![Everest Group Research logo]

Acing Uncertainties in the Payer Market: The Trump Cards

Healthcare & Life Sciences ITS
Annual Report – April 2017 – Preview Deck

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▶ **Recruitment & Talent Acquisition**

▶ **Service Optimization Technologies**

▶ **Transaction Intelligence**

Custom research capabilities

● Benchmarking | Pricing, delivery model, skill portfolio

● Peer analysis | Scope, sourcing models, locations

● Locations | Cost, skills, sustainability, portfolio – plus a tracking tool

● Tracking services | Service providers, locations, risk

● Other | Market intelligence, service provider capabilities, technologies, contract assessment

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Background and scope of the research

Background of the research

The healthcare landscape has been subject to significant turbulence on account of a gamut of factors including regulatory uncertainty (ACA vs. AHCA), spiraling costs, and evolving customer dynamics, (with mobile computing, social media platforms, and "anytime-anywhere" information access). This combination of disruptive and legacy factors has driven healthcare firms to adopt new technologies, while also revamping their existing systems, processes, and interfaces.

As the technology mandate for healthcare enterprises evolves, so do their relationships with IT service providers. This, in turn, is driving the need 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. 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 two major uncertainties affecting the healthcare payer market and their implications for payers and IT service providers.
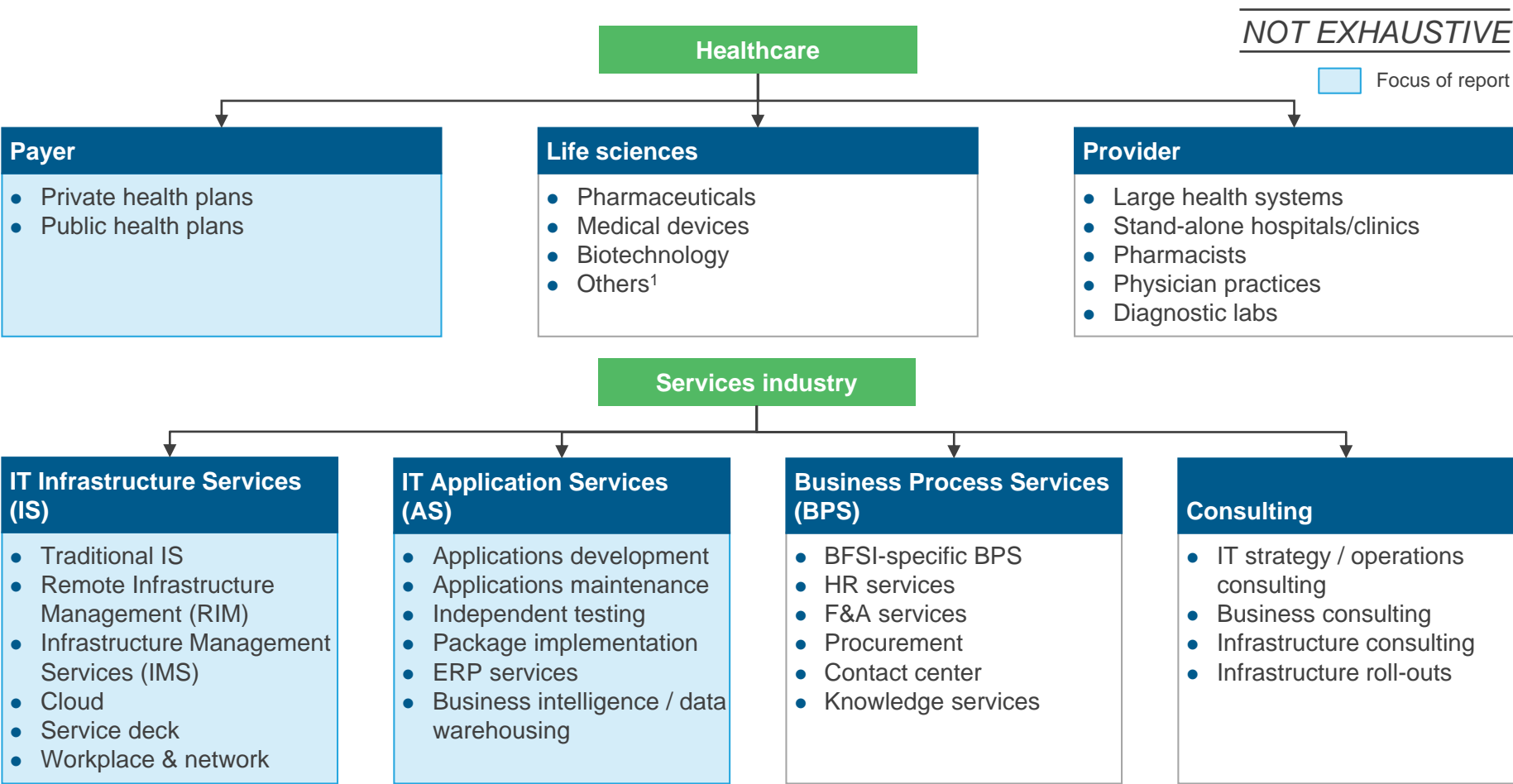
We focus on:
- Payer IT market: analysis and projections
- Payer market uncertainties
- Implications for service providers and payers

