Oscar Health Co-Founder, Mario Schlosser, Shares Insights on Technology, Risk and What is to Come in Healthcare Transcript

[00:00:00] Mario Schlosser: Technology in healthcare is much more like a tool you can apply in all kinds of ways. You have to apply in very focused ways and in very enduring ways to eke out improvements, but because there are so many different places where you can eke out these improvements, and because the market is so massive and healthcare is so big, those improvements will add up to a big impact on the overall system.

That's always how we thought about it. For us, this meant that we didn't actually, contrary to public opinion, spend as much time on the member experience as we spend on building our own claim system and building our own-- underwriting who was in our own provider data management systems and things like that because we thought that those tend to be the bigger sources of error, friction, frustration in the healthcare system overall than whether you have a beautiful button on the screen or not.

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[00:00:51] Announcer: Welcome to A&M Healthcare Industry Group's *What's Your Moonshot?* Podcast Series, where world-class healthcare leaders seek to solve big problems. Listen as we talk to today's health system CEOs about the journey to achieve their moonshots.

[00:01:10] David Shulkin: Welcome to the Alvarez & Marsal's *What's Your Moonshot?* Podcast. Today, we are very pleased to have Mario Schlosser, who's the co-founder and the President of Technology at Oscar Health with us. For those of you who don't know about Oscar, of course, many of you do, this was a company that was founded back in 2012. Wow, that's about 12 years ago almost, where Oscar really shook the world because it became the first technology-led health plan.

Mario, I remember a long time ago coming to your offices in New York. At that time, you had one little conference room and a bunch of ping-pong tables and demonstrating just how different this approach to running a health plan was with telehealth and really giving the consumer much more control of their own health journey. This is really a company that I think has helped define the way that personalized care can be delivered in a health plan setting.

Of course, Oscar has been recognized, not only for its growth and its innovation, but really for disrupting the insurance industry, and a lot of that really has to go back to you, Mario. Welcome, and thanks for joining us today on *What's Your Moonshot?*

[00:02:39] Mario: David, great to be here. Thanks so much. Yes, I remember it very well when you and I first met and when we tried to convince you to join the network in New Jersey, actually. That was the original agenda of the meeting. I was just thinking you said we had a bunch of ping-pong tables and one conference room. We now have a bunch of conference rooms and one ping-pong table. I wonder if that means we have become too much like the establishments. [laughs]

[00:03:02] David: You've become too conservative, Mario. Come on-

[00:03:05] Mario: Yes, it seems like it.

[00:03:06] David: -you got to shake it off, but anyway. Let's start back in the beginning. What were you thinking? Did the world really need a new health plan? Why did you begin this journey in the first place?

[00:03:23] Mario: I don't think the world needs a new health plan, frankly, and I don't think the world needs any health plans. That was part of the motivation back in the days. My background is computer science, and in fact, Josh, my co-founder and I had-- among other things, we used to run a social gaming company, so we had experience with building something that entertains people and gets them to perform certain activities for rewards and things like that.

We thought that when we looked at the healthcare system and the experiences we as consumers had in the healthcare system, it being too complicated, it's too costly, too cumbersome, and so on, that the insurance company is a very powerful perch from which to influence how consumers utilize healthcare. The insurer in theory could use the dollars flowing through it to provide more incentives to go to this doctor, not that doctor.

It could use this data to show more about the costs you are facing as a consumer. It could make certain services much cheaper so you don't get more expensive services later on you have to face and all these things. We didn't think that any of these were really being done to us as members of United and Cigna and Aetna, whatever, at the time. For us, that was the motivation to start an insurance company, but we always thought of Oscar as initially an insurance company that eventually would graduate towards enabling others to take over these functions that you today still need the insurance company for.

