Everest Group®
RESEARCH

Healthcare Payer Enterprise Insights – H2 2020

April 2021: Complimentary Abstract / Table of Contents

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Global services tracking across functions, sourcing models, locations, and service providers – industry tracking reports also available

▶ Application Services	▶ Enterprise Platform Services
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Membership information

- This report is included in the following research program(s)
  – Healthcare IT Services
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In addition to a suite of published research,
a membership may include

- Accelerators™
- Analyst access
- Data cuts
- Pinnacle Model® reports
- PriceBook
- Virtual Roundtables
- Workshops

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

Contents

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Our research methodology is based on four pillars of strength to produce actionable and insightful research for the industry

01
Robust definitions and frameworks
PEAK Matrix®, market maturity, and technology adoption/investment

02
Primary sources of information
Annual contractual and operational RFIs, service provider briefings and buyer interviews, web-based surveys

03
Diverse set of market touchpoints
Ongoing interactions across key stakeholders, input from a mix of perspectives and interests, supports both data analysis and thought leadership

04
Fact-based research
Data-driven analysis with expert perspectives, trend-analysis across market adoption, contracting, and service providers

Proprietary contractual database of Healthcare IT Services (ITS) contracts (updated annually)

Year-round tracking of Healthcare IT service providers

Large repository of existing research in Healthcare

Over 25 years of experience advising clients on strategic IT, business services, engineering services, and sourcing

Executive-level relationships with buyers, service providers, technology providers, and industry associations

Background of the research

Looking back at 2020, which was no less than one of the most challenging years in recent history, probably the biggest learning is that the resilience of the world (humans, businesses, and economies) is stronger than what it gets credit for. Amidst what can be called as one of the most widespread biological and economic shocks, the healthcare industry was put under immense pressure and, at many instances, was stretched beyond its capacity. The pandemic led to sweeping changes in who receives care, how they access it, and how healthcare organizations (healthcare providers, payers, and community resources) come together to meet the complex and accelerated demand for care, while dealing with provider burnout, customer distrust, and financial turmoil. Payers faced some critical challenges such as disruption of member service operations; multiple administrative inefficiencies around provider network management/coordination, member communication, claims management.

This report provides perspective on how payers performed in H2 2020. The report focuses on industry- and account-level financial and LoB performance, key business and IT investment themes, and GIC landscape.

Scope of this report:

Geography
US

Industry
Healthcare payer

Services
Healthcare payer services

Summary of key messages

Financial performance

At the onset of COVID-19, payers posted strong numbers due to a drop in non-COVID-19 claims. Most of the US payers witnessed a growth in revenue on a sequential basis, attributed to a temporary reduction in the operating expenses due to deferred surgeries and procedures as a result of stay-at-home orders across the US; however, operating and net income saw a dip in Q3 and Q4 2020, impacted by COVID-19 care costs

Expansion of government business

The payer market experienced an uptick in the government membership enrollment along with a subsequent decline in commercial business. Large national plans with existing presence in Medicaid or exchange markets saw an increase in enrollees, while others looked to enter/expand into these Line of Business (LoBs) through acquisition and partnerships

Business themes

Payers' response mechanism to the pandemic involved significant focus and strategic investments to improve clinical outcomes, increase operational efficiency, reduce cost of care, improve access of care, and enhance member experience
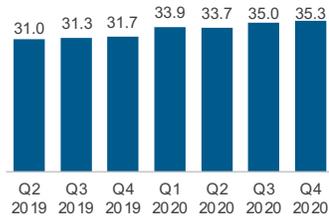
IT themes

COVID-19 acted as a forcing function for healthcare payers to future-proof their technology estate, to enable resilient care models, by focusing on IT themes such as modernization, automation, data & analytics, and cloud
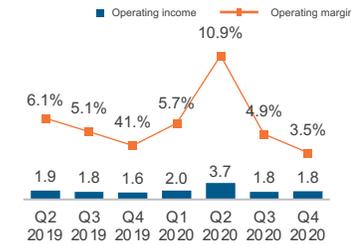
This study offers distinct chapters providing a deep dive into key aspects of healthcare payer market; below are four charts to illustrate the depth of the report

