Gartner

Technology Implications of 4 U.S. Healthcare Payer Business Strategies

Published 11 May 2020 - ID G00722700 - 14 min read

By Analysts Bryan Cole

Initiatives:Healthcare and Life Science Digital Optimization and Modernization

Consumers, purchasers and governments are pushing U.S. healthcare payers to evolve, and payers' responses fall into four strategic types. Payer CIOs must match technology plans with the organization's current business strategies and adapt technology choices to those they adopt moving forward.

Overview

Key Findings

- Industrywide cost reduction and quality improvement pressures are sharpening payer business leaders' focus on how to best utilize member and provider engagement to deliver population health outcomes and implement value-based payments. The path from claims administrator to health orchestrator, however, is not fast, linear or easy.
- Most payers employ conventional business strategies that emphasize operational efficiency. Payer business leaders often revert to time-honored approaches to manage care at the expense of innovation and adaptation to changing business environments.
- Technology plays a key role in all payer business strategies, whether focused on optimization or emphasizing digital transformation. CIOs' technology priorities are interwoven with the business strategies and digital maturity levels of their organizations.

Recommendations

As U.S. healthcare payer CIOs advancing healthcare and life science digital optimization and transformation, you should:

- Optimize your IT budget by planning not just for your organization's current business strategy, but also the one your organization will follow five years from now. Prioritize key emerging technologies that will enable both your current and future business strategies.
- Support your business strategy and technology plan by investing in IT capability building. Assess your IT team for the cultural dexterity it will need to transition from current to future business models and expand training and development to plug any skills gaps.

- Speed your organization's transition from commodity processing to health orchestration by collaborating with your CEO and board of directors on digital business opportunities. Advocate for organizationwide initiatives in provider/partner alignment and member engagement.

Analysis

Existential Payer Business Pressures Push CEOs to Reevaluate Their Strategies

Many U.S. healthcare payers have delivered strong financial performance since the 2008 financial crisis and implementation of the 2010 Affordable Care Act (ACA). [1] Some payer leaders use a track record of strong performance as rationale to double down on the most common payer business strategy of minimizing the costs of care and administration to, in turn, keep premiums low and attract more purchasers. This alone is dangerous thinking.

Business pressures have started pushing payer CEOs and boards of directors to fundamentally revisit the questions of how a payer makes money and what value the organization delivers to its members. These include:

- Relentless cost increases due to medical innovations and aging populations (see "Business Drivers of Technology Decisions for Healthcare Payers, 2020")
- Ongoing uncertainty in areas like elections and the economy (see "Strategic Planning Presentation on Top 5 Business Context Risks for U.S. Healthcare Payers in 2020")
- Growing individual, group and government purchaser frustration with coverage costs and care outcomes (see "Purchaser Alignment for U.S. Healthcare Payers: A Transformative Customer Experience Model")

Gartner is seeing a fundamental reevaluation of the ways payers manage total costs of care and grow membership. Payer executive leadership teams are at various transition stages moving from a conventional business model to a new one based on health orchestration (see "Industry Vision: Health Value Management, U.S. Healthcare Payers' Next-Generation Transformation Strategy"). The organizational change associated with strategic transition is hard work in any industry and even more difficult for payers whose ingrained corporate cultures limit innovation and prevailing industry practices hinder execution. We therefore see increasing divergence in the business strategies payers pursue and the success they are achieving.

This research will help you decide which emerging technologies and legacy modernization projects to prioritize based on your organization's business strategy. You must align your IT plans and with your organization's current and future business strategies. If you do not, you will invest in the right technologies at the wrong times — squandering IT budget and market opportunities.

