The Healthcare Insurance BPO Market Is Ready to Take Off

Maureen O'Neil
No longer just about reducing transaction costs, BPO enables healthcare insurers to run, grow and transform their business
Running, Growing and Transforming the Business with BPO

**Run the Business**
- Front-end processes
- Core administrative functions
- Customer service

**Grow the Business**
- Provider management
- Care management
- Underwriting support
- CRM
- Communication processes

**Transform the Business**
- Standardized benefit products
- "Utility" delivery systems
- Medical home
- International market position
Key Issues

1. What healthcare insurance challenges have caused insurers to reassess their use of BPO?

2. How have new trends in healthcare insurance BPO affected insurers' sourcing strategies?

3. What does an analysis of the healthcare insurance BPO market reveal?
Powerful Environmental Forces Are Driving Healthcare IT Dynamics

- Economic Climate
- Operational Technology
- Information Management
- Business Change
- Process Improvement
- The Changing Shape of IT
- Healthcare Reform
- Increased Regulation
# Healthcare Payer IT Budget and Staffing Survey, 2009

<table>
<thead>
<tr>
<th>Business Initiatives</th>
<th>IT Initiatives</th>
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<tbody>
<tr>
<td>Cost Control and Staff Reductions</td>
<td>Cost Cutting and Control</td>
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<tr>
<td>Business Process Improvement</td>
<td>Consolidation of Servers and Software</td>
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<td>Care Management</td>
<td>Virtualization and Application Integration</td>
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<td>Business Intelligence</td>
<td>Modernize Core Administrative Systems</td>
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<tr>
<td>Customer Service</td>
<td>Business Intelligence</td>
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<td>EMR, EHR</td>
<td>Customer Relationship Management</td>
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Drivers and Inhibitors of Healthcare Insurance BPO

**BPO Drivers**
- Focus on core competencies
- ICD-10 compliance
- M&A and consolidation
- Lack of resources
- Speed to market for new products
- End-of-license and maintenance contracts

**BPO Inhibitors**
- Outsourcing adverse culture
- Increasing market and product volatility
- IT department seen as core competency
- Lack of strong proven solutions and ROI
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Healthcare Insurers Need to Develop a Sourcing Strategy

- The multisourcing core elements are complex and can consume many resources.
- Not many companies treat sourcing strategy as an ongoing task, and there are still many companies that do not have a solid sourcing strategy.
- A lot of time is spent in the market analysis, vendor selection and contracting phase — each time when entering a deal.
Healthcare Insurance Sourcing Options

**Business Process Utility (BPU)**
BPO with standardized processes and a unified, one-to-many technology platform. The provider manages and executes business processes and inputs.

**Knowledge Process Outsourcing (KPO)**
KPO is a term that has emerged to distinguish a specific type of BPO when service offering as higher-value-added or differentiating.

**IT Outsourcing (ITO)**
ITO is a service that is bought through a multiyear contract with an external service provider or outsourcer for day-to-day management of IT operations.

**Business Process Outsourcing (BPO)**
Gartner defines BPO as the delegation of an IT-enabled business process to a third party that owns, administers and manages the process according to a defined set of metrics.
BPO Functionality for Healthcare Services

<table>
<thead>
<tr>
<th>Front-End Processes</th>
<th>Core Admin. Functions</th>
<th>Customer Service</th>
<th>Provider Management</th>
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<tbody>
<tr>
<td>Claims data entry</td>
<td>Member enrollment</td>
<td>Full spectrum</td>
<td>Provider setup</td>
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<tr>
<td>Imaging</td>
<td>Benefit management</td>
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<td>Credentialing</td>
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<td>Mailroom services</td>
<td>Claims adjudication</td>
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<td>Performance analysis</td>
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<td>Billing and capitation</td>
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<td>Provider directories</td>
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<tr>
<th>Care Management</th>
<th>Underwriting Support</th>
<th>CRM</th>
<th>Comm. Processes</th>
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<tbody>
<tr>
<td>Precertification</td>
<td>Quote generation</td>
<td>Member acquisition</td>
<td>Production delivery</td>
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<tr>
<td>Referral</td>
<td>Compilation of claims</td>
<td>Retention and</td>
<td>and management of</td>
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<tr>
<td>authorization</td>
<td>history, employee</td>
<td>service</td>
<td>consumer campaigns</td>
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<td>Discharge</td>
<td>census files and</td>
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<td>planning</td>
<td>medical history data</td>
<td></td>
<td>behavior</td>
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<td>Case management</td>
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*These functions have been adopted in many outsourcing deals as stand-alone services or in combination with each other.*
Speed Up the Strategy Process and the Risks May Outweigh Any Reward

- Companies will be in a rush from 2009 to 2013
- Narrow focus on problem solving versus holistic consideration
- 80% rule: Evaluation of options and alternatives

Risks to consider:
- Sourcing strategy not fully aligned to business strategy
- Business outcome not ensured and deal is inflexible
- Organizations that do not screen the market only get the standard options
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Mergers and Acquisition
Mergers and acquisitions enable providers to achieve economies of scale and transform discrete-service providers into offering full-service capabilities.

New Service Models
U.S. healthcare insurers' preference for onshore BPO services has influenced the previous onshore/offshore model.

Internet-Based Applications and Other Tools
Utilization of the Internet and introduction of new monitoring tools also differentiate BPO providers.
BPO Competitive Landscape

- Accenture
- ACS (Xerox pending)
- Antares
- Apollo Health Street
- Cognizant
- Connextions
- Convergys
- CSC
- DST
- Genpact
- HP Services (formerly EDS)
- IBM
- Infosys
- Mphasis
- Patni
- Perot (Dell pending)
- Silverlink
- Syntel
- TMG Health
- TriZetto
- Wipro

Note: This is not a definitive list.
Customized to Standardized Healthcare Benefit Products — Can BPO Bridge the Gap?

- Hyperefficient processes?
- Drastically lower-cost processes?
- Both more efficient and lower-cost processes?
- Totally standardized processes?
- Very flexible processes?
Do Your Homework

Can they be creative; do they offer innovative deals and pricing models?

Are global centers readily available?

What is the cultural match between the BPO provider and the insurer?

Will they care about me? Will I be a "small fish in big pond"?

What systems are used (such as system of choice versus taking over my legacy system) and what are the conversion tools?

Does the BPO provider incorporate BPM methodologies and tools?

What is the ratio of experienced versus trained people? Where were they trained? How is the staff managed?

Do It Right or Don't Do It at All.
Your Action Plan

Health insurance CIOs should:

• **Monday Morning**
  - Appoint a dedicated IT manager to be part of the BPO management team
  - Create a BPO management center in the IT organization

• **Your Next 90 Days**
  - Advise the business team on the implications of various governance and support issues
  - Create an IT project team to support the BPO transition program
  - Add the BPO service to the task list for the IT security team
  - Add the BPO service to the task list for the business continuity management team

• **Your Next 12 Months**
  - Ensure that full IT budget impact estimates are prepared and tracked by key teams in the IT organization
  - Ensure all IT help desk services are fully engaged in the BPO future requirements
Related Gartner Research

- **Healthcare Insurance BPO Market Ready to Take Off**
  Maureen O'Neil, February 26, 2009, G00165054

- **CRM BPO Is Emerging Into the Health Insurer Market**
  Joanne Galimi, April 27, 2009, G00167420

- **Healthcare Insurer Business Process Outsourcing Trends**
  Joanne Galimi, January 23, 2009, G00164744
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