Double Interview with Tom Albert, Head of Strategy at AXA Health, and Klaus Stöckemann, Managing Partner at Peppermint Ventures Partners

by Pascal Lardier, International Director at Health 2.0
for the EU funded GET Project.

Private insurance companies have started reimbursing digital solutions. Is the last piece of the puzzle that will accelerate eHealth investments in Europe? An insurer and an investor discuss.

Pascal Lardier: Tom and Klaus – can you both describe your organizations and activities?

Tom Albert: AXA as a whole is one of the largest insurers in the world with a strong footprint in Health worldwide, especially in France, Germany and the UK. I am Head of Strategy for AXA Health Germany and as such the whole area of digital health is important.

We see eHealth and mHealth as a real revolution and we have decided to be a part of it. Being part of it means working on the reimbursement of some of the tools and solutions that come from health startups. Of course, we're an insurance so we are probably not the first and fastest player in the market but at least we want to be a part of it. We see it as a long term evolution of the market, over the next 10 to 15 years and we are very sure of the importance of this trend – even if you do not see it in the daily life yet or not as obvious as we would wish to see it. mHealth will be part of the upcoming health systems.

My role is to identify business ideas which might be helpful for insurance and for patients and our clients.

PL: Klaus, would you like to present your role at Peppermint Ventures and your interest in digital health?

Klaus Stöckemann: I'm happy to do so. I'm one of the founders and Managing Partners of Peppermint Venture Partners. We are based in Berlin, a hot spot for digital health start-ups and we are very

much into the serious part of digital health. We are currently focusing on products which include sensors able to generate data and which may impact on current treatment decisions and are based on evidence through clinical trials or field experience with patients. Of course, we are a private Venture Capital firm and want to make money with our investments. But we are very dedicated to early stage companies and working with founders, from shaping the idea and potential business model even before we invest.

For us, digital health is a horizontal level across different indication area. Whether it is cardiology, ophthalmology or neurology/mental health you will find tons of applications where digital health can be implemented and improve diagnostic or monitoring approaches, which may improve therapies and also can reduce costs. I believe that this will disrupt the whole health care industry. It will not only disrupt the industry with regard to better diagnostics or treatments, but it will, for the first time, allow all stakeholders in the system to be connected.

Why is that so important? Because we believe that by interacting with each other, the patient, interacting directly with the physician, the caregiver or maybe even with the payer, it will improve the quality of diagnostic/monitoring and thereby treatment and outcomes. Self-empowerment of the patient is key. And the connection of all stakeholders can be used in the best possible way to the benefit of the patient. As long as the patient owns his data and agrees the data to be used we do see no real issues with data privacy.

PL: Tom, AXA has started reimbursing digital health solutions in Germany. Can you describe at least one of these solutions and the reasons for your choice?

TA: Yes. I would like to refer to an application or to a startup which is probably already known to you very well. This company is offering a very innovative treatment for the so-called lazy eye syndrome which is actually a neurological defect or problem. It is, as far as I know, the first computer or mobile device-based treatment which supplements and shortens the traditional treatments. Traditional treatments actually consists of an eye patch over the healthy eye that kids have to wear for two years. There are real problems associated with that type of treatments: it reduces the ability to see as you have to see with the weak eye; you have no stereovision, you have a higher risk for accidents, and of course there is a social stigmatization. You can’t play football and stuff like this. You can’t run around. Associated with that, there is low compliance as treatment is often skipped or abandonned altogether. This computer-based treatment is serious medicine - that’s very important. It was developed or co-developed by the University of Dresden. It’s approved and employed by a large and leading net group of eye

doctors, OccuNet, and it basically is an supplementary treatment where the kid plays age-adequate computer games and in the background you have a changing pattern which stimulates the lazy eye and the traditional treatment can be shortened by up to half a year and that of course helps to raise compliance immensely.

PL: So it's easy to understand that for a kid, it's better to play in front of a computer or in front of a tablet for a few minutes everyday rather than wear a patch for two years?

TA: Even if you wear a patch, you don't have to wear it for two years but for half a year or something like that. We all know from our own illnesses or treatments, the shorter the time of the treatments, the better the compliance is. That's normal.

PL: But the question is: does it also make sense from your point of view as an insurer from an economic point of view?

TA: First of all, it's serious medicine. I can only re-emphasize what Klaus said: we should concentrate on serious medicine. It's addressing a real challenge or a real pain point for the patient. Wearing an eye patch is a pain point for the kids. So in this sense, you have a narrow target group or at least you can narrow it down, and you have evidence for these target groups that the treatment is relevant and actually works. And that's very important because then you can translate it into a business case. Most of the business cases for prevention based on wearables rely on indirect effects and vital parameters and stuff like this. These are more shaky.

Here, the business case is very easy. You can take a look on what the treatment costs and the non-compliance or no compliance costs of the traditional treatment are and then you have a very solid business case which tells you the new supplementary treatment has a positive pay off for us. With no delay in time as prevention case for instance. The other point I mentioned on the side: it is supported by relevant group of doctors, that's very important. New treatments have to be at least recognized and recommended by doctors. This one is based on a prescription and follows the traditional ways of reimbursement that we follow within insurance companies. The actual contract is between the patient and the doctor. The doctor writes a prescription for the patient and the patient then retrieves this prescription and sends it for reimbursement to us, so it follows our internal processes and we don't have to adapt this. That's also very important for us.

