U.S. Healthcare Payer CIOs Must Pursue Next-Generation Core Administrative Processing Solutions

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Initiatives: Healthcare and Life Science Digital Optimization and Modernization

Legacy core administrative processing solutions cannot meet healthcare payer demands for a modern range of delivery models, implementation options, payment arrangements and IT system integrations. CIOs must use this research to advance their organizations to next-generation CAPS capabilities.

Overview

Key Challenges

- Legacy core administrative processing solutions (CAPS) are unable to respond to payers' rapidly changing business needs because they require IT involvement for even minor change requests. This lack of agility is a significant contributor to payers' disproportionately high IT operating costs.
- CIOs making CAPS investments want next-generation choices, including cloud or on-premises, end-to-end or modular, and bundled and capitated payment support, along with fee-for-service. Yet many legacy and currently marketed CAPS are unable to support these options.

Recommendations

U.S. healthcare payer CIOs evaluating CAPS for healthcare digital optimization and modernization should:

- Identify the capability and workflow gaps of your current CAPS software that are the root cause of functional pain points by analyzing business needs against the CAPS software's feature set. Use the gaps to define and prioritize business objectives for modernization.
- Develop your organization's next-generation CAPS requirements by aligning business objectives to choices such as delivery model options, vendor independence for configurations, payment innovation support and best-of-breed integration choices. Ask vendors to share references and case studies of implementations of next-generation solutions.

Strategic Planning Assumption

By 2025, 30% of U.S. healthcare payer CIOs will have transitioned their CAPS to a cloud environment (SaaS, business process as a service [BPaaS] or platform as a service [PaaS]).

Introduction

Legacy CAPS Obstruct Payer Transformation

Healthcare payers aspire to achieve digital transformation. Yet payer CIOs [1] spend disproportionately more on operations than providers as well as peer financial services organizations. So even the most progressive payers still can only chip away at optimizing their current products and business models — not digitally transform their businesses (see Note 1). CAPS are, far and away, the largest part of payers' operational spend. CAPS monopolize the IT budget, denying the funds and resources needed for digital innovation.

Three Archetypes of Legacy CAPS

Legacy CAPS include three distinct archetypes of administrative systems:

- **"Frankensystems."** Homegrown systems, often mainframe- and COBOL-based, were the standard workhorses of payer core administration through the 1990s. While a few major payers have effectively updated their homegrown CAPS over time, most payers have not. The result is a messy, maintenance-heavy architecture that cannot support growth. And, in the cases in which a homegrown CAPS is still effective, payer CIOs rightfully wonder how much longer they can keep extending their life span due to functionality gaps and programmer retirements.

- **Legacy packaged systems.** Decaying commercial products from vendors such as DST Systems, TriZetto and Perot Systems lack the extended capabilities of next-generation CAPS. These systems are characterized by rigid benefits package hierarchies and lack of functionality for emerging industry needs, such as carve-out self-funded administration and fractured code bases by client. If a vendor is pushing a customer to purchase a major CAPS upgrade package due to its previous customizations and future benefits plan expansions, this is a legacy packaged system.

- **Generation 1 "digisystems."** Digisystems use cloud technologies designed to share data and insights across internal and external applications — and they represent the end-state archetype for next-generation CAPS. However, cloud-native technology does not necessarily mean that the vendor's specific digisystem meets all the requirements for next-generation CAPS. Complete next-generation CAPS digisystems support cloud delivery models, configurability that is independent of the vendor, component decoupling, payment innovation and standard interface configurations (see Figure 1). Thus, we introduce in this research the category of a Generation 1 digisystem for CAPS, which gets the direction right, but does not yet complete the promise.

Frankensystems, legacy packaged systems and even some digisystems have limitations that actively inhibit payers from achieving important optimization or transformation business outcomes. These CAPS have no place in a payer CIO's long-term strategy for administrative

modernization. CIOs who want to modernize their CAPS must demand next-generation solutions to cost-effectively support all their digital initiatives.

