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Enterprise Rating Agility Improves Payer Response to Healthcare Reform

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Executive Overview

In June 2012, the Supreme Court upheld the Patient Protection and Affordable Care Act, eliminating some of the uncertainty around healthcare reform in the United States. Now, doctors, hospitals, plans, pharmacies and payers all need to comply with new and sweeping legislation that still is taking shape. And they don't have much time to devise strategies to survive and grow in this fast-changing environment.

The Affordable Care Act provides for every American to have health insurance and gives states a say in whether they establish an exchange or participate in the federal exchange. The result will be a dramatic increase in the number of people who will be covered across the system.

This individual mandate creates an opportunity for disruptive innovation in all areas of the healthcare payer's business including pricing and rating. To succeed, payers need to learn to interface directly with end users, and they need an IT infrastructure that's flexible enough to accommodate new customers and roll out new products quickly.

Change is a given in the healthcare industry of the future. Payers that take steps to ensure enterprise agility today will be able to respond as healthcare reform proceeds.

Introduction

Ready or not, healthcare reform is underway in the United States. The pace is fast, and by most accounts, the effects will be far-reaching. Big companies are acquiring new capabilities; new competitors are entering the market; and everyone needs to figure out how to comply with the 2010 Affordable Care Act, which was upheld by the U.S. Supreme Court in June 2012. Insurers, hospitals, doctors and pharmacies must now determine how the legislation affects them and what they need to do to comply. The impact will be far-reaching, touching all areas of the business.

As they navigate through the market disruption, payers are advised to make careful choices in how they implement health reform. The individual market holds abundant opportunities for payers to provide product and service offerings that retain profitability and growth—but as with every opportunity, there is associated risk. While states debate whether to expand Medicaid, launch health insurance exchanges, or both, payers have less than 18 months to plan their strategies, change their infrastructure and launch new products to capture market share. Flexible IT systems that enable unprecedented business agility will be critical to their success.

From B-to-B, to B-to-C

Long accustomed to business-to-business transactions, payers must now learn to interface directly with end users. And they must learn the nuances of local markets. What works in Los Angeles may not fly in Sacramento. B-to-C models require a fundamental shift in how payers do business, affecting rating, pricing, billing, marketing and communications, IT infrastructure and more. Payers should ask themselves some of these questions:

- How can we differentiate our products in the marketplace?
- How do we create tailored products for market segments in the individual space that are consistent with provider contracting strategies?
- How can we deliver these offerings faster to the market and gain competitive advantage?

Addressing these questions takes time to plan and budget to execute, yet states must have their exchanges ready for open enrollment by October 2013.

A Platform for Growth

In executing on the individual mandate, payers need to take a hard look at their underlying rating infrastructure. Is it flexible enough to accommodate new customers and roll out new products quickly? Are the rating systems configurable, so they do not require custom coding when the business needs change?

Increasingly, agile enterprise systems that interoperate with exchanges will be essential to success. Online distribution and enrollment will generate new demands for more competitive pricing. Many payers already are looking at offering different "levels" of coverage (for example, "Bronze," "Silver" or "Gold"). In addition, payers will increasingly look to "bundle" related services (for example, all the individual services associated with a knee replacement). Rating applications will be required to handle these new models.

Payers are looking for ways of differentiating themselves to drive revenue and new methods of streamlining operations to reduce costs. Unique products can create differentiation and generate revenue. Payers will need to create unique products and leverage innovative rating programs to more quickly introduce products to market. Speed to market is critical, requiring easy and fast modification of rates and algorithms. Some of the questions that payers need to ask themselves are:

- Can we introduce new offerings quickly in the market?
- Is our system scalable enough to support the B-to-C model?
- Is our existing rating system flexible enough to keep up with rating complexities?
- Should we consolidate our rating systems to maintain consistencies and reduce cost?