Scope of this report:
- **Industry:** Healthcare payers (public and private health plans)
- **Services:** Large (TCV > US$25 million), multi-year (>3 years), and annuity-based IT outsourcing
- **Geography:** Global (though with a slight skew towards the U.S. payer market, given dominant market activity)
- **Sourcing model:** Third-party ITO transactions; excludes shared services or Global In-house Centers (GICs)

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This report examines the service provider landscape for large annuity contracts in the life sciences IT services market

☐ Focus of report

Healthcare

Payer
- Private health plans
- Public health plans

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

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

Services industry

IT Infrastructure Services (IS)
- Traditional IS
- Remote Infrastructure Management (RIM)
- Infrastructure Management Services (IMS)
- Cloud
- Service deck
- Workplace & network

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

Business Process Services (BPS)
- BFSI-specific BPS
- HR services
- F&A services
- Procurement
- Contact center
- Knowledge services

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

1   Includes healthcare data & information services and medical products distribution

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This report is a part of Everest Group's series of reports focused on IT services in healthcare and life sciences in 2016

Focus of report

Annual report
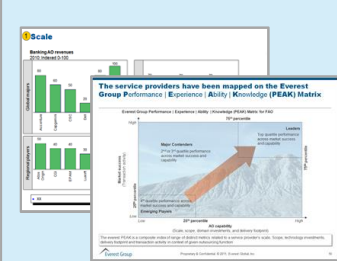
- Each report provides an overview of the ITS market for the specific healthcare subsegment

- Analysis includes the following content in the specific HLS subsegment:
  - Trends in ITS in the overall HLS industry
  - Market trends and activity for large IT services relationships
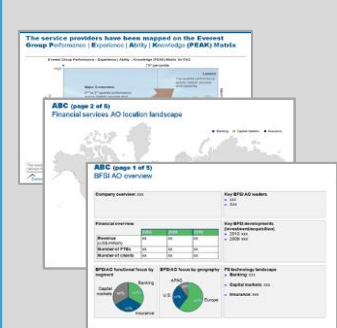 - Emerging themes driving ITS
  - Future outlook for ITS

Healthcare

- Payer
- Provider

Life sciences

Service provider landscape and capability profiles

This set of reports is focused on key HLS subsegments, and some crucial processes / value-chain elements for the subsegments.
Each report provides
- Mapping of service providers on **Everest Group's PEAK Matrix**

- Capability profiles of service providers capturing their IT services experience. This includes:
  - Service provider overview: Details of IT services capabilities, key investments, proprietary solutions, and technological expertise
  - Functional / Line of Business (LoB) focus
  - Transactions overview for IT services
  - Delivery footprint

Healthcare
- Payer IT
- Consulting
- Analytics
- Provider IT

Life sciences
- IT application services
- Clinical and R&D IT services
- Research Cloud

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Table of contents

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Overview and abbreviated summary of key messages

This report provides an overview of the IT market for the healthcare payer industry. As the HLS market is expected to witness a slight course correction owing to several uncertainties, we revise our projections for HLS ITS market to align with the new normal. In this report, we cover market size & growth, forecasts (up to 2025), major uncertainties affecting the market, and the implications for key stakeholders

