Commentary

Healthcare Predictions for Payer Organizations for 2003

In 2003, technology advances will set the stage for new healthcare payer business models for the next five years. The advances and business models will position payers to be real-time, consumer-focused enterprises.

At first glance, the list of business and IT challenges that healthcare payer organizations (payers) are facing in 2003 looks remarkably like those in the healthcare payer market and IT environment of the late 1970s and early 1980s — new customer-centric business models and products, regulatory and legislative demands, increased costs, new technology requirements, and new competitive requirements. These are so familiar that many healthcare payers are tempted to continue business as usual. However, in addition to the familiar list of challenges of the past 20 years, there are three new factors that will cause healthcare payer market disruption in the next five years:

- IT solutions to improve payer business process efficiency through business process automation are finally available.
- Healthcare regulatory initiatives and governmental concern over healthcare costs are increasing.
- Employers will no longer continue to buy the same products and services at year-over-year double-digit increases, and they will shift more and more of these costs to their employees.

Successful responses to these new market forces, in the form of rapid evolution to a more-efficient, consumer-focused enterprise with a strong commitment and resource investment to customer health and wellness, are possible in the next five years. If healthcare organizations do not leverage these new technologies to create a more efficient, effective environment, they may likely have requirements to do so imposed upon them by further legislative mandates. More efficient administration and effective use of health and clinical resources are required for success in the current market environment or in any universal healthcare government program (which is increasingly a subject for daily debate).

Prediction: Technology barriers to the healthcare payer real-time enterprise will fall.

During the past 30 years, payers have repeatedly and validly pointed to their technology limitations as barriers to an efficient enterprise. However, the technology and application advances of the past five years and those projected for the next five years will quiet the majority of these technology complaints. There are increasingly scalable and robust applications that are specialized for the payer market to support efficient core administrative processing, customer service, and contact center management and
care management. These back-end processing applications are now supporting, or supported by, strong integration technologies and solutions, coupled with advances in transaction standards to improve information exchange with key stakeholders and business partners. In addition, front-end customer service and Internet applications provide strong promise of improving transaction and information exchange with business partners and customers. In short, technology will be available to healthcare payers in 2003 and maturing through 2005 that will enable them to make strong strides toward the real-time enterprise.

By 2005, technology advances will eliminate 80 percent of the technology barriers to the real-time healthcare payer enterprise (0.8 probability).

Impact on 2003: In 2002, there are many examples of technology deployment being used to improve specific business processes, within the enterprise as well as between the enterprise and its business and consumer constituents. These successes, although limited, reveal the opportunities for the technology environment in 2003 and beyond to improve healthcare payer business processes. Furthermore, healthcare payer customers will rapidly expect these successes to expand throughout the enterprise, and will no longer accept expensive and inefficient business processes. In 2003, we expect employers and customers to increase their contractual or regulated/legislated demands for better efficiency and movement to a more real-time enterprise, particularly for customer-facing sales and administration.

Reacting in 2003: Improved process automation and evolution to the real-time enterprise are no longer limited by technology. Healthcare payers must establish a technology strategy in 2003 to adopt the technology that will position them for the real-time enterprise. These technology advances will present opportunities and challenges for the healthcare payer. The total cost of ownership to move to the real-time enterprise is not inconsequential, and it will force new technology and business partnerships. Business objectives, processes and reward systems must be realigned to enable the payer to leverage technology effectively to achieve the real-time enterprise. In 2003, payers must embrace these challenges and establish business objectives to move toward the real-time enterprise, and align the technology strategy to support it. We believe those that don’t will be out of business by the end of the decade.

Prediction: Healthcare administration will become a commodity.

One effect of the evolution to the payer real-time enterprise, and the consumer demand for more efficient administrative services, is the commoditization of payer administrative services. Increasingly, technology will support highly automated and real-time healthcare payer administration. What has previously been a market differentiator — efficient management and administration — will become part of the cost of doing business.

By year-end 2005, healthcare payers must provide administrative services for less than 10 percent of the "premium dollar" or they will lose market share (0.8 probability).

Impact on 2003: The movement to a real-time environment and commoditization of healthcare administration disrupts two core tenets of the historical payer business model:

- Administration is no longer an end in itself. Highly efficient and cost-competitive administrative services are critical to future business survival, but not to business differentiation. Healthcare payers moving to a real-time strategy must realize that "real time" will be a short-term differentiator (only one to two years) — if at all.
In the past, customers and business partners have rarely had a specific expectation that the application of technology would improve costs or service levels. However, customers and business partners now expect the real-time environment to drive down the overall costs of their healthcare administration.

Reacting in 2003: Payers must meld their real-time technology strategy with business objectives focused on decreasing overall administrative costs to at least less than 10 percent of the premium dollar. In addition, they must improve business process speed and accuracy. Payers must seek technology vendors and business partners that understand these business dynamics, and that are willing to partner (including at risk contracts) with the payer to meet these specific business objectives.

Prediction: A collaborative model for care management will be possible by 2007.