Four Payer Business Strategies

There are strong underlying themes that run across payers' myriad care management, member service, provider contracting and administrative decisions. These themes boil down to just two strategic choices that payer CEOs and boards of directors make. Their resulting approaches are often explicit, and boil down to the implicit attitudes that guide organizationwide payer thinking. Plotting your organization's strategy is as simple as answering these key questions:

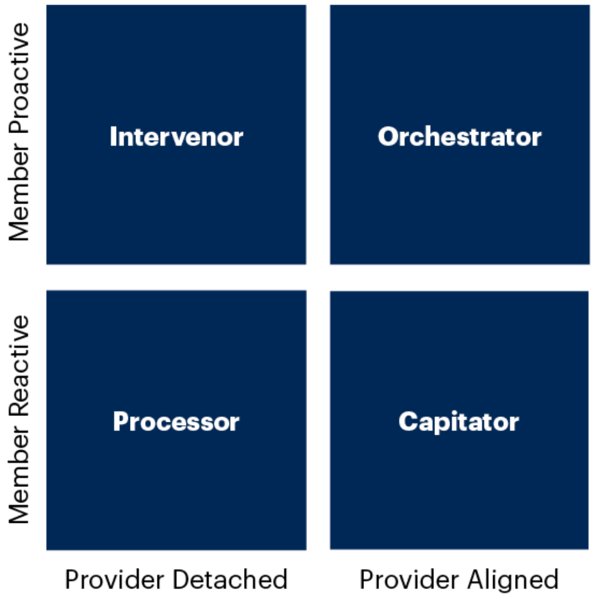
- **Provider Detached vs. Provider Aligned —** Does your organization fundamentally believe that providers are helping to control costs or that they are money-driven suppliers to be overseen and managed? Some payers see providers as partners and aggressively establish advanced value-based payment models, while other payers believe that providers' actions must be continually inspected (see "Provider/Partner Alignment: U.S. Healthcare Payer CIOs' Transformative Relationship Model").
- **Member Reactive vs. Member Proactive —** Does your organization see itself as an active and engaged part of members' care decisions or is it limited to servicing members after care? Payers can aspire to being an active part of healthy members' daily lives in the long term, but must first recognize members' need for comprehensive care decision guidance before a claim is submitted (see "Healthcare Payers Must Provide Concierge Consumer Engagement Services to Win Back Member Relationships").

The combinations of these two choices create a matrix of the four payer business strategies you can use with your CEO, board of directors and IT team to inform your enabling IT strategy (see Figure 1). The four business strategies are:

1. Processor
2. Capitator
3. Intervenor
4. Orchestrator

Figure 1. Four Payer Business Strategies

Four Payer Business Strategies



Source: Gartner
722700_C

Payer CIOs' Technology Priorities Vary by Business Strategy

Payers must invest in digital technologies to lower total cost of care and improve administrative efficiency, but there is no single technology prescription for every business strategy or organization's particular situation. Multiple technology categories play a role in all four business strategies and many competing vendors can support the business capabilities needed to enable those strategies (see "Hype Cycle for U.S. Healthcare Payers, 2019"). For example, a healthcare consumer engagement hub clearly supports intervenor and orchestrator strategies. But a hub can also aid processors and capitators, and a hub is just one part of a broader consumer engagement approach (see "The Evolution of Healthcare Consumer Engagement Hub Architecture"). Furthermore, some technologies, like data and analytics, are foundational so payer CIOs confidently prioritize them regardless of their organizations' chosen business strategy (see "2019 CIO Agenda: A U.S. Healthcare Payers Perspective").

Thus, you will need to invest in all the technologies we discuss below — it's just a question of when. We list the key technology focuses by business strategy to help you determine your IT priorities. Discuss the four payer business strategies with your CEO, CFO, COO, chief medical officer, chief marketing officer and vice president of provider contracting. Gather additional information on where they see the organization moving over the next five years, and use their feedback to determine which of the four basic payer business strategies most closely fits your organization. Try to see your organization in the mirror when reading the hallmarks of each payer business strategy. Then, prioritize IT initiatives to align with both the business strategy you have today and the one executives are trying to pursue for the future.

