

Anthem reaffirms commitment to its \$47-billion bid for Cigna

June 22 2015, by Tom Murphy



This Feb. 5, 2015 file photo shows the Anthem logo at the health insurer's corporate headquarters in Indianapolis. Anthem on Monday, June 22, 2015 reaffirmed their commitment to buy rival Cigna a day after Cigna shot down the idea in a letter delivered to Anthem's board. (AP Photo/Michael Conroy, File)

Anthem sees its more than \$47 billion bid to buy rival Cigna as a way to muscle up on technology that helps consumers and to strengthen its rapidly growing Medicare Advantage business.

Leaders of the Blue Cross-Blue Shield insurer reaffirmed on Monday their commitment to getting a deal done a day after Cigna shot down the

idea in a letter delivered to Anthem's board.

"We think we've put forward a very compelling offer," Anthem Chief Financial Officer Wayne DeVeydt said when asked by an analyst during a conference call whether his company would consider raising its price.

The Indianapolis insurer said it has made several offers to buy Cigna and has been talking with the company about a deal since last summer. The combination would create a health insurer with international reach that covers more than 53 million people, making it the largest in the United States based on enrollment.

Anthem Inc.'s most recent offer amounted to \$184 per share in cash and stock, which represents a premium of more than 35 percent to the closing price of Cigna shares in late May, before reports of industry merger talks started heating up.

But Bloomfield, Connecticut-based Cigna Corp. said Sunday in a letter to Anthem's board that it saw a number of obstacles standing in the way of a deal that "under the right circumstances" would provide substantial benefits to consumers, doctors and investors.

Analysts and other experts are expecting consolidation at the top of a health insurance industry that has had to adjust to the health care overhaul and is dealing with slow growth in the biggest piece of its market, employer-sponsored health insurance. They see several potential advantages to a big combination.

A larger insurer can gain more leverage and negotiating power to use in hashing out rates with care providers. But that advantage may be limited by regulators who will seek to make sure the acquiring insurer doesn't gain an unfair advantage in any market.

Anthem said the combined insurer would have a much broader base over which to spread costs and expenses, and it could make technology investments over the industry's biggest customer pool.

Data and technology are playing a growing role in monitoring patients and care. At a very basic level, that means things like tracking whether patients are keeping up with their immunizations.

Insurers also are trying to give consumers better information on the cost and quality of the care they buy, based on their coverage. Deductibles and other out-of-pocket costs have been rising for years. That leaves a growing number of consumers with bigger bills to pay before most of their insurance coverage starts, so it can encourage more to shop around.

Anthem officials also noted that a Cigna deal will build their company's Medicare Advantage enrollment in states like Texas and Florida. Medicare Advantage plans are privately run, fast-growing versions of the federally-funded program for people over age 65 and the disabled.

Technology improvements can be a particularly effective in helping insurers make more money on Medicare Advantage plans, said Dan Mendelson, CEO of the market analysis firm Avalere Health.

Health insurers receive better reimbursement for Medicare Advantage plans that have higher quality or star ratings, thanks to the health care overhaul. Those ratings are based, in part, on the patient population's health, which technology can help monitor and improve.

"Scale really matters in an IT-intensive industry, and health care is IT intensive," he said.

Anthem is currently the nation's second-largest health insurer, while Cigna ranks fourth in terms of enrollment. Anthem specializes in selling

individual coverage and insurance to workers of small businesses. It also has grown its government business, which includes Medicare, Medicaid and coverage of federal employees.

Health insurance is Cigna's main business, but it also sells group disability and life coverage in the U.S., and it has a growing international segment that Anthem lacks. Much of Cigna's health insurance business involves coverage where the employer pays the claims and then hires Cigna to administer the plan, a growing and less-profitable form of coverage in employer-sponsored health care.

Shares of Cigna jumped 5.4 percent, or \$8.39, to \$163.65 in Monday afternoon trading—almost \$20 below the offered price— while broader indexes advanced slightly. Anthem rose about 4 percent, or \$6.50, to \$171.56.

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