If you think about what the insurance company does in the healthcare system, it attracts membership. It needs to figure out the risk of that membership. It drives utilization through authorizations for the most part, and it negotiates hospital contracts. That's pretty much it. There's nothing really else you need the insurance company for. All four of these would be better done, not by the insurance company, but by a provider system, for example, or maybe a social service of sorts, something else that's closer to the end user, the end consumer than the insurance company can ever be.

There's a very long-winded way of saying we started Oscar so eventually we can get rid of health insurers and the current role that they play and reduce the much more towards the services and the technology behind those functions that they have.

[00:05:52] David: All right. Well, Mario, that's a vision that I can just imagine a lot of our listeners who run health systems are standing up and cheering because at least in the past decade or so it has felt very much like if you're not a payer, you've just been taking the brunt of so much of the market forces. How has that plan worked? Are the providers in the mindset that with these tools that you're talking about that they can actually become a payer, or do you find a certain amount of defeatism that they feel like this is just too big of a hill to climb, we're now delegated to being a provider, we could never transition to being that payer?

[00:06:41] Mario: I think it is not a clear-cut answer right now. I think there's clearly skepticism as to whether providers can get there and whether they can do a better job in managing healthcare risk than, I don't know, United, for example, can. If you look at Medicare Advantage, for example, it is very clear that providers could be a lot more profitable in managing Medicare risk if they did it correct, if they had a way of doing it.

Mark, the CEO who came on board with us a couple of months ago, Mark Bertolini used to run Aetna, has a way of saying that providers lose 3% on Medicare fee for service and they

could make 5%, 8%, or whatever on Medicare Advantage. Yet, in the last AEP, and this number blew my mind completely, I think 50% of new Medicare enrollments went to United Healthcare and 25% went to Humana, and so all the rest of the payers got the remaining scraps if you will. That doesn't scream like a market that providers can easily break into. My clear perspective is that it's a twofold perspective there.

One is providers are in a better position to manage Medicare risk if it's done correctly. I think part of the reason that it's been difficult is that they've been lacking the technology, the tools, and the processes to do it correctly. That is actually really a place where we can play a role. My second perspective on this is that the health insurance markets need to continue to change into the direction of consumerization and of enabling providers to use the relationship that they already have to the consumer in the way that the insurers don't have it, to keep building a risk business around those relationships.

I think in that second bucket, you have the shift away from employer plans towards more ACA plans. You have the shift towards more individual coverage, HRAs, and all these other windows and doors that are opening right now in health insurance and that providers I think have to walk through, have to want to walk through, but have a real chance of walking through in a very powerful way.

In the category of least surprising use ever, I saw a news article this morning on *Fierce Healthcare*, I think, that talked about how large employers that are self-insured, it turns out, are paying higher prices for delivering, for getting healthcare, then even large insurers who are fully-insured, which is not surprising at all because between self-insured and fully-insured, there's a little bit more of an incentive for the middleman, the insurance company of managing the costs properly. They're doing it in fully-insured, they're not doing in self-insured.

It's yet another argument for self-insured employers to say, "Let me switch towards individualization," let's say individual coverage HRAs, and if that keeps happening, providers can make that a big business for themselves, where again, they can turn their individual relationships with the consumer into profitable risk-bearing relationships.

[00:09:45] David: This must be frustrating for you though, Mario. You've been at this now over a decade. You've seen this opportunity exist in the market, and I know you spend a lot of time talking to health system leaders, and yet, there are very few that have really taken this opportunity you see and moved it forward. You've seen their lack of willingness to do that has put them in a weaker position in many ways. You see employers, not benefiting, they're paying higher costs. The only ones that seem to be doing well are the traditional big health plans.

Are you feeling that we're reaching a point where people now understand what this opportunity is, or do you think that the status quo of healthcare, the quicksand of keeping things the way that they are is still going to be around for quite a while?

[00:10:47] Mario: If you want to get philosophical, to me, one of the key questions about healthcare is does it move in oscillations or is there actually a gradual improvement of the way the system operates? There are plenty of people who say it just oscillates. In fact, I used to have a table where when you look at the buzzwords people were using in the '90s, you can almost do a one-to-one mapping to buzzwords people use today. It used to not be called value-based care. It used to be called something else. I honestly forgot the word now, but there was a word for it. It just was a different word.

