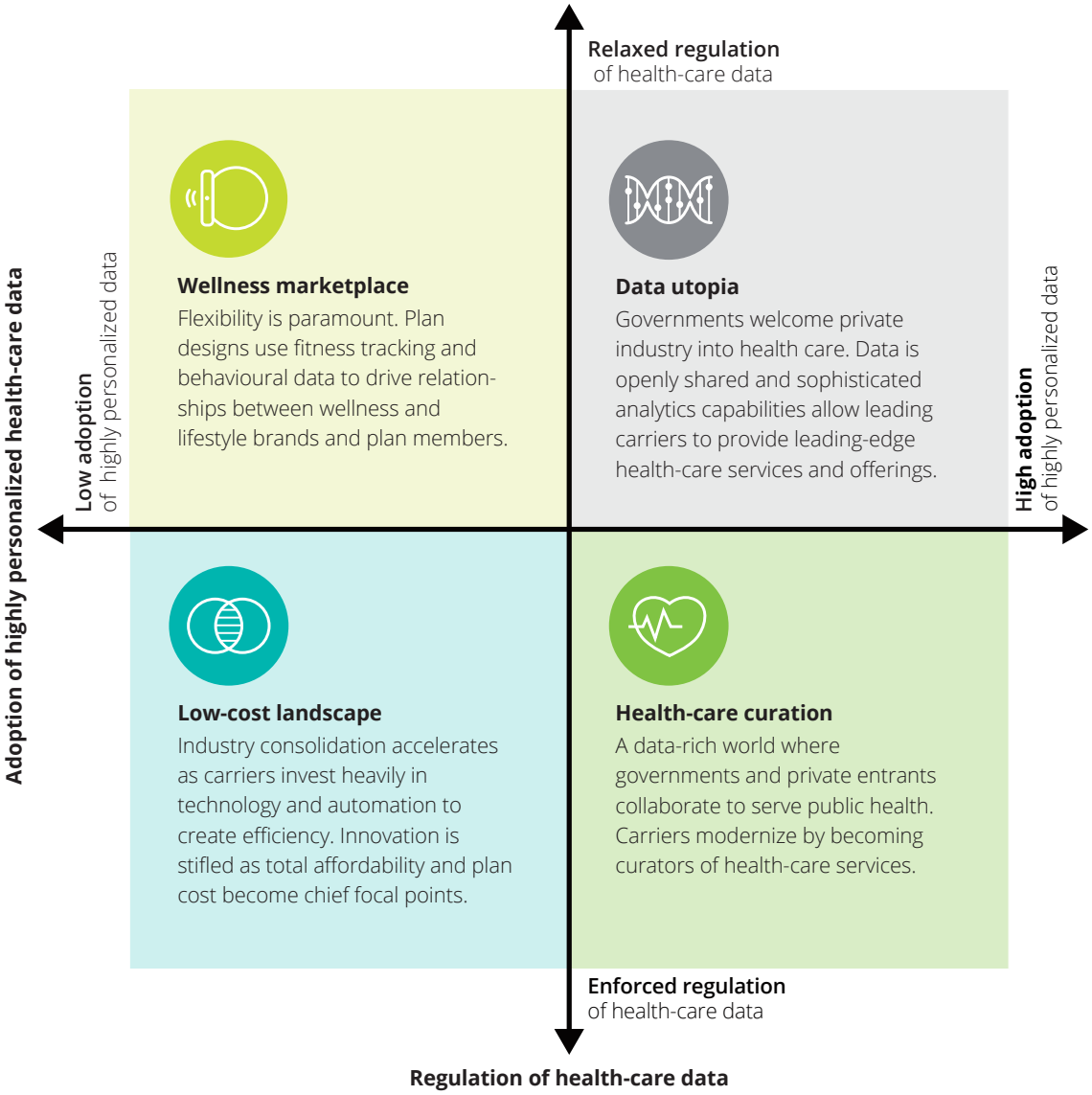
Then we considered eight key players likely to influence our future scenarios: federal and provincial governments, insurance carriers, plan members, advisors and consultants, health-care providers, new entrants, plan sponsors, and third-party administrators (TPAs).

