IT Outsourcing (ITO) in the Payer Industry – Annual Report 2014: Regulations on Payers' Mind

Healthcare Outsourcing
Annual Report: October 2014 – Preview Deck

EGR-2014-12-PD-1238

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1 Banking, financial services, and insurance

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Background and scope of the research

Background of the research

The healthcare industry is witnessing an unprecedented churn and transformation, leading to a surge in adoption of IT and business process outsourcing. Driven by regulatory reforms, tenets of consumerization, market consolidation, and emergence of next-generation digital avenues, outsourcing has accelerated in this space. In fact, service providers across the spectrum have beefed up their capabilities to cater to this growing market.

With healthcare companies stepping up adoption of outsourced delivery, there is an uptick in demand for relevant research and market intelligence on demand and supply trends in healthcare outsourcing across the three major market segments – payer, provider, and life sciences. The need is more pronounced for the vertical-specific IT outsourcing functions, where business challenges are driving greater adoption. Everest Group's healthcare outsourcing research program addresses this market requirement by analyzing outsourcing trends and service provider capabilities specific to ITO in the healthcare vertical.

In this annual report, we analyze current trends and the future outlook for large, multi-year ITO relationships for the payer market. We focus on the following:

- Trends in the healthcare industry
- Market trends and activity for large relationships
- Service provider landscape
- Payers' regulatory challenges
- Outlook for 2014-2015

Scope of this report

- **Industry:** Healthcare payer (public and private health plans)
- **Services:** Large (TCV > US$25 million), multi-year (>3 years), and annuity-based application outsourcing
- **Geography:** Global
- **Sourcing model:** Third-party ITO transactions; excludes shared services or Global In-house Centers (GICs)

1 Includes healthcare data & information service and medical products distribution

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Everest Group
RESEARCH

EGR-2014-12-PD-1238

This report provides an insight into current trends and the future outlook for large, multi-year ITO relationships in the global payer sector

NOT EXHAUSTIVE

Focus of report

Healthcare

Payer
- Private health plans
- Public health plans

Life sciences
- Pharmaceuticals
- Medical devices
- Biotechnology
- Others[1]

Provider
- Large health systems
- Standalone hospitals/clinics
- Pharmacists
- Physician practices
- Diagnostic labs

Services industry

IT Infrastructure Outsourcing (IO)
- Traditional IO
- Remote Infrastructure Management (RIM)
- Infrastructure Management Services (IMS)
- Cloud

IT Application Outsourcing (AO)
- Applications development
- Applications maintenance
- Independent testing
- Package implementation
- ERP services
- Business intelligence / data warehousing

Business Process Outsourcing (BPO)
- BFSI-specific BPO
- HRO
- FAO
- PO
- Contact center
- Knowledge services

Consulting
- IT strategy/operations consulting
- Business consulting
- Infrastructure consulting
- Infrastructure roll-outs

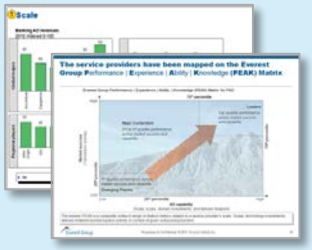
This report analyzes ITO in the payer vertical with a focus on large (TCV > US$25 million), annuity-based, and multi-year (>3 years) relationships

1 Includes healthcare data & information service, and medical products distribution

EGR-2014-12-PD-1238

This report is a part of Everest Group's series of six reports focused on ITO in healthcare in 2014

Annual report



- Each report provides an overview of the ITO market for the specific healthcare subsegment
- Analysis includes the following:
  - Trends in ITO in the healthcare industry
  - Market trends and activity for large ITO relationships in the specific healthcare subsegment
  - Emerging themes driving ITO in the specific healthcare subsegment
  - Future outlook for ITO in the specific healthcare subsegment

- Payer
- Life sciences
- Provider

Service provider landscape and capability profiles

Each report provides:

- Mapping of service providers on **Everest Group's PEAK Matrix** for the specific subsegment
- Capability profiles of service providers capturing their ITO services experience in specific subsegments. This includes:
  - Service provider overview: Details of ITO services capabilities, key investments, proprietary solutions, and technological expertise
  - Functional / Line of Business (LoB) focus
  - Transactions overview for ITO services
  - Delivery footprint

- Payer
- Life sciences
- Provider

Everest Group RESEARCH

Overview and abbreviated summary of key messages

This report provides an overview of the ITO market for the payer industry. Analysis includes market size & growth, forecasts up to 2020, demand drivers, adoption & scope trends, key areas of investment, and implications for key stakeholders. The report focusses specifically on how wide-sweeping regulatory reform is fundamentally altering payer's operating model and leading to a rethink of current systems, processes, and vendors, driving CIO's key technology initiatives.