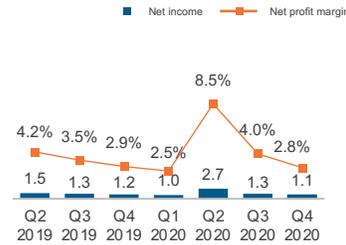## Healthcare payer industry financial performance: revenue and income

Healthcare payer's average revenue
Q2 2019 - Q4 2020[1], billion

Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
31.0	31.3	31.7	33.9	33.7	35.0	35.3

Healthcare payer's average operating income
Q2 2019 - Q4 2020[1], billion

■ Operating income   —— Operating margin

Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
1.9	1.8	1.6	2.0	3.7	1.8	1.8
6.1%	5.1%	41.%	5.7%	10.9%	4.9%	3.5%

Healthcare payer's average net income
Q2 2019 - Q4 2020[1], billion

■ Net income   —— Net profit margin

Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
1.5	1.3	1.2	1.0	2.7	1.3	1.1
4.2%	3.5%	2.9%	2.5%	8.5%	4.0%	2.8%

- At the onset of COVID-19, payers posted strong numbers due to a drop in non-COVID-19 claims. Most of the US payers witnessed a growth in revenue on a sequential basis. In Q2 2020, the operating and net income for most of the US payers increased significantly. This could be attributed to a temporary reduction in the operating expenses due to deferred surgeries and procedures as a result of stay-at-home orders across the US
- Q3 and Q4 witnessed slump in operating and net income owing to rebound in healthcare utilization, investments in COVID-19 relief efforts, customer financial assistance measures, and significant increase in COVID-19 admissions across LoBs

1   Financial information include numbers for Cigna, Anthem, UHG, Centene Corporation, Humana, Kaiser Permanente, CVS-Aetna, and Molina Healthcare
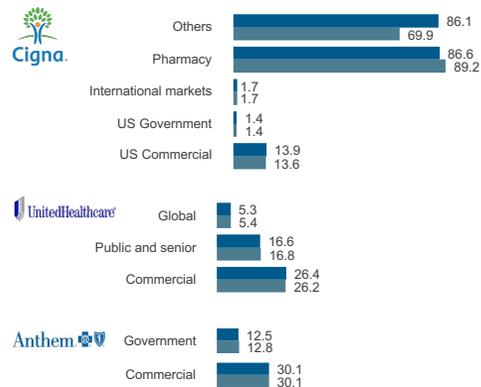
IT themes that took center stage in H2 2020

Modernization	Automation	Data and analytics	Cloud
Shifting focus from a fee-for-service to value-based care is driving modernization initiatives. Payers are actively partnering with Service Providers (SPs) and Independent Software Vendors (ISVs) to overcome design and architectural challenges and minimize technical debt.	Automation is a key element to achieve the vision of operational efficiency and reduced cost. As many as 25% of the IT deals signed by payers in 2020 had an element of automation. Developments in technologies such as robotics and ML have enabled achieving process automation at scale.	To produce a personalized experience, it is essential for healthcare payers to have a deep understanding of their members. To gain that understanding, payers have started to build strategy around unifying member data into a single customer view.	A sharp increase in affinity to shift to cloud is evident in the payer landscape. Cloud computing offers flexibility to incorporate changes (such as regulatory, storage space, and functional modifications). Keeping the converging healthcare landscape in mind, cloud also allows for seamless collaboration.

Membership change by LoB in major payer accounts

Number of members – by LOB
Millions

■ Q3 2020   ■ Q4 2020

▲ Rise   ◄► No change   ▼ Fall

Cigna

LoB	Q3 2020	Q4 2020
Others	86.1	69.9
Pharmacy	86.6	89.2
International markets	1.7	1.7
US Government	1.4	1.4
US Commercial	13.9	13.6

	Government	Commercial
	◄►	▼

- In 2020, Cigna focused on adding and improving care for its Medicare Advantage members
- Cigna added 25,000 physicians in 2020 for its MA members. About 85% of these arrangements are value-based constructs