Finally, we identified three certainties for each scenario:

1. Insurance companies will continue to invest in digital transformation.
2. Health care will become a more data-rich experience for patients and practitioners.
3. Extended health-care service will continue to expand, with private health-care providers playing a key role.

We arrived at four plausible future scenarios (see Figure 1).

**Figure 1 Four scenarios for the future of group benefits**



SCENARIO 1

## Wellness marketplace

With a focus on flexibility, plan designs use fitness tracking and behavioural data to drive relationships between plan members and wellness and lifestyle brands.

In this scenario, a relaxed regulatory environment enables carriers to use individual data not only to assess risk, but also to advance product and service innovation.

Federal and provincial governments promote the use of fitness tracking and wearable data technologies through collaborations with privately run wellness programs.

Wellness data becomes more widespread and democratized, resulting in informed health behaviours and decisions.

Recognizing the value of using data to support individual wellness, employers encourage incentive programs in their organizations in order to promote productivity and reduce benefits claims. Many begin providing new employees with a wellness and fitness tracking device on their first day.

In a bid to further individualize group plan designs, members and employers begin demanding flexible spending accounts as well as discounts on lifestyle and wellness brands that deliver unique offerings through marketplace platforms.

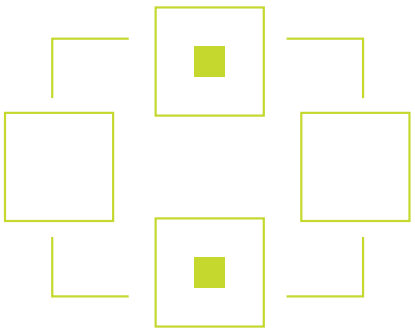
Traditional plan designs remain intact, but insurers compete with new entrants on flexible plan design, digital experiences driven by superior member data management, and the ecosystems of partnerships that were created with lifestyle and wellness brands.

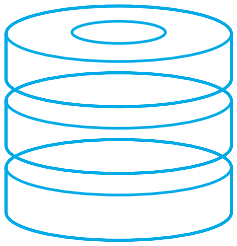
Revenue streams are diversified beyond premiums or management and administration fees. Carriers now collect referral-marketing revenue as members engage with partner brands.

Margins are under pressure from increased scrutiny due to more stringent transparency laws.

Thanks to this model, digital distribution of services becomes critical. Leading insurers will have successfully modernized their back-end systems to provide customers with robust marketplace offerings.

Insurance advisors and consultants continue to manage relationships, but the use of wholesaling and hybrid direct models rise. This results in lower commissions across the industry.





SCENARIO 2

## Data utopia

Governments welcome private industry into health care as data is openly shared, while sophisticated analytics capabilities allow leading carriers to provide cutting-edge health-care services and offerings.

In this scenario, federal and provincial governments see preventative care as critical to long-term health care and cost reduction. They have initiated a population- based genome project to support further advances in the field.

Routine liquid biopsies radically improve the early identification of oncoming disease, and reduce the need for pharmaceutical intervention and long-term care.

Genetic tests help identify individual health-care risks before they manifest, and reduce pharmaceutical over-use.

Early detection of disease also results in reduced reliance on high-cost pharmaceuticals, and an increase in employee health and productivity.

The cost of these personalized health-care options reduces dramatically, as private industry participants create an ecosystem of care services.

Employers view the use of personalized health data as critical for driving group plan cost efficiencies.

Group plan designs have a greater focus on individualized design, with a member-centric focus on access to preventative care services.

In fact, group-plan use hinges on predictive analysis and diagnostics being able to recommend preventative care services, from personalized diet and fitness plans to holistic family plans. Underpinning this vision is a digital privacy framework that's stronger than it has ever been, with public-private partnerships driving next-generation data security systems.

In anticipation of this more data-centric future, carriers undertake digital transformations to revamp their capabilities and better interface with new forms of data.

Innovative entrants emerge as serious threats to incumbents that are slow to adapt.