PL: Klaus, Caterna is referring to Caterna, one of the companies you invested in, so can you say on your side why Caterna and was the AXA reimbursement deal an important element of your investment decision?

KS: When we looked at caterna there were a few things we liked. For example, a first reimbursement by the public health insurance company BARMER. Doctors liked the product as well as the kids and parents. Caterna has developed the first digital therapy as "app on prescription" for kids with lazy eye, a disease which affects up to 5% of the population. We invested in Caterna in March last year but we had been following the company for at least 2 years. The reason why we didn't invest before was because we were skeptical that the company was able to really attract a public health insurance company in Germany to reimburse it. But Caterna was able to attract BARMER and AXA. How was that possible? I guess Tom mentioned important elements, which obviously BARMER considered too: it's serious health care but at the same time with consumer elements with fun for the kids who have to live with their diesease. When we actually recognized that, we were quite convinced that based on the first reimbursement steps, we would be able to build the business model.

Now, we are a year later and of course it's fantastic that the company was able to attract Tom as the first private payer in Germany to reimburse this and so we are very happy that meanwhile not only AXA and BARMER are reimbursing it, which shows that we were right. In parallel the self-payer universe, irrespectively of reimbursement by a private or public payer is steadily increasing. This certainly has to do with the emotional part and the parents want the best possible for their kids and then are willing to pay when they know that life becomes easier for them.

It's not about really replacing eye patching as standard of care, it's about combining it, accelerating the effects and create better outcomes. In the business model of Caterna, everybody wins. The doctor wins because he has more happy kids and they get paid, the nurses who are doing the job are also winning and witnessing the effects. We always get feedback from the users to make sure they see the improvements.

So looking back at our investment in Caterna, we're quite happy that the company is progressing but of course we now have to think about the next steps to get the business internationalized. We believe that the product can work in other European countries but how it may be reimbursed needs to be seen.

It will become interesting to see how other European countries will approach this topic. Germany was a frontrunner with insurance companies like AXA and BARMER. This should encourage all other startups companies to maybe follow a similar path.

PL: Klaus, as an investor, is talking to health insurance like AXA now part of your due diligence?

KS: Yes, we always talk very early to payers, such as BARMER, AXA and others, about all our investments during our due diligence process. With our diabetes company EMPERRA we had discussions with the top large health insurance companies in Germany early on. At the end of the day the AOK Nord-East, one of the largest regional public payers, signed a selective contract with Emperra and also paid for the telemedical service. It was very important for us that a payer was willing to support such an innovation. Emperra's product ESYSTA is a digital solution for diabetes care that allows all stakeholders to be connected through the first wireless smart insulin pen able to send the insulin doses injected to the cloud and together with the blood glucose levels provides real-time true information on the status of the patient. We see that patients under ESYSTA are significantly improving and getting also more self-empowered. Using the data and sharing it among the stakeholders seems key. Not only will the quality of life become better we even may see a cost saving. If this is the case other payers will follow and pay remote monitoring or telemedical services on a much broader basis. Of course the target group size matters, so in case of Caterna this is more limited while with Emperra many Diabetes type 2 patients not reaching their targets would benefit from the system.

So if you are asking about our investment criteria, yes the possibility of reimbursement is an important one. Amblyopia is a limited market. Diabetes is more complex and the target groups are much larger. Emperra can be proud that ESYSTA is listed in the statutory health register and reimbursed. EMPERRA is currently selling into the market on prescription. The problem here is that maybe not all payers will be willing to pay for the remote monitoring service or may pay different prices. Reimbursement for remote monitoring and/or telemedical services will become important for the start-ups. In Germany we hope that the new legislation on eHealth will be implemented for certain indications which would lead to reimbursement.

A lot of companies still struggle on getting reimbursement for telemedical or remote monitoring services. I think that's still the major hurdle, not only in Germany but across, but we are really optimistic with our startups that they will get some reimbursement one way or another. But to your question, yes, we systematically talk to insurance companies, in Germany and across Europe.

PL: Tom, how many digital solutions do you review every year and can you describe the framework or the process that you use to evaluate the reimbursement of a digital solution?

TA: I have to admit we're still getting used to this idea of digital treatments or digital medicine. We only got initiated to this new solutions a couple of years ago.
I do get on average between one or two requests per week at least and quite a lot of requests are associated with wearables, which I'm also a little bit shy about because so far I don't see the clinical usage as much as people want to believe in it. Regarding the framework, it's like when Klaus explained what his framework is for identifying a good business idea, it belongs to the same add-ons perhaps from different view or angle.

First of all we look whether it's addressing a relevant disease or a relevant target group. It has to be big enough so it makes a difference, otherwise the implementation effort for us is too high, not only the effort from internal processes but all of the efforts if you think about marketing and distributing this treatments. So it has to be a large group of patients where it's relevant. There has to be a real pain point for the patients and the pain point has to be observable, either it is a real existing deficiency in the system or at least the customer or patients have the impressions that the pain point is there.