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

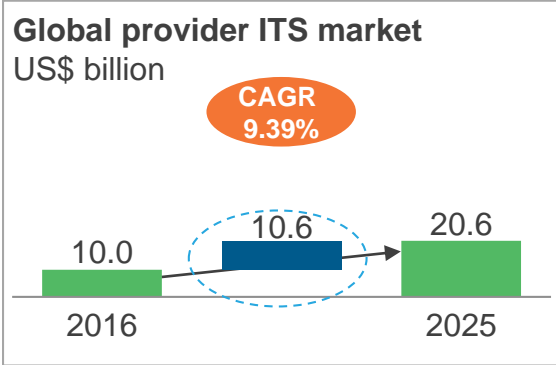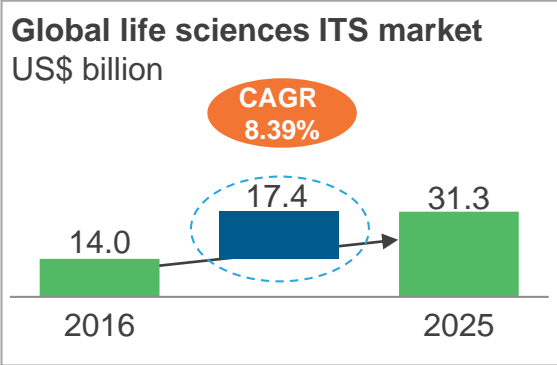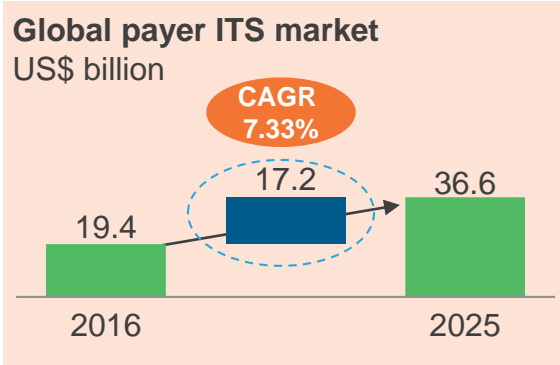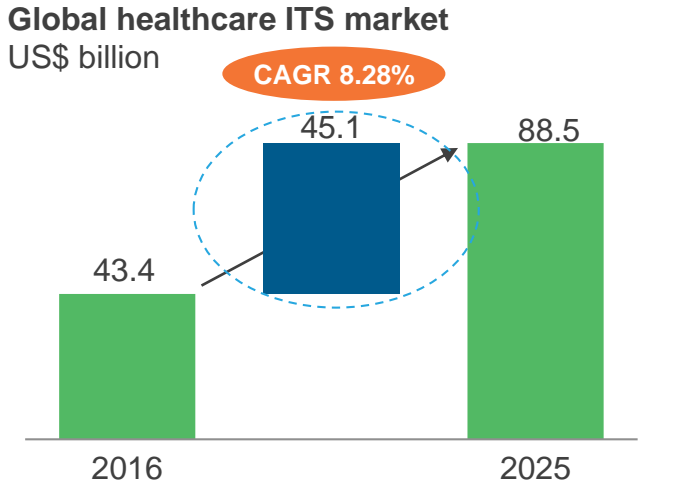|	
Healthcare payer IT spending: Analysis and projections	● Healthcare IT market is expected to touch US$57 billion by 2025. Payer IT market is expected to grow at a CAGR of 7.33% and provider IT market is expected to grow at a CAGR of 9.39% ● Growth will be primarily driven by consumerization in healthcare, value-based care models, and technology adoption in areas such as cybersecurity and cloud-based infrastructure ● Enterprises are also willing to spend on mobility, automation, AI, and analytics to better engage with their customers
Payer market uncertainties	● There are two key uncertainties affecting the healthcare payer IT market. These factors can curtail discretionary IT spending, inhibiting market growth – **Payer mergers**: Two mega payer mergers (Aetna+Humana and Anthem+Cigna) were rejected by the federal judiciary of the United States, citing market monopoly concerns. These decisions will be pivotal in determining the fate of individual insurance markets – **ACA vs. AHCA**: GOP tabled AHCA in March 2017 to replace ACA. However, the bill did not get enough support from the House of Representatives and it failed to become a law. This also creates ambiguity in the payer market
Implications for service providers and payers	● Service providers need to realize that payers looking to eliminate inefficiency are asking for "front-facing" automation and digital technologies vs. passive consumption earlier, requiring partners to reinvent mode of engagement and deployment ● Given the uncertainty around regulatory reforms (ACA vs. AHCA), payers must continue to invest in fundamental healthcare tailwinds (growing consumerism, value-based care models, etc.) to evolve into a customer-centric business model