Some of the findings in this report, among others, are:

Healthcare ITO market overview

- Healthcare ITO market growth is being driven by reforms impetus, payer-provider convergence, evolving reimbursement models, and value-chain digitization
- New business wins continued to account for a greater proportion of healthcare ITO transactions, as incumbent service providers came under pressure from rivals

Payer ITO market overview

- Payer's IT imperatives are being driven primarily by regulatory reform (Obamacare and ICD-10 mainly) and increasing consumerization of demand (transition to a B2C model)
- Given the impetus behind the reforms mandate, ICD-10 and HIX implementation are the primary focus areas of payers' IT efforts along with traditional areas such as infrastructure modernization and claims transformation

Regulations on payers' mind

- The core overarching theme of the reforms in the U.S. is to trim healthcare costs. It spends significantly more than its developed peers on healthcare, without any subsequent reflection on care quality
- These wide-sweeping reforms – primarily led by Obamacare and ICD-10 conversion – are resulting in a rehaul of the current operating paradigm. Payers are marrying reform-driven changes with their overall technology portfolio in an effort to pivot from a primarily B2B business to a B2C model
- These regulatory changes call for increased systems integration efforts, establishing public portals, customer outreach, remediation, testing, and revenue cycle program management. Health plans are looking at an array of technology enablers for robust implementation of the regulatory mandate

Outlook for 2014-2015

- Consumerization of demand will dictate technology priorities as individuals exhibit increased ownership of health outcomes; thereby making reorient go-to-market, member engagement, and service strategies
- Payers will continue to exhibit a strong focus on robust remediation, claims processing, and legacy systems modernization

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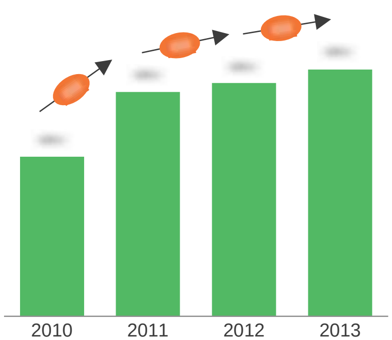
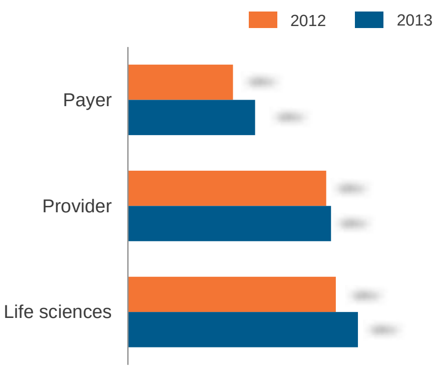
This study offers four distinct chapters providing a deep dive into key aspects of the payer ITO market; below are four charts to illustrate the depth of the report