UnitedHealthcare

LoB	Q3 2020	Q4 2020
Global	5.3	5.4
Public and senior	16.6	16.8
Commercial	26.4	26.2

	Government	Commercial
	▲	▼

- In 2020, Cigna focused on adding and improving care for its Medicare Advantage members
- Cigna added 25,000 physicians in 2020 for its MA members. About 85% of these arrangements are value-based constructs

Anthem

LoB	Q3 2020	Q4 2020
Government	12.5	12.8
Commercial	30.1	30.1

	Government	Commercial
	▲	◄►

- In 2020, Cigna focused on adding and improving care for its Medicare Advantage members
- Cigna added 25,000 physicians in 2020 for its MA members. About 85% of these arrangements are value-based constructs

Key investment themes in major payer accounts

Payers	Business themes	IT and technology themes
Anthem	• **Affordable care**: partnered with Mercy to provide improved health, lower costs, and a better overall patient experience • **Whole care / behavioral health**: acquired Beacon Health Options to enhance whole person care. Anthem also announced new resources and initiatives for consumers, care providers, and community partners to deliver whole health care support in response to COVID-19 • **Expansion of government business**: acquired Medicaid Plans in Nebraska and Missouri, aimed at expanding Anthem's footprint to serve Medicaid beneficiaries in 23 states	• **Data and analytics**: streamline claims processing and benefits administration • **Automation**: cloud application automation support • **Infrastructure Management Services (IMS)**: remote desktop management, user profiling, and mainframe and data center services
UnitedHealth Group	• **Mental health**: struck a four-year partnership with University of California to expand the mental health workforce in the state by creating new clinical learning opportunities • **Member engagement**: members now have network access to GlassesUSA.com, giving more than 19 million US citizens online access to order prescription glasses and sunglasses • **Return-to-workplace**: partnered with Microsoft to launch ProtectWell that enables employers to bring employees back to work	• **Cloud**: improving patient engagement and experience through new cloud and web applications • **Data and & analytics**: enhance claims operations and develop business insights
CVS aetna	• **Behavioral health**: expanded its partnership with Inpathy (online behavioral health service) to include 11 states • **Mental health**: partnered with WYSA, a mental health support chat bot, for mental resilience during COVID-19 • **Home care**: partnered with Landmark Health to bring physician-led services for Aetna Medicare Advantage members, living in New York, with chronic health conditions • **Member engagement**: launched QuickRenew, an online contact lens prescription renewal tool for members to renew their prescription and order contact lenses to be shipped to their home	• **AI and ML**: enhance customer and patient experience using ML and AI technology • **Data analytics**: improve patient wellness and care management objectives using patients' clinical data

Everest Group® RESEARCH

Research calendar
Healthcare IT Services (ITS)

Flagship Healthcare ITS reports	Release date
Healthcare Provider Digital Services PEAK Matrix® Assessment 2020	June 2020
Salesforce Health Cloud Services PEAK Matrix® Assessment 2020	December 2020
Healthcare Specialists PEAK Matrix® Assessment 2020	December 2020
State of the Market – Salesforce Health Cloud services	March 2021
Healthcare Automation Services Peak Matrix® Assessment 2021	Q2 2021
Healthcare Cloud Data Platforms PEAK Matrix® assessment 2021	Q3 2021
Telehealth Solutions PEAK Matrix® Assessment 2021	Q3 2021
Healthcare Analytics Services PEAK Matrix® assessment 2021	Q3 2021

Thematic Healthcare ITS reports	Release date
Unpacking the Rise of Telehealth	July 2020
Platform-based Modernization of Healthcare Payer	August 2020
A Tectonic Shift in the Healthcare Market - UnitedHealth Group's Optum Acquires Change Healthcare	January 2021
Healthcare Payer Enterprise Insights – H2 2020	**April 2021**
Interoperability in Healthcare	Q2 2021
Healthcare Member Experience Transformation	Q2 2021
BigTechs in Healthcare Industry – Microsoft, AWS, Google, Salesforce	Q3 2021

Note:　For a list of all our published Healthcare ITS reports, please refer to our website page

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