Figure 1. Payer CIOs Must Evaluate CAPS Against Next-Generation CAPS Digisystems Characteristics

Characteristics of CAPS Archetypes

	Cloud+ Delivery Models	Configurable	Componentized	Value-Based-Capable	Ecosystem-Enabled
Franken-Systems	☐	☐	☐	☐	☐
Legacy Packaged Systems	☐	☐	☐	☐	☐
Generation 1 Digisystems	☑	☐	☐	☐	☑
Next-Gen CAPS Digisystems	☑	☑	☑	☑	☑

Source: Gartner

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Payer CEOs, CFOs and boards of directors often postpone core system replacement, because a "rip and replace" CAPS project is high-cost and brings significant operational risk. And they know of competitors that have found themselves with a new core system that pays claims just about as well as the predecessor system did. Thus, CAPS replacement is easy to postpone, and Gartner finds many payers issuing RFPs with little intention of completing a purchase. This is a dangerous approach.

Payers that do not invest in replacement will find themselves further behind in a healthcare marketplace increasingly defined by consumer empowerment, rising purchaser demands for value-based care and new regulatory oversight (see "Business Drivers of Technology Decisions for Healthcare Payers, 2020"). Payer CIOs must advance next-generation CAPS with their CEOs, CFOs and boards of directors by:

1. **Identifying capability and workflow gaps of current CAPS.** This answers the question, "How is our current CAPS keeping us from achieving business growth objectives?"
2. **Developing next-generation CAPS requirements.** This should answer the question, "What next-generation elements are most important to our organization?"

Analysis

Identify Capability and Workflow Gaps of Current CAPS

Whether you're starting with a Frankensystem, a legacy packaged system or a Generation 1 digisystem, or you're considering modernization, it's likely that your IT staff and business leaders have issues with current CAPS performance. It's also likely that you have been living with the problems for so long, your organization has accepted — even normalized — poor performance. Yet you've hit a wall. The current CAPS cannot accommodate new lines of business, or apply different processing rules to different states. Maybe it cannot process bundled payments or capitated arrangements, or perhaps the organization is increasingly incurring prompt-pay penalties.

In addition to functional limitations, CAPS typically have architectural shortcomings. For example, Frankensystems and legacy packaged systems cannot natively manage fundamental tenets of digital business platform technologies, such as real-time API connections or cloud-based delivery models.

To overcome organizational inertia and complacency with your current CAPS performance, list its shortcomings in detail, regardless of its archetype. Identify the capability and workflow gaps that are the root cause of functional pain points by analyzing business requirements against the CAPS feature set. Use the discussion framework in Table 1 to collaborate with leaders across claims, benefits administration, enrollment, payment integrity, analytics, network management and IT to capture the requirements and gaps related to CAPS.

Table 1: Framework for Discussing Current CAPS Guiding Policy, Pain Points and Performance

Audience	Discussion Points
Executive leadership	■ Ability to implement payment innovations like bundling or capitation ■ Ability (and time frame) to launch new lines of business ■ New product go-to-market timeline ■ Compliance performance ■ Timely and accurate visibility into operational KPIs ■ Appetite for and ability to outsource operations ■ Ability to choose best-of-breed applications

Operations leadership	■ Compatibility or alignment with the business processes
	■ Time frame to configure a new product, plan or benefit — and number of benefits administration resources allocated
	■ Ability to evolve products over time without having to launch a new product version
	■ Time frame to approve a new product, plan or benefit — and whether the workflow is automated
	■ Level of benefit, plan and product reuse for new configurations
	■ Time frame to process the setup for a new large group account
	■ Flexibility to define different rules for subgroups (typically regions)
	■ Time frame to implement a policy change
	■ Claims processor and claims examiner productivity
	■ Payment integrity performance — number of claims paid inaccurately, percentage of claims dollars paid improperly
	■ Ability to administer bulk changes
	■ Ability to support backdated changes and corrections
	■ Reporting capabilities, including operational and financial reports, business intelligence (BI), and extracts
	■ Provider alignment, such as the timely delivery of shared data and insights, credentialing, contract terms, and fee schedule loads
	■ Flexibility to support different pricing models per provider
	■ User experience — ease of use
	■ Business process management and workflow support
	■ Key performance indicator (KPI) checklist:
	  ■ First-pass resolution rate — claims resolved on initial submission
	  ■ Autoadjudication rate — claims adjudicated without manual intervention
	  ■ Cost per claim processed — total cost of claims processing divided by total claims processed over a period of time
	  ■ Percentage of claims requiring manual resolution — claims removed from the general adjudication process for manual resolution
	  ■ Claims closure rate — claims that have been closed out (paid or denied) divided by total claims received over a period of time