Payers need to consider an enterprise stand-alone rating engine. Stand-alone rating engines are used for a variety of reasons, but primarily to externalize the rates, rules, and logic associated with rating from the policy administration system to create speed to market and reduce costs. Older policy administration systems embed rating logic within the code, making modifications complex and dependent on IT support. Payers who run multiple policy administration systems, spreadsheets and other rating engines, end up with data redundancy, inaccuracies, and duplication of efforts as rating changes get implemented across multiple solutions. With a single rating engine, rates can be built once and distributed to any application, resulting in better speed to market, improved productivity, and greater flexibility.

Key Components of the Enterprise Rating System

An enterprise rating system should support all market segments from individual to small group and large group. It also should have a user interface that is simple enough for the business user to create, test and deploy complex rating, rules and underwriting logic without programming expertise, speeding time to market for rate changes and new products. Below are some key components of a good enterprise rating system:

Rules management

Using rules, business users maintain and define rating algorithms, rules and tables. Rules management should support company-specific underwriting rules, rating rule definition, and form determination rules. Look for multiple or

infinite rate tiering capabilities in a rating system. Rating tiers classify the insured and allow the insurer to develop specific risk factors that can theoretically increase or decrease an insured's premium. With healthcare reform, payers need to segment the market more granularly. By assigning customers to well-defined tiers, payers can not only accept more risk, but they can price that risk accordingly.

Testing and modeling

Legacy policy administration systems tend to lack the technology to thoroughly test and debug rates. Debugging reports should show every detail of the logic used to create a rate, thus allowing the user to identify errors and areas to tweak and refine. The reports should include rate tables, form lookup rules, premium calculations, and more. Additionally, the rating system should have modeling tools that allows the user to compare the effects of a program change to existing rates. This business analysis solution enables users to test the impact of "what if" scenarios on their book of business before launch in the production environment.

Compliance

The ability to adhere to industry compliance through audit trails is an important part of an enterprise quality application and should be part of the payer's compliance strategy. If a rating engine is embedded within the policy administration system, detailed audit trail reports can be difficult to isolate and create. The enterprise rating solution should also provide versioning capability. Tracking multiple product versions is not only important for rate change history and documentation, but also a necessary part of compliance. An enterprise rating system should supports product versioning for maintenance and management of multiple product versions per line of business.

Integration

A well-developed rating system should easily integrate with your existing infrastructure. Look for an open and SOA-based system that can easily integrate with any and all policy administration system, medical underwriter system, Web portal, premium billing, and CRM system to effectively harness the full value of technology investment.

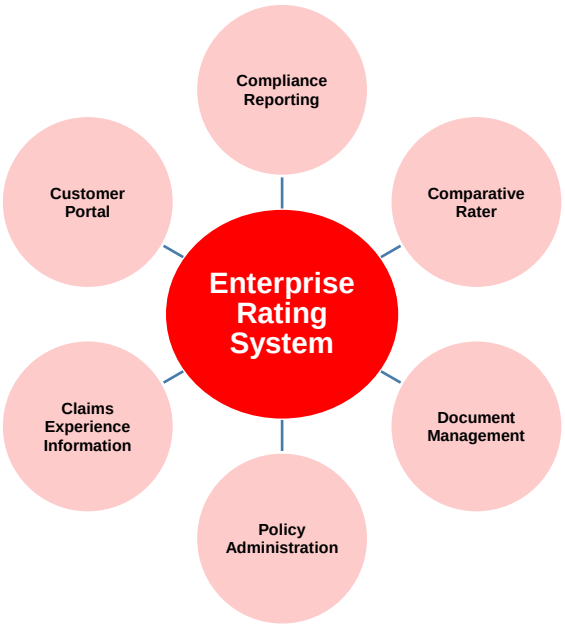

Figure 1. The enterprise rating system: a single rating source of truth.

Conclusion

The Patient Protection and Affordable Care Act takes one major uncertainty out of the equation and clarifies the opportunity for payers. Many of the details remain blurry, but that only provides added fuel for disruptive innovation. The law will be tweaked, and regulations will change for years to come, and the November 2012 elections could change the course of healthcare reform all over again.

However the details play out, payers should prepare to adapt as the circumstances change. The days are surely numbered for yesterday's slow-moving entities. A good enterprise rating system will position payers with a more agile business, reduce total cost of ownership, and speed time to market to gain competitive advantage.

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