

## Case Study: Statewide Health Insurance Provider Undertakes IT and Business Process Outsourcing Efforts

EquaTerra Helps Position the Company to Cut Costs, Be More Competitive

### At a Glance

#### Company Profile

**Industry:** An independent, statewide licensee of a national health insurance provider that has been providing quality health to the public for nearly 70 years

#### Services Featured

- Strategy and Assessment
- ITO and BPO
- Transition
- Governance
  - Organizational Design
  - Process Design
  - Retained Organization
  - Training

#### Business Processes Involved

- Information Technology
- Cash Disbursements
- Claims Processing
- Mail Support Services
- Membership Administrative Services

### Executive Summary

The statewide licensee of a national health insurance provider was seeking opportunities for cost savings and improved service delivery. EquaTerra was retained to assess the situation and develop a post-governance plan for the newly outsourced functions. Not only did the company meet its goals but, working with EquaTerra, the provider implemented numerous improvements that will help it achieve a stronger, more competitive position in the marketplace.

### Business Challenge

With an eye on improving the health of its members, strengthening relations with providers, and simplifying the organization's business processes, this insurance provider was looking to outsource some of its non-customer-facing business functions and processes. The organization desired lower administrative costs, a more effectively run internal structure, improved service levels, and a stronger, more competitive position in the marketplace. To help the organization achieve such aggressive goals, it retained EquaTerra to assess the benefits of outsourcing some of its non-customer-facing business functions and processes and to help with post-transition governance services.

### How We Helped

In an outsourcing assessment, EquaTerra helped this statewide health insurer decide which non-customer-facing or backroom business functions it could potentially outsource. The functions that EquaTerra recommended as viable candidates for functional and service level enhancement included the following:

- Cash Disbursements
- Claims Processing
- Information Technology
- Mail Support Services
- Membership Administrative Services

While EquaTerra advisors and executives from the health insurance organization also considered several other backroom business functions as potential candidates for outsourcing, those functions were screened out because they showed minimal opportunities for cost savings and/or improved service delivery. This comprehensive assessment enabled the health insurance provider to make an informed decision about what non-customer-facing business functions it should outsource to achieve its goals.

## Post-transition Governance

With the decision made to outsource specific non-customer-facing business functions, EquaTerra was again engaged to assist the statewide health insurance organization to transition the responsibility of the backroom functions to the chosen outsourcing service provider. Overall, EquaTerra advisors played a pivotal role in developing and managing the newly formed governance team and the requisite structure of the newly outsourced functions.

The governance structure that EquaTerra helped establish included the following four primary elements:

- Documenting, communicating and monitoring key governance processes including performance monitoring, financial oversight, contract administration, issue management and dispute resolution
- Managing and maintaining the relationship between the health organization and the provider
- Implementing and maintaining workflow and automated service level reporting systems
- Recruiting, training and managing the governance team members

The governance spend totaled approximately 2 to 3 percent of the annual value of the contract. While this cost is low compared to industry standards, executives from the health insurance organization elected to make a small initial investment in governance processes with the understanding that future investments may be required.

Setting up a comprehensive formal governance structure involved the following four steps:

- A governance team was assembled and included members integral to the outsourcing contract with the provider. The primary governance team consisted of seven leaders from both the organization and the service provider who had specific subject-matter expertise, such as claims processing, applications development and maintenance, and IT infrastructure. Additionally, the extended governance team included experts in the areas of contract administration, finance, and project management as well as individuals from legal, internal audit and human resources. All governance team members from the health insurance provider were director-level or above.

- Outside talent was hired to provide much needed outsourcing experience. This included the addition of five EquaTerra advisors to the governance team, all who had outsourcing and/or strong administrative experience.
- Formal training was facilitated, including monthly half-day operating sessions in which 50 percent of the time was dedicated to training for specific parts of the deal, including Service Level Methodology, Pricing Mechanisms, Deal Scope and the Statements of Work, and Issue Resolution and Relationship Management courses. The remainder of the time was devoted to discussing and resolving open issues.
- Augmented governance systems were added, which included a workflow system that automated many of the established governance processes and that created a repository for the history of issues, resolutions and decisions, and the supporting rationale behind such decisions and agreements. An additional system was put into place that served to automate most of the tracking, reporting and monitoring of the more than 80 service level objectives (SLO). The governance team provided oversight and dashboard reviews on the SLO metrics, which includes both “critical service level” metrics and “key performance measurements.” The team put into place significant financial penalties for critical service level defaults.

## Results

The decision to transfer non-customer-facing functions to an outsourcing service provider is expected to have many short- and long-term benefits. By focusing its efforts on only its core competencies, the health insurance provider will advance its business transformation strategies so that it can achieve its goals of marketplace differentiation and competitive advantage.

The financial impact of the decision can be measured on many levels. In terms of outright cost savings, the health insurance organization anticipates high-end savings of nearly \$100 million over a 10-year period. Another key factor, not part of the \$100 million equation, is the cost savings realized by avoiding the investment required to replace its claims processing system (which might otherwise amount to a \$25 to \$50 million proposition) and take advantage of the state-of-the-art technology offered by the outsourcing service provider.

Additional financial, functional and/or service advantages that will result from the decision to outsource include:

- Opportunities for additional operating expense reductions as a result of the “in-scope” employees and operations moving over to the provider
- A head start across a number of technologies that will lead to quicker speed-to-market with new products and services
- The development of an end-to-end Web solution, which enables groups, members and providers to access information related to enrollment, claims, payment status and benefits
- Shared accountability, risk and cost with a proven technology and services partner, which improves delivery, reduces overall cost, and helps mitigate risk, especially in the area of technology
- Access to a wide spectrum of healthcare industry participants, including payers, hospitals, providers, specialty service providers and health sciences organizations
- Faster, better and more economical processing of claims, which will benefit groups, members and providers
- Improved technology refresh programs, which provide for newer, end-to-end technologies (at both the data center and desk level)

- Re-engineered processes leveraging the provider’s “best practices,” performance-based incentive programs, and proven methodologies that improve processing time, accuracy, work-flow management and customer-response time.

### Advisor Insights

Overall, the provisions that EquaTerra helped put into place will ensure that the anticipated business impact resulting from outsourcing its non-customer-facing functions will be positive – and it will further ensure that the health insurance provider achieves its desired goals of lower administrative costs, a more effectively run internal structure, improved service levels, and a stronger, more competitive position in the marketplace.

### About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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