A groundswell of innovation ensues.

As leaders in risk mitigation and management, carriers develop services in predictive and preventative health care, using artificial intelligence and personalized health data to develop individual health forecasts and strategies.

Similarly, insurers no longer use data simply to calculate potential risk—they now actively help individuals navigate their biological risks. Not unlike wealth management—which uses historic data to forecast and design future strategies—health management becomes formalized, and benefits are delivered through digital and virtual care platforms.

Carriers build networks of health advisors and planners, who deliver preventative care services and provide plan members with instant access to the health care system as needed.

SCENARIO 3

## Low-cost landscape

Industry consolidation accelerates as insurance carriers invest heavily in technology and automation to create efficiency. As total affordability and plan cost become chief focal points, innovation is stifled.

In In this scenario, health care institutions seek to cut spending as rising costs compromise government budgets, leaving employers with an increased burden to provide extended health-care coverage to employees.

An increasingly hostile regulatory environment prevents insurers from actively participating in health-care advances.

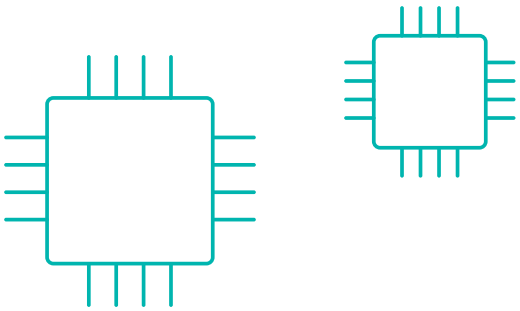
Extreme sensitivities emerge about data privacy as well as exchanges between individuals and corporations. Access to health data is negatively viewed as a potentially unfair advantage that can result in a greater chasm between the haves and have-nots.

Plan designs remain traditional, with small moves toward flexible spending accounts that offset the reduction in insured plans. Product and plan design differentiation remain difficult to achieve, and increased price pressures further commoditize carriers' offerings. Small and midsize carriers struggle to compete on price and scale, while leading carriers pursue acquisitions or partnerships with third-party administrators and managing general agents to drive growth and reduce costs across the value chain. Others use wholesaling to cut down on intermediary costs.

With this increased commoditization, industry consolidation, and price pressure, employers focus on squeezing marginal value out of generic plan options.

Investments in technology aim to further automate routine manufacturing and relationship management tasks for carriers. Digital platforms simplify interactions between plan members and carriers.

Fee transparency gives employers greater power, and distribution processes are also further automated.



SCENARIO 4

## Health-care curation

In a data-rich world, governments and private entrants collaborate to improve public health. Carriers modernize by becoming curators of health-care services.

In this scenario, provincial and federal governments make significant investments to modernize public health infrastructure and offer predictive and preventative care services.

Governments sponsor and fund population-based genomic programs, as well as research studies using health data gathered from fitness trackers and wearables.

Carriers are prevented by legislation from using highly personalized health-care data in their underwriting processes.

The public is generally wary of providing carriers with access to their genetic data.

Public-private partnerships are used to create a collaborative ecosystem of service providers, backed by secure, government-controlled networks for data exchange.

As predictive and preventative offerings curtail over-reliance on pharmaceuticals, traditional group benefits products wane. Plan members are directed toward alternative interventions that include dietary and fitness regimens. Group plans are designed around coverage for these interventions, and give members special access and discounts to preferred vendors of preventative care services.

Carriers invest heavily in digital experiences aimed at differentiating their value proposition.

Mobile applications help group plan members navigate the health-care system based on their unique needs.

The curation of health-care services, including distributed care and virtual care options, reduces the burden on bricks-and-mortar institutions and democratizes access to medical advice and care.

A hub-and-spoke experience emerges, wherein carrier plans serve as a central hub that gives members access to a "spoke" of diverse health-care practitioners, vendors, specialists, and products.

Benefits are primarily distributed through digital health-care experiences.

Investments in robotic process automation and digital technology allow carriers to streamline plan design, benefit selection, coverage and spending room, and claims management. This enhances efficiency, lowering the cost of administration.