A real pain point can be that traditional treatment is difficult to follow, or to understand. You need to quite often make adjustments with the doctor and stuff like this. For diabetes for example, doctors would say "Look, you have to take insulin". What's so difficult about that?" But in real life, we all know it all works well as long as you're with your doctor. If you're away, at home, and if you're on your daily routine, it doesn't work, so that's a real pain point.

Of course we need to be able to translate this pain point into a business case and be able to estimate the cost of procedures and resulting non-compliance illnesses or diseases from our own data. We have a very large data pool from our customers invoices and we can compare what non-compliance costs us and evaluate how new treatments can improve adherence. We just calculate the difference between those two and there's your business case.

The important point is: do we get the backing by doctors, physicians, clinics or at least part of them? We do not want to do something against the clinical world as that would destroy our relationship with them. As a relatively small player, we have to work in collaboration with doctors. We also look at surrounding factors like how does a startup look like, who are the founders, who has invested in them, etc.

So our framework for evaluating new ideas is pretty much the same as venture capital for investments.

PL: Do you also evaluate solutions that are more about prevention? Is there a way to evaluate what the impact might be and if it might bring you a good return on investment?

TA: We are facing two problems here. First, AXA Germany, perhaps even AXA worldwide, is too small to conduct clinical studies. So we have to rely on clinical and medical studies to evaluate the effectiveness of treatments. This point is even more difficult when you talk about prevention.

Secondly, all those preventive measures and treatments involve very, very long time scales for pay-offs – sometimes from 20 to 60 years. There are some prevention areas that are more evident, for instance with diabetes if you support a healthy lifestyle, exercise, good nutrition, stuff like this. That's okay, but for some prevention areas it is very difficult to evaluate whether it's helpful or not, and to what extent.

So, two points, we have to rely on clinical studies because we are not big enough to do it ourselves, and we have to take into account what might be the timing of the pay-off. It sounds harsh, but that's how life works.

KS: As an investor, you talk to insurance companies all the time and many of them tell you that they are busy. It is quite demanding for start-ups to talk to the insurance companies but they need to have access to them in order to early discuss their product and the paths to reimbursement. And not all of them are so open to innovation such as BARMER, AOK-North East and AXA in Germany. A good and bad thing at the same time in Germany is that you have enough insurance companies to talk to, you just have to start somewhere. These days there's a good chance that insurance companies will be happy to talk to you as a start-up, even if you are early, and provide some recommendations. But start-ups should not be naive since they're always competing with other start-ups and their solutions on the payer side.

Also in my experience, when you are finally reimbursed, another hard part starts, which is launching the product and show adoption of your product . Tom knows how long it can take to sign such an insurance contract which can range from 6-12 months. And this is of course a challenge. I do not know how long it takes in other countries. We should not forget that start-ups are dependent on funding and investors want to see that they can interest payers. Therefore start-ups and payers should interact as early as possible. As investors we do need a signal from the payers if or under which circumstances a new solution can be reimbursed.

TA: I completely agree.

PL: You're both going to be at Health 2.0 Europe 2015 in May in Barcelona. We're going to talk about the role of reimbursement for the development of the digital health industry in Europe. Do you think that this is the last piece of the puzzle?

TA: I would say reimbursement is a frame for the puzzle. If you do a puzzle, you mostly start on the outside, because it's easier. In this sense, reimbursement and the reimbursement B2C or B2B in my opinion is one of the frames for digital medicine or mHealth.

PL: Germany was ahead of the game in terms of reimbursement. Why do you think that is and do you think that the rest of Europe is going to follow?

TA: It's actually a question that I'm not used to because quite often we depreciate what Germany is doing with modern technologies. Why is it that the Germany is on the forefront of this movement? One part is our health system, even if we're complaining about it, our health system has extraordinarily high standards. In this sense, sometimes it's easier to build on such high standards instead of addressing real bad deficiencies in other national health systems. We don't have such bad deficiencies so maybe in a sense it might be easier to concentrate on real innovation.

KS: Well, to be honest, we are looking into other countries. Although our companies have not made the final step into the UK, we're investigating bringing Cartena and Emperra to the NHS, and also we are planning a move towards the US

The challenge for most start-ups is to show that their product or solution is not only improving quality of life but also saving money to the payers. Of course start-up companies might be shy do such trials because of money but also because of the risk of not proving the expected impacts. And public insurance companies, will only reimburse solutions that have proven effectiveness and are able to reduce the healthcare cost burden. Societies cannot afford additional useless solutions in health care! But there is no reason, after you have proven the benefits of a digital solution (quality of life, cost reduction mid and long-term), why a payer would not consider reimbursing it. The only unknown will be the size of the potential target groups. But this is something you can discuss with a payer.
So the challenges won't go away but the good news is that a lot of payers in Germany and I think increasingly around Europe, are willing to work closely with start-ups, investors and stakeholders in the industry to improve treatments for patients.

PL: Thank you both!

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