Obviously, '90s was about HMOs and about inventing prior authorization, and then we go away from these things and we come back to these things and these waves, these

oscillations. A view of healthcare is that of a system that just swings back and forth around the same shitty status quo, then nothing's improving. My hope would be that's not the view we should have of healthcare.

In fact, I actually think that in the last 10 years-- two thoughts on this, one is, in the last 10 years, there have been a bunch of trends that are unlikely to reverse. For example, it is very unlikely to reverse away from this consumerization you have seen in Medicare Advantage, even though I think there are things that are broken about that market, like the government's overpaying the insurers and risk adjustment, for example. Unfortunately, that is what makes Humana and United particularly powerful. Once you play that game to perfection, that's a problem really.

Still, there's also been great things about that market, and this consumerization didn't exist in this way before that MA market became what it is today. Unlikely to reverse. I think digital health has had a lot of stops and goes as well, has not shown collectively that it can meaningfully bend the cost curve, but there are definitely aspects about the digital health evolution, revolution, whatever you want to call it, that won't go back either.

Neither United nor Aetna, or anybody else had a website or a functioning mobile app back when we started. Those are obviously commonplace things to have now. Healthcare is catching up in a bunch of these places. There is not a straight line, but there is improvement in the system, and I think it will keep going towards this consumerization. It will keep going towards risk sharing, and it will keep going towards just a different reassorting of the way this system works.

The other thought I have on this would be that when it comes to managing healthcare risk, well, there is almost a rule of three that you're going to screw it up the first two times, but if you get through those two times, the third time, you will make it work. I think this applies to pretty much everybody. It applies to the big insurance companies going into new markets, but it applies also to health systems starting health plans and trying to find their way there. It applies to, by the way, also digital health companies.

If you look at the primary care disruptors, plenty of them have to go through these waves of pain of realizing, "Oh, shit." claims come later claims, and I forgot about them," and other things like that, that when you work through them, you eventually figure it out. That was certainly the case for Oscar.

We lost a lot of money in the first setback in the ACA 2016, '17, then grew again a whole bunch, then lost money again in a sense in the last two years or so, figuring out now that second wave of ACA growth and now are in a place this year, and certainly even more so next year, where the core business is working, the company's becoming profitable, and we know how to do this now.

If we can transfer that knowledge and the technology we built for that to health systems and plans who want to do this in the same way in a consumerized market, that is a great pathway for both us and I think the overall healthcare system.

[00:14:42] David: I think that's useful advice. I'm sure a lot of people who have tried this and failed now feel better knowing that it takes three times to do it. If you're a provider, what I hear you saying is that if you believe that this is strategically the right approach, Medicare Advantage is probably a pretty good place to start. Is that what you're suggesting?

[00:15:09] Mario: I think it is. I think it takes more than starting a Medicare Advantage health plan. For example, to this day, I've not seen any health system-based Medicare Advantage plan where the health system is really leveraging all of its assets and advantages. Why not

have a red-carpet entrance for members of UMA plan? Why not have preferred parking for members of UMA plan? Why not have preferred appointment scheduling windows from members of UMA plan?

Obviously, there's regulation around exactly what you can do and how you can do it, and so on, but these would make for a better member experience, provider experience, and better clinical outcomes. I'm convinced of that. No regulator would stand in the way of that if you can articulate it that way. That just hasn't been done. There's been very, very faint attempts at creating, let's say a rewards and miles and more program that combines the insurance part of the equation, the brighter part of the equation. Very, very faint, and simple ways to do it.