Processor

Member Reactive and Provider Detached

Key technology focuses: Next-generation core administrative processing systems, business process as a service (BPaaS) for payers, intelligent automation for healthcare payers, robotic process automation

> **Example: A managed Medicaid payer sees care and administrative cost reduction as essential to preserving its current service area in the state's next managed care procurement, so executive leaders emphasize short-term savings across the organization.**

Processors follow a strategy that inherently rewards volume. Provider contracting teams use the promise of increased member volume to negotiate the greatest possible discounts from network providers, while COOs squeeze every penny from administrative transactions like claims processing. Chief medical officers utilize tight medical management and utilization review criteria to inspect providers' care decisions, and CFOs seek savings from vendors of all types. Processor CEOs and boards of directors do not actively discuss digital transformation — making CIOs emphasize IT system optimization and modernization (see "Survey Analysis: U.S. Healthcare Payers' Legacy Modernization Is Not Complete"). As a result, their growth prospects are inherently limited to the amount of coverage business they can acquire through geographic expansion, mergers, new coverage line launches and undercutting competitors' premium rates.

Capitator

Member Reactive and Provider Aligned

Key technology focuses: Accountable care organization (ACO), advanced analytics in provider/partner alignment, provider/partner network management platforms, value-based payment reconciliation systems

> **Example: A payer enters a joint venture with an ACO in order to expand Medicare Advantage into a new region, delegating all care management functions in exchange for 10% of premium as an administrative fee.**

Capitators take the logic and promise of value-based payments to an extreme, gutting their own value contribution in the healthcare ecosystem. Capitation is one of the many value-based approaches that payer business leaders must consider (see "Accelerate Value-Based Payments Across the Continuum of Provider RCM and Payer Core Administration"). However, putting providers at full risk without adding any new sources of member value makes purchasers question the payer's role and cost. Capitators bear insurance risk, maintain compliance with managed care regulators, market plans, enroll members and pay out of network claims. But without a strong care management focus and population health programming, members identify much more strongly with their providers than with the payer. This makes it difficult for a capitator's new products, engagement efforts and health messaging to reach members.

Intervenor

Member Proactive and Provider Detached

Key technology focuses: Consumer journey analytics in healthcare, generation 2 medical shopping, health value in virtual care, prospective payment integrity solutions

> **Example: To meet the needs of a major self-funded employer group, a commercial payer implements an intrusive set of tools that steer members toward lower-cost treatments and providers.**

Intervenors disrupt care delivery patterns by preempting unnecessary care, interposing themselves in providers' relationships with members and even countermanding the providers' recommendations for medical services. Helping members determine the care that is right for them and navigate services across a complex ecosystem is important (see "Predicts 2019: U.S. Healthcare Payers Must Deliver Consumer Value Beyond Payment Administration"). Intervenors, like capitators, take the concept of intercession to the extreme through the aggressive use of prior authorization, referrals management, consumer price transparency and second-opinion tools. To an intervenor, a payer's virtual care capability replaces in-person care as opposed to augmenting a primary care physician's reach. The intervenor will also replace a provider in the network quickly based on contract terms, seeing the provider as a supplier as opposed to a partner in care outcomes.

Orchestrator

Member Proactive and Provider Aligned

Key technology focuses: API management, digital concierge consumer engagement services, health value product design, provider/partner engagement hubs

Example: A digital payer becomes the plan of choice for individuals purchasing ACA plans by using technology to solve their health problems and help members live the best lives possible.

Orchestrators build members' trust through good customer experiences, connections to community resources and personalized advocacy. Payers must have seamless real-time interactions with partners, a deep understanding of members' health data and the right organizational mindset to succeed at health value orchestration. For example, an orchestrator will provide members with a smart speaker equipped with healthcare skills that will help triage members' health concerns and serve as a means for care team coordination. The orchestrator's care management team will arrange follow-up specialty services and ensure the care plan meets the members' preferences and needs. While many payers are making progress on certain elements of health value management, no payer has successfully become a comprehensive health orchestrator.

Advance Provider/Partner Alignment and Member Engagement Technologies to Become a Health Orchestrator

We believe that payers must progress from processing to orchestration because other strategies will not be stable in the long term (see Figure 2). Capitators, intervenors and even processors can be profitable in the short term, but these strategies will not protect your organization in the long run from key business, market and customer risks:

- **Processors** are at continual risk of commoditization. The value of health insurance coverage is abstruse, and few purchasers truly understand payers' administrative processes or the complexity of healthcare. Thus, purchasers see processor spend as a supplier cost to be managed. It's easy for efficient competitors to seize market share based on lean administrative costs, and few members will lament a change in processor.