Healthcare ITO transaction activity

Healthcare ITO transaction volume
Number of transactions

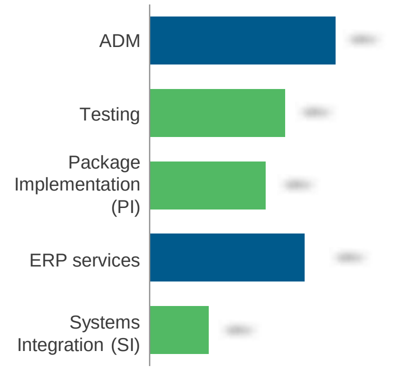


Healthcare ITO transaction volume
Number of transactions



Functional adoption of IT services

Subfunctions in large payer AO transactions
2013; Frequency of inclusion



Subfunctions in large payer IO transactions
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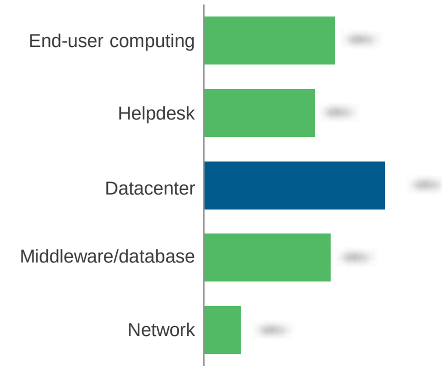
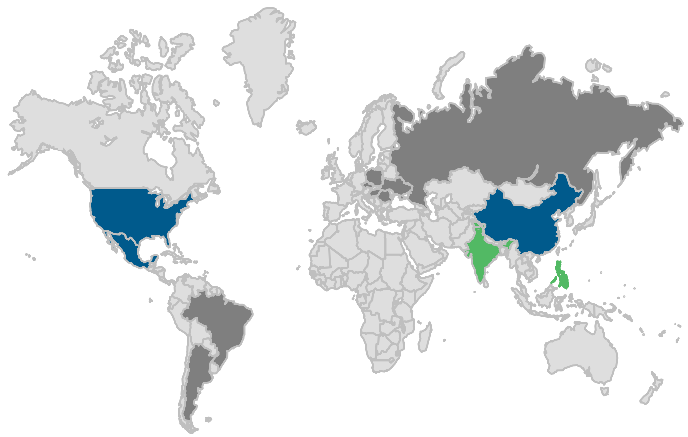


Payer ITO capabilities placement in key locations



Payer's regulation conundrum

Source: Everest Group (2014)

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2014 healthcare IT outsourcing research calendar

Published | Current

Topic	Release date
State of the Healthcare & Life Sciences ITO Market: 2014	January-2014
IT Outsourcing (ITO) in the Life Sciences Industry: Analytics Driving the Innovation Engine – Annual Report 2014	June-2014
Webinar Deck: What's Driving the Surge in Life Sciences IT Outsourcing?	June-2014
IT Outsourcing in Life Sciences Industry – Service Provider Landscape with PEAK Matrix™ Assessment 2014	July-2014
IT Outsourcing in Life Sciences – Service Provider Profile Compendium 2014	September-2014
IT Outsourcing (ITO) in the Payer Industry – Annual Report 2014: Tackling the Regulations Conundrum	October-2014
IT Outsourcing in Healthcare Payer Industry – Service Provider Landscape with PEAK Matrix™ Assessment 2014	Q4-2014
IT Outsourcing in Healthcare Payer Industry – Service Provider Profile Compendium 2014	Q4-2014
IT Outsourcing in Life Sciences – European Service Provider Landscape with PEAK Matrix™ Assessment 2014	Q4-2014
IT Outsourcing in Healthcare Provider Industry – Annual Report 2014	Q4-2014
IT Outsourcing in Healthcare Provider Industry – Service Provider Landscape with PEAK Matrix™ Assessment 2014	Q4-2014
Viewpoint: Consumerization strategies in Healthcare	Q4-2014
IT Outsourcing in Healthcare Provider Industry – Service Provider Profile Compendium 2014	Q4-2014
Viewpoint: Opportunities in the focus segments of HLS: Pharmaceutical and Mid-tier payers	Q1-2015
State of the Healthcare & Life Sciences ITO Market: 2015	Q1-2015

Additional healthcare research references

The following documents are recommended for additional insight on the topic covered in this report. The recommended documents either provide additional details on the topic or complementary content that may be of interest

1. **IT Outsourcing in Healthcare Payer Industry – Annual Report 2013: Taking the Debate Beyond the Reforms Mandate** (EGR-2013-12-R-0894); 2013: This report provides an overview of the ITO market for the healthcare payer industry. Analysis includes key trends in market size & growth, demand drivers, adoption & scope trends, emerging themes, key areas of investment, and implications for key stakeholders. The report also provides specific updates on the readiness of the various stakeholders from the perspective of payer reform mandates.

2. **Webinar Deck: The Changing Face of IT Outsourcing in the Healthcare Payer Market: Don't Miss the Sailing Ship**; 2013. This research provides an in-depth analysis of the seminal changes taking place in the healthcare payer industry. As the payer industry is moving towards a new normal, this research provides trends, recommendations, and IT investment roadmaps for both payers and service providers

3. **Outsourcing Implications of Healthcare Payer-Provider Convergence** (EGR-2013-12-V-0854); 2013. This viewpoint provides an in-depth analysis of a key theme in the U.S. healthcare payer industry – payer-provider convergence. This research delves into the background of this theme and deciphers the key technology implications for payers

For more information on this and other research published by Everest Group, please contact us:

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From **insight** to ***action***.

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