That is an opportunity. If you can wrap that around your provider system, your member's relationship to his or her PCP, and to the clinical and insurance risk, you can build some really powerful programs. You got to be bigger and bolder when you do that. I think that's the opportunity there. I would also, though, say that Medicaid is a conversation increasingly coming up when we have conversations with provider health system leadership, that is, that market is in a-- managed Medicaid is probably in a state where Medicare Advantage wasn't back in 2012 or so.

It's clearly in everybody's radar. It's not in everybody's radar, but it's on the radar screens. It's being discussed, it seems difficult, but you can really make this work if you put yourself into it. Then, of course, ICHRA is a whole another wave of growth happening. That's maybe where Medicare Advantage was in 2004, 2005, so another 20 years ahead of us in terms of growth.

[00:17:12] David: Mario, I think what's so great about you being on *What's Your Moonshot?* is your vision because what you're really doing is you're merging the concepts of the health plan, the health providers, and the consumer together into a single vision that create this type of system that works for a patient. The challenge of crossing those thought boundaries between plans, providers, and consumers is really something that we haven't seen many people do, but I think that's where you're really challenging us. Part of that, I know that you're a believer that technology can help with this integration.

We've seen a lot happen since you launched Oscar with technology. You've talked a little bit about digital health and telemedicine. Do you think that technology still is going to play a role in bringing your vision into this? Is there a lot more that we can see that will be delivered with technology? Obviously, everyone talking about AI recently. Is that part of your vision as well?

[00:18:22] Mario: Certainly, part of the vision-- this is the way I will put this. I think we used to say that healthcare is unlikely to be like internet search where you can invent one algorithm and that algorithm will pay all the bills and make everything 10 times better, which again, was the case in internet search when Google replaced Yahoo as the search engine of choice. They invented one algorithm page rank and kept building it out, whatever. That was the big step change.

That is just not going to be the case in healthcare. I never personally expected that to be the case. I never really thought that we could, I don't know, invent a magic symptom checker or whatever, or the clinical chatbots that would replace big parts of the healthcare system purely through technology. Technology and healthcare is much more like a tool you can apply in all kinds of ways.

You have to apply in very focused ways and in very enduring ways to eke out improvements, but because there are so many different places where you can eke out these improvements

and because the market is so massive and healthcare is so big, those improvements will add up to a big impact on the overall system. That's always how we thought about it.

For us, this meant that we didn't actually, contrary to public opinion, spend as much time on the member experience as we spend on building our own claim system and building our own-- underwriting who was in our own provider data management systems and things like that because we thought that those tend to be the biggest sources of error, friction, frustration in the healthcare system overall than whether you have a beautiful button on the screen or not.

I think that part one of that thesis has borne out to be true. I'll say what part one and part two is in a second. Part two remains to be proven. Part one of that thesis has been that we can just survive as a burgeoning growing insurance company in what is a very competitive market because we have our own technology. If you look at the insurance startup markets, there's been a lot of wipeouts, even more broadly in the take-risk technology markets. Lots of wipeouts.

Even in the last three months or so companies literally got reduced to either low valuations or the business altogether. I really think one of the differences between some of those folks, who I all respect, by the way, this is a very tough business to be in, has been that we don't outsource things like claims. It gives us more visibility into risk adjustment workflows into coding status into in-network, out-network claims, and things like that. Just surviving has been a big part of the thesis in a sense.

Part two of how to use technology in healthcare is much more about how does it change clinical models? How do you become more predictive as opposed to reactive? Things like that. I honestly think we are only now getting to the real equations that relate to all those theses. That's one of the reasons why I'm so excited about the next 10 years of Oscar in running engineering product and data science now much more directly after handing the CEO reigns over to Mark, who knows how to do that part really, really well.

I think we're only getting now to the point where having this very sound infrastructure enables us to run experiments much more quickly, build incentives much more quickly, test campaigns much more quickly than we ever could do it before. Back to your question, technology plays a role in lots of different parts of healthcare. It's not a panacea. It's a tool and you've got to commit yourself much more completely to it, and then I think it will work for you.