Health-care providers take on a greater role in the distribution of products because of the complexity of products and services as well as the need to differentiate. Consultants and advisors are supported by digital tools, but their overall role in the distribution of products and services becomes limited.

# Preparing for the future

## A strategy to get started

Insurance providers are entering an era where groundbreaking technology and the proliferation of data can drive unprecedented innovation. Advances currently underway are creating a distinct opportunity for group benefits carriers.

To position themselves for future success, providers should consider adopting some of the following near-term strategies:

### *1. Invest in digital and analytic capabilities*

Although over 90 percent of premiums and benefits are delivered through group plans, only 18 percent of Canadian life and health insurers are planning changes to their group business.

This will need to change if carriers are to remain relevant.

As personalized health-care advances and more robust health data is generated, they will need to enhance their focus on the group business by making significant strategic investments that enhance their digital and analytics capabilities.

### *2. Plan for a more personal future*

Increased personalization in group plans will require new and innovative approaches to the design, development, and delivery of group benefits.

Insurers should find ways to develop relationships between their individual and group businesses to deliver an end-to-end experience for their customers.

### *3. Build strategic partnerships*

Addressing and adapting to ongoing changes in health care will require insurers to form strategic partnerships with complementary product and service providers, in both the public and private sectors. To identify optimal partnership opportunities, insurers will need to keep their finger on the pulse of the broader health-care ecosystem.

### *4. Navigate regulations*

While the proliferation of personal health data has the potential to drive new product and service innovation, insurers will need to be mindful of how regulatory shifts will affect their future opportunities.

Increased engagement and partnerships with government stakeholders, health-care providers, thought leaders, and innovative entrants will be critical to help understand how proposed changes to data privacy and information-sharing regulations may affect insurers.

### *5. Embrace core strengths*

In tomorrow's data-driven landscape, insurers will have the opportunity to own a significant portion of the patient experience by capitalizing on their core strengths in risk management and mitigation. This should position them to both improve health outcomes and accelerate health-care innovation for the more than 25 million Canadians they serve.

As our analysis of plausible futures demonstrates, both the health-care and group-benefits industries can evolve in various ways.

Regardless of these scenarios, emerging changes in health care signal an urgent need for Canadian insurers to invest strategically in their digital and analytics capabilities.

Whether those capabilities will be used to drive enhanced digital experiences, interface more effectively with personalized health data, further automate routine tasks, or help plan members better navigate the health-care system remains to be seen. Only one thing seems certain: insurers that fail to respond to these major changes will find themselves at a competitive disadvantage in future.

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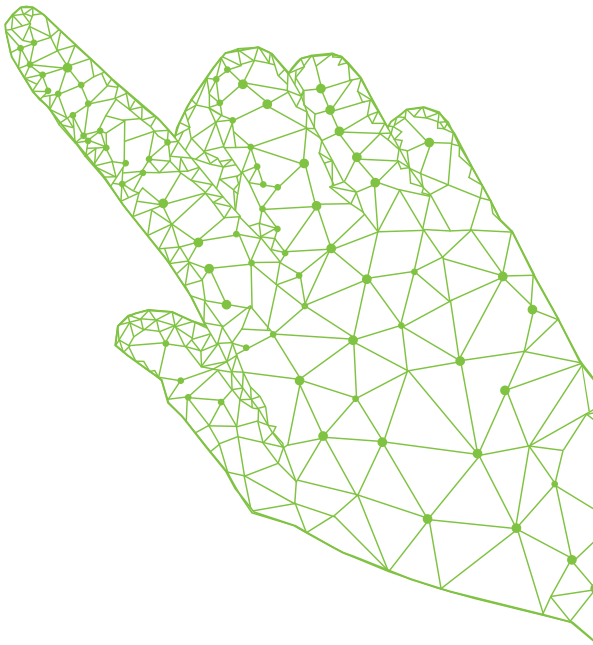

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Designed and produced by the Deloitte Design Studio, Canada. 19-6202V