Key point to remember: Efficient administration is essential to — but not sufficient for — member health value.

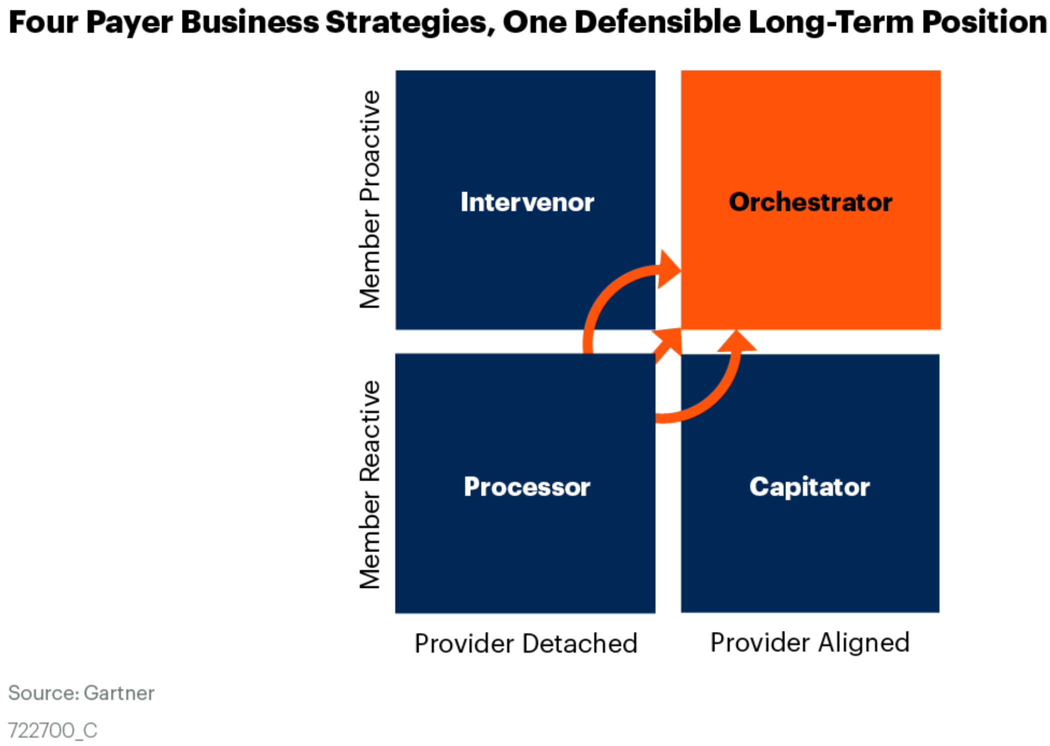
- **Capitators** are at risk as purchasers seek to "cut out the middleman" to save on healthcare costs. Providers that take significant amounts of risk under value-based payment arrangements or that operate as ACOs can feel that they are, in fact, better positioned to offer health value than your organization. These providers will then seek to deepen their relationships with your members and capture more of the healthcare value chain by expanding in the roles of a managed care payer that competes with you.

Key point to remember: You can't delegate member health value — you must deliver it through partners that complement, not displace, your own value contributions.

- **Intervenors** face two important risks: fragmentation and churn. Fragmentation results from increased "carve out" business in which a major purchaser seeks best-in-class care delivery from multiple vendors. For example, a large self-funded employer's human resources team might choose its own medical shopping vendor — stymying your organization's efforts to connect medical shopping with care management. Churn can result because intervenors are always at risk of provider defections from their networks due to their generally disruptive approach to care delivery.

Key point to remember: There are no shortcuts to member health value, and end-runs around important health ecosystem participants will not work over the long haul.