Healthcare and life sciences ITS market | Growth projections

Global healthcare ITS market
US$ billion

CAGR 8.28%

45.1

88.5

43.4

2016   2025

Global payer ITS market
US$ billion

CAGR
7.33%

17.2

36.6

19.4

2016   2025

Global life sciences ITS market
US$ billion

CAGR
8.39%

17.4

31.3

14.0

2016   2025

Global provider ITS market
US$ billion

CAGR
9.39%

10.6

20.6

10.0

2016   2025

Source: Everest Group (2017)

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HLS ITS research calendar

Topic	Release date
Life Sciences IT Application Services – Service Provider Landscape with PEAK Matrix™ Assessment 2016	September 2016
Life Sciences Digital IT Services – Service Provider Landscape with PEAK Matrix™ Assessment 2016	September 2016
Healthcare Payer IT Services: Outsource (Offshore) or Perish	September 2016
Healthcare Payer IT Services – Service Provider Landscape with PEAK Matrix™ Assessment 2016	October 2016
Medicare/Medicaid Version 2.0: Exploring the Next Growth Wave in the Market	November 2016
The Big Bang MACRA-economic Theory of Provider IT Transformation	November 2016
EHR IT Services in Healthcare Provider Industry – Service Provider Landscape with PEAK Matrix ™ Assessment 2016	November 2016
Healthcare Provider IT Services – Service Provider Landscape with PEAK Matrix™ Assessment 2016	November 2016
Transition from Obamacare to Trumpcare	December 2016
Addressing Payer Costs through a Comprehensive Model	December 2016
Customer (Dis)satisfaction: Why are Enterprises Unhappy with their Service Providers	January 2017
Exploring GICs in the Life Sciences Industry	February 2017
Hot Life Sciences Startups: Friends, Foes, and Frenemies in the Innovation Ecosystem	March 2017
Internet of Things (IoT) in Medical Devices	March 2017
Automation Playbook for Healthcare Payers: The Ultimate Guide to the Next Big Treasure Hunt	April 2017
Acing Uncertainties in the Payer Market: The Trump Cards	April 2017
Life Sciences IT Application Services – Service Provider Landscape with PEAK Matrix™ Assessment 2017	Q2 2017
Life Sciences Clinical R&D Services – Service Provider Landscape with PEAK Matrix™ Assessment 2017	Q2 2017

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Additional HLS ITS research references

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

1. **Healthcare Payer IT Services: Outsource (Offshore) or Perish** (EGR-2016-12-R-1928), September 2016: This report provides an overview of the IT market for the healthcare 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 also talks about service provider landscape evolution, sourcing priorities, location advantages, and key differentiators

2. **Healthcare Start-ups: State of Innovation** (EGR-2016-12-R-1882); August 2016. Cost, access, and quality problems have plagued the U.S. healthcare market. Stakeholders are trying to tackle endemic industry issues through technology. Consumer expectations from their healthcare experience are undergoing a fundamental shift. Start-ups have a fertile ground to reap benefits through innovative solutions, which address these challenges through a fresh approach combining the elements of user experience (UX), design, and digital channels. Hence, even though the overall funding climate has begun to show signs of correction, healthcare is witnessing a sustained resurgence in investment activity. Service providers, enterprise buyers, and investment firms alike have varied reasons to better understand this exciting landscape and unlock opportunities in a fast evolving market. From a long list of over 200 start-ups, we selected start-ups in five primary areas of investments – care financing, care management, EHR, practice management, and telehealth. This report provides an overview of the challenges these start-ups are trying to address how they are disrupting the status quo, and hyper-catalyzing the innovation mandate. It also covers the five hot start-ups in each of the five areas with spotlight on business overview, leadership details, funding trail, and disruption across technology & business, as well as market buzz

3. **Healthcare Payer IT Services – Service Provider Landscape with PEAK Matrix™ Assessment** (EGR-2016-12-R-1961); October 2016: This report analyzes the capabilities of 22 payer IT service providers specific to the global healthcare sector. These providers are mapped on the Everest Group Performance | Experience | Ability | Knowledge (PEAK) Matrix, which is a composite index of a range of distinct metrics related to a provider's capability and market success. We focus on payer IT market trends, the landscape of service providers for payer IT assessment of the service providers on a number of capability-related dimensions, and implications for payer IT buyers and service providers

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About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empowers clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

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