IT leadership	■ Alignment to cloud strategy ■ Alignment to outsourcing strategy ■ Alignment to automation strategy ■ Flexibility and extensibility of core architecture ■ Speed and expense to scale support for more members, providers, products or networks ■ Effort required for standard “care and feeding” of the application for normal business operations ■ Funding allocated to CAPS operations and maintenance ■ Ease of application integration into the existing portfolio of applications and trading partners — prebuilt interfaces versus custom coding required ■ Ease of data ingestion and sharing within the application, as well as across the ecosystem — data model robustness ■ Cost and time frame to adapt to new business requirements — programming versus configuration

Source: Gartner (June 2020)

Where possible, use data from trouble tickets and service requests to gauge the severity of the gaps.

Then, work with business and IT leaders to set and prioritize specific objectives for gap closure. Start by answering these questions:

- Are there show-stopping gaps that require immediate attention, such as an inability to support bringing innovative products to market, or an inability to manage alternative payment arrangements?
- What percentage of your operational employees (such as claims engine developers, benefits configurators and claims processors) are within five years of retirement? Are there clusters of near-retirement resources aligned to specific functional areas?
- Are the CAPS capability gaps clustered in a particular functional area (such as enrollment, claims processing and benefits administration), or are they evenly distributed across core operations?

Develop Next-Generation CAPS Requirements

Maintaining the CAPS status quo is not an option. Once you have captured and prioritized the capability and workflow gaps for closure, you must develop next-generation CAPS requirements to address categorical failings, as well as the organization’s digital business objectives for

transformation and optimization. Start by documenting the baseline criteria we provide below to identify next-generation CAPS.

Vendor solutions must meet the following functional and architectural criteria to be next-generation CAPS:

- **Cloud+ delivery models** — Architected for the cloud, yet allowing for on-premises or hosted environments if necessary due to organizational constraints
- **Configurable** — Allows business users to configure policies and processing rules without IT involvement (and, more specifically, vendor IT involvement)
- **Componentized** — Decouples business functions (such as enrollment and claims adjudication) and incorporates interoperability capabilities based on industry standards (for example, Health Insurance Portability and Accountability Act [HIPAA] X12 transactions) to enable flexible implementation and best-of-breed component selection
- **Value-based-capable** — Supports payment models like bundles and capitation with features like grouper integration
- **Ecosystem-enabled** — Offers preconfigured and configurable interface libraries through APIs and web services, allowing easy integration with other systems and minimizing custom code

These characteristics are foundational requirements — they are not exhaustive. Thus, you will need to both prioritize and extend these requirements, making them specific to your organization's market, strategic direction and digital maturity stage. For example, multistate Medicaid payers are likely to prioritize the ability to configure different eligibility determination and enrollment processing rules across different states. Commercial payers may prioritize decreasing the time to configure and implement complex products that cater to large employer groups. Use the documented capability and workflow gaps, in conjunction with the foundational next-generation CAPS criteria, to develop detailed solution requirements.

CAPS that meet all of the defined next-generation characteristics have the agility to respond quickly to evolving business needs, deliver lower operating costs and maximize the network value of ecosystem connections. These solutions give you freedom of choice as to how to deliver the solution, whether to manage configuration internally, which best-of-breed applications to integrate, what payment methodologies to implement and how to share data.

By not adopting next-generation CAPS, payers trap themselves with limited capabilities, exorbitant operational expense and inevitable skilled-resource shortages. Map your next-generation choices to the business priorities for CAPS, and ask vendors to share references and case studies of implementations of next-generation solutions.

Evidence

[1] Gartner interacts regularly with payer clients. Their observations, challenges and successes inform complementary insight and analysis. Additional evidence was obtained from vendors in this space, industry inquiries, previous Gartner research, public sources and direct experience.

Note 1: Digital Business Optimization vs. Digital Business Transformation

As part of our core research into digital business, Gartner describes two types of digital business ambitions: optimization and transformation.

“Digital business optimization” refers to significantly improving existing business models through improved productivity, greater revenue generation of existing streams and improved customer experience. “Digital business transformation” refers to net new revenue streams, as well as new business models.

Document Revision History

U.S. Healthcare Payer CIOs Must Pursue Next-Generation Core Administrative Processing Solutions - 4 July 2018

Recommended by the Author

Business Drivers of Technology Decisions for Healthcare Payers, 2020

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

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