Figure 2. Four Payer Business Strategies, One Defensible Long-Term Position



Capitator and intervenor strategies can, however, be temporary stops on your organization's journey to becoming a true orchestrator of member health value — a complete health value management organization (see "Industry Vision: Health Value Management, U.S. Healthcare Payers' Next-Generation Transformation Strategy"). In the intermediate term, your organization may actually need to have different strategies across various local markets due to the concentration of provider power (see "U.S. Healthcare Payer CIOs Must Match Digital Platform Models to Their Local Provider Engagement Strategy"). You can change these dynamics by advancing provider/partner alignment and consumer engagement as part of your overall transition to health value management (see "Transform Healthcare Provider Relationships With Provider/Partner Alignment

Maturity Model for Payer CIOs" and "Healthcare CIOs Will Enable Three Generations of Consumer Engagement").

Next Steps: Optimize, Upskill and Evangelize

To make the biggest impact on your organization's business strategy, share what you foresee in the future of the industry in your planning work with your CEO. This will ensure your IT strategy is not just in alignment today, but designed for the future. Start by taking immediate and concrete steps to:

- Optimize your IT budget by planning not just for your organization's current business strategy, but also the one you expect it will have five years from now. Prioritize key emerging technologies that will enable current and future business strategies. Use the following research to help you and your IT leadership team conceive the transition to digital business and free up financial resources to make that transition happen.
  - "Healthcare Payer CIOs: Persuade CEOs to Invest in Digital Business Optimization to Achieve Transformation"
  - "Healthcare Payer CIOs Must Adopt Digital Business Platforms to Create and Orchestrate Health Value"
  - "Healthcare and Life Science CIOs Drive Ongoing Cost Optimization Across the Enterprise"
- Support your business strategy and technology plan by investing in IT capability building. Assess your IT team for the cultural dexterity they need to transition from current to future business models and expand training to plug skills gaps. Organizational change is difficult, so use the insights in these research documents to upgrade your IT team's "soft skills" and be more effective working across your organization.
  - "U.S. Healthcare Payer CIOs: Challenge Your Organization With a Moonshot"
  - "Try Hacking Your Healthcare Organization's Culture to Accelerate Success"
  - "U.S. Healthcare Payer CIOs: Think Like CFOs to Get IT Project Funding"
- Speed your organization's transition from commodity processing to health orchestration by educating your CEO and board of directors on digital business opportunities. Advocate for organizationwide initiatives in provider/partner alignment and member engagement. Read these documents on digital maturity and health value management so you can help business and IT leaders determine next steps.
  - "Healthcare Payer CIOs Develop Digital KPIs to Optimize Current Measures and Realize New Revenue"

- "U.S. Healthcare Payer CIOs, Use Gartner's Health-Value Management Framework to Guide Your Digital Transformation"
- "Healthcare Payer Maturity Model Lights the CIO's Digital Transformation Path"

Evidence

Gartner interacts regularly with healthcare payers. Their observations, challenges and successes form the primary source data for this research. Additional evidence was obtained from vendors in this space, industry inquiries, previous Gartner research, public sources and direct experience.

[1] "An Unlikely Winner in the Long-Running Bull Market: Health Insurers," CNBC.

Recommended by the Author

Healthcare and Life Science Digital Optimization and Modernization Primer for 2020

Predicts 2020: U.S. Healthcare Payers Put Emerging Technologies at Center Stage

U.S. Healthcare Administration's Future Requires a Real-Time Payment Ecosystem Powering Value-Based Care

Value-Based Consumer Health Improvement Is the Goal of Healthcare Transformation

Recommended For You

Healthcare Payer CIOs: Prepare for the Next Generation of Care Management

Healthcare Payer CIOs, Look in the Mirror to Improve Payment Integrity

How to Implement an Enterprise Payment Integrity Office for Healthcare Payer CIOs

Healthcare Collaboration Point for CIOs: Referral Management

Adopt Value-Based Payment Reconciliation Systems Soon to Meet Expanding Healthcare Payer Needs any third party. For further information, see "Guiding Principles on Independence and Objectivity."