How that plays out will be a big important part of how the next 10 years play out. AI is a huge part of this for sure, but AI is yet another tool in the toolkits. Language models. There's a chance that we're going to build a fully automated position chatbot. I think there is a chance that that is actually going to be the case and that that could reduce the cost of going to the doctor by 10x in the next three, four years or so.

I think there's a much higher chance in the next three or four years of really making claims adjudication better and faster, of reducing prior authorization, and all the stuff that today has a very real cost on the system. That's where we are looking first and foremost.

[00:22:55] David: Thanks for sharing that because I do think that with those types of tools, that only makes this partnership with providers, your original vision of why you founded this company with Josh so many years ago, it's even more relevant today. I think I just wanted to finally wrap up with one question since many of our listeners are on the provider side, health system leaders. It has to do with this issue of what do you do going forward.

There are still many who believe that value-based care, value-based payments are increasingly going to happen, others who believe that they better jump much quicker into taking risks, and others that are saying, "Look, let's just stay and do what we do on the provider fee for service world because that business is still going to be around for quite a while." What's your advice to the providers in terms of strategically where you would be directing an organization on the risk side? How much would you be jumping in and taking risks?

[00:24:11] Mario: I think it has to be high on your list for sure. We're not going to go back to the no-risk world. That's just not a chance. There are businesses like and some Agilon that are already good businesses by enabling providers to take more risk. There's us, obviously, doing it on the technology side as well through right now tools like Campaign Builder, but in the future, more and more tools that we are going to make available. There's plenty of local physician groups for whom it is a good business to be deeper in the risk space.

I don't think that was the case 15 years ago or so. Well, put it this way. It was the case, but in very specific parts of the country, right on the West Coast and maybe in the Southeast. If you look at, for example, what happened in the Southeast of the country in following the West Coast in the path towards value in Medicare Advantage initially and now in the ACA and how those provider groups are now taking this into other parts of the country like Georgia and Texas and so on, there are real success stories there. There are also blowups there, but there are real success stories there.

That kind of an expansion and moving away value from the places where it used to be already around, like again, California, for example, I just think it's a new thing. It's a new thing. It's not going to stop. It's got to be on your radar screen. I would tell those providers, have a conversation, including with us. We are very willing to share everything we've learned about taking risk, managing risk, in consumerization where it works, where it doesn't, more radical ideas for how you could provide the assets the provider has to the assets of how to design a health plan and how to design incentives and benefits and all these kind of things, which are difficult to do right now if you do it with the old school players.

No offense, but if you go to you're not going to get that. If you go to some of the old-school TPAs that can't even configure a copay properly, you're just not going to get those modern tools. You have to think about this much more in terms of how an e-commerce player would think about it. Here's one perspective from Oscar. People used to say, "Oh, you guys should try to become the AWS of healthcare." This is about Oscar using its technology on behalf of providers, for example, in the healthcare system, and AWS is Amazon Web Services.

Amazon built this side business of providing database and some technology services to third parties and some, "Oscar should become that." My retort there is, "No, we should become the Shopify of healthcare and health insurance," because if you sell skateboards online, you don't want to start becoming an expert on databases. You just want to sell more skateboards online, and that's more Shopify than AWS.

That is much of what providers want and need. They want to use what they already know how to do, but they want to have great ways of developing benefits and incentives and all that stuff. That's what you need somebody to help with. I think we can help. Others can help with that too, but have a conversation, have a screen would be my advice, and don't think it's going to stop. I don't think it will.

[00:27:23] David: Well, Mario, thank you so much for joining us today. We really think your vision is still a very relevant one and amazing and always fun to talk to you. Thanks again.

[00:27:35] Mario: Great fun to talk to you as well, David. Thanks so much for having me on.

[00:27:37] David: Thank you.

[music]

[00:27:47] Announcer: Alvarez & Marsal. Leadership. Action. Results.

[00:27:55] [END OF AUDIO]

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