

Aetna Acquires Medicity: Reform Changes Strategic Business...

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Aetna (NYSE: AET), the nation's third largest health insurer, announced it would acquire privately held Medicity for \$500 million. Medicity will operate as a wholly owned subsidiary of Aetna. This announcement is yet another example of a resurging trend in 2010 of healthcare payer investment and acquisition in technologies. Aetna and United HealthGroup's subsidiary, Ingenix, have been particularly active. Technology acquisitions or investment in technology companies by healthcare payers in the past decade has not been uncommon. HCSC, Regence, BCBS Tennessee, are among additional investors or acquirers. UnitedHealth Group has a long history of technology acquisition within their subsidiary, Ingenix. As previous blogs and Health insights reports have commented: what is new in 2010 is the extension of technology investments by healthcare payers into the provider market. With the announcements by Aetna and Ingenix, the market now arrives at a potential tipping point that can produce dramatically new business models.

These investments are clearly driven by healthcare payer attempts to reposition themselves to respond to the economic realities of healthcare reform and ARRA legislation. Reform legislation simultaneously stresses and limits the healthcare payers historical revenue model, and focuses on investments and incentives to extend information to physicians and consumers. The underlying expectation is that just in time information, linked to best practices, will finally create improved health, clinical and financial outcomes the industry has long sought. Medical home, accountable care organization and the emerging global and quality-based payment programs all seek to shift the US healthcare system from a "pay for transaction" to a "pay for outcomes" environment.

Therefore, dominant growth markets in healthcare are the healthcare technology markets and the provider technology market specifically Health reform priorities create a focus on provider technologies, triggering the numerous investments in 2010 by both healthcare payer vendors traditionally investing in healthcare payer markets and the healthcare payers themselves. In the short term, health plans, and others, will invest or acquire to find new revenue and growth sources, reaping the profits of the new technology investments required to comply with reform mandates. Longer term, these technology investments provide healthcare payers greater control over future business models that undeniably will include a resurgence of payer-provider organizations. Most agree that greater technology, process and clinical integration among payers and providers is critical to decrease the very expensive and increasing market heterogeneity and duplication. Healthcare payers will move to establish a new brand differentiated by ownership and management of technologies across the healthcare value chain, if not the actual clinical assets.

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