

Health care's Three Amigos? The big names behind a new push

January 31 2018, by Marley Jay



This combination of photos from left shows Warren Buffett on Sept. 19, 2017, in New York, Jeff Bezos, CEO of Amazon.com, on Sept. 24, 2013, in Seattle and JP Morgan Chase Chairman and CEO Jamie Dimon on July 12, 2013, in New York. Buffett's Berkshire Hathaway, Amazon and the New York bank JPMorgan Chase are teaming up to create a health care company announced Tuesday, Jan. 30, 2018, that is "free from profit-making incentives and constraints." (AP Photos)

Three guys walk into a bar. They're Warren Buffett, Amazon.com's Jeff Bezos and JPMorgan Chase's Jamie Dimon. They decide to transform the American health care system.

That's probably not how these three men decided to form a new

company to address health care costs for their U.S. employees, and possibly for many more Americans. The three companies, with a combined market cap of \$1.62 trillion, did not provide details of how the collaboration between their CEOs came about. And while their announcement Tuesday didn't include many specifics, based on their very different business backgrounds it's possible to see what each might bring to the table.

Bezos, 54, runs one of the world's biggest retail operations and by some measurement he's now the wealthiest person on the planet. Amazon grew from a book retailer into one of the world's most valuable companies in part because it's extremely skilled in distributing products. It's long been willing to lose money in order to offer customers lower prices than its competitors can bear—and in the process gain a loyal customer base. That's what millions of Prime members love about it.

Amazon has never been consistent at turning profits because of its focus on sales growth. That's what many investors fear about it. Investors in health care have long thought Amazon was going to get into that field and force companies that make and distribute medications or medical devices to drastically lower their prices.

When the three companies said they want to create a partnership "free from profit-making incentives and constrains," Amazon would seem to be the blueprint.

By contrast, few associate fear with Buffett, the 87-year-old "Oracle of Omaha." He's respected for his 70 years of successful investing, beloved by many for giving billions to charity—he has said he plans to give away at least half his fortune—and appreciated for a common touch that includes a prodigious Coca-Cola habit and a love of junk food, along with his personal frugality. But most significant in this context is that his company, Berkshire Hathaway, owns a number of insurers including

GEICO. That means he brings a lot of experience in evaluating and insuring risks.

And he's a longtime critic of the health care system. Tuesday was not the first time Buffett had talked about growing health care costs as a "tapeworm" that harms the growth of the American economy.

Dimon, 61, is the head of the largest U.S. bank in terms of both assets and deposits. If that weren't enough to get him entry into the conversation, JPMorgan Chase just received a big tax cut. Dimon himself earned a lot of respect for his handling of the 2008-09 financial crisis. Unlike many of its competitors, JPMorgan Chase didn't have to be bailed out by taxpayers as a result of its bad bets on mortgage-backed securities.

That doesn't mean he's exactly beloved: Like its rivals, the bank did pay billions to settle allegations surrounding its sales of mortgage-backed securities prior to the crisis. He's also known for speaking his mind in blunt terms. In July, he complained about politicians arguing about "stupid (expletive)" instead of solving problems.

The companies said their project will focus on technology that provides simplified and transparent care. Based on the executives who have been named to top roles at the new company, Jefferies & Co. analyst Brian Tanquilut said there is a good chance it will eventually try to negotiate prices directly with health care providers like hospitals, bypassing companies that act as middlemen. That could reduce costs in the medical and pharmaceutical supply chains.

"The initial plan for the new entity will be on partnering with and/or acquiring various consumer-orientated health care technology capabilities (i.e. a venture capital strategy) and eventually using them to influence and incentivize health care cost-reducing behavior," he said,

basing his speculation on the executives picked to shepherd the new company along.

Whatever the new company's scope, investors in health care companies were deeply concerned: On Tuesday health insurer Cigna dropped 7.2 percent, biotech drugmaker AbbVie fell 5.3 percent, and drugstore chain-pharmacy benefits manager CVS Health lost 4.1 percent as the sector took broad losses.

© 2018 The Associated Press. All rights reserved.

Citation: Health care's Three Amigos? The big names behind a new push (2018, January 31)
retrieved 27 April 2024 from <https://medicalxpress.com/news/2018-01-health-amigos-big.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.