If healthcare administration becomes a commodity service, the question is: "where will health plan differentiation next be achieved?" The obvious and correct answer is on the 85 percent to 90 percent of the healthcare dollar that is not administrative and where costs are driving double-digit premium increases. Payers will be unable to manage escalating costs without technology tools and incentives for providers and consumers. Collaboration, not conflict, will be the winning model.

Healthcare organizations that adopt a collaborative model for patient care management by 2007 will improve their profitability by 10 percent (0.8 probability).

Impact on 2003: Patient care management will move from a financially driven event model to a collaborative mode in which stakeholders provide the right information to the clinician and patient to improve healthcare outcomes. Use of financial incentives to reward healthy behavior and compliance to treatment guidelines is a key to healthcare payer differentiation beyond 2005, in the form of more satisfied, healthier customers and higher profitability overall.

Reacting in 2003: Healthcare payers must first focus on reducing the administrative burden of current authorization and referrals by thinking of them as purchase orders. They must also use electronic media, such as interactive voice response and the Internet, to reduce the administrative burden of current authorization and referrals. Payers must then carefully blend nurse-based disease management programs with interactive online care management capabilities as the long-term strategy to improve clinical and financial outcomes. Access to the emerging online care management tools that support patients in the decision making and management of their own healthcare must be part of payers 2003 agenda. Healthcare organizations that do not expand their "high-personal-touch" strategies to improve their use of technology, that is, balance "high-touch" with "high-technology," will become less profitable.

Prediction: The vendor market supporting "true" defined contribution healthcare benefits design is emerging.

Payers and employers are crafting "new benefit products" that define or "cap" the level of contribution an employer will make toward healthcare, rather than using the traditional benefit-defined product. We expect 2003 will be the defining year for the maturation of benefit products and technology to support "consumer-driven healthcare products."

The vendor market supporting defined contribution healthcare benefits will be an emerging market through year-end 2003, and it will become a growth market by 2004 (0.7 probability).

Impact on 2003: Health plans that establish the environment and tools for customers to obtain information that enables them to understand the impact of their decisions, make better decisions and also
be more directly involved in the purchase of healthcare services will find future growth and a strong position on the healthcare value chain.

Reacting in 2003: Healthcare payers have the usual technology options to establish a defined contribution business model: build it, buy it, outsource it, and in 2003 outsource both technology and business management. Vendor solutions in 2003 are either immature (without the full front- and back-office capabilities needed to support the defined contribution model) or still with low market adoption rates. Solutions that represent the full spectrum of deployment options will begin to mature by year-end 2003. We expect the market will move from an emerging to a growth market by 2004.

However, there is an additional opportunity for healthcare payers in 2003. Healthcare payers should note that in this year of change many of the applications and technologies, particularly for information sharing on product or service cost and quality, are not just useful for the new defined contribution models. Much of the functionality in the emerging applications that are focused at the defined contribution product market also would support better and more fruitful customer interactions when applied to any healthcare payer products, not just new defined contribution models.

Prediction: Healthcare payers move to strategic sourcing relationships, and a virtual health plan business model.

The cost of technology and of managing the new business process alignment to support real-time administration at low (commodity) costs, while a business requirement, is a significant financial and organizational challenge for the healthcare payers in the next five years. Combined with a collaborative care management model and defined contribution products, the requisite breadth of technologies (moving from legacy processing environments, and executing Web and customer relationship management strategies) comes at considerable corporate financial and time costs. In addition, we expect that technology and business models will continue to evolve rapidly in the next five years, requiring new flexibility. Also, few payers have the financial and technology resources to manage the full breadth of health plan services required in the consumer-driven health plan model.

By year-end 2005, at least 40 percent of healthcare payers will enter into strategic IT and business process outsourcing relationships (0.8 probability)

Impact on 2003: Historical “silo” approaches, where payers own and manage all aspects of both the business process and technology solution, are recipes for future failure, as few health plans can achieve best-practice service and efficiency in all areas. The sourcing strategy and move to be a “virtual” healthcare payer provide the opportunity to improve overall product flexibility, speed to market, and cost and service levels.

Reacting in 2003: All health plans should follow the emerging market of IT and business process outsourcing services. The healthcare organizations should seek strong strategic partners that are willing to enter into strategic contracts (with risk sharing against performance objectives) and that enable the healthcare organization to improve its business and find new business opportunities by using more efficient processing and information sharing environments.

By 2005 to 2010, the successful business strategy will focus on the development of IT and business organizations that are based on an expert strategic partner's business. A key corporate requirement will be the management of strategic partners to achieve business goals. The virtual healthcare payer business model, supported through strategic business relationships, will become a recognizable business model by year-end 2005.
**Bottom Line:** It's not business as usual for healthcare payers in 2003. To survive in the long-term, payers must create a more efficient and consumer-focused health plan, and move beyond being a commodity transaction processor to incorporate collaborative care management and health advocacy. Technologies to support this objective will mature in the next five years; however, continued success will require new business and organizational models.