

How Health Benefit Exchanges will change the business landscape in the healthcare space



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Introduction

The US Healthcare industry has traditionally been guided through reforms and regulations. In March 2010 President Obama signed the Patient Protection and Affordable Care Act (PPACA), which provided good opportunities for healthcare payers to increase their membership growth and transform their process into a more nimble one. The PPACA is aimed at creating state-based Health Benefit Exchanges in the US. Health Benefit Exchanges provide individuals and small business access to rationalized insurance plans. The idea of setting up Health Benefit Exchanges is to not only provide insurance to uninsured people, but also to reduce the costs and pressure for Medicaid. States can operate their own Health Benefit Exchanges or choose to participate in multi-state exchanges.

States must demonstrate to the federal government their readiness to launch Health Benefit Exchanges on 1 January 2013. If they fail to show readiness, the government will operate an exchange either directly or through a non-profit entity. However, each exchange that is showing progress would receive "conditional approval" in becoming fully operational by January 2014. This means that there will be systems development and contracting activities that continue to occur in 2013 after the statutory deadline for approval. As of today, 49 states and 4 territories have accepted grants to help plan and operate exchanges. A Health Benefits Exchange will be created in each state by 1 January 2014. The PPACA through Health Benefit Exchanges is expected to catalyze a paradigm shift in the way customers and small business purchase their health insurance needs.

The Congressional Budget Office predicts that by 2019, about 24 million people will have insurance through exchanges. Already, one in every six dollars of the U.S. economy is spent on a healthcare related matter. The PPACA will intensify these spends and power growth in the insurance sector, opening new opportunities across the healthcare insurance value chain.

Understanding the wider goals of the PPACA, the regulatory changes it implies and its impact on the healthcare industry, and on small businesses and individuals provides an insight into the complexity of the task, as well as the opportunities it presents to technology vendors.

Patient Protection and Affordable Care Act Timelines

| | |
|----------------|--|
| March 2010 | PPACA becomes a law aimed to assist individuals and employers with less than 100 employees to buy affordable health insurance |
| 1 January 2013 | States should get conditional approval that they will have their exchanges running by 2014 |
| 1 January 2014 | State must have created a Health Benefits Exchange |
| 1 January 2016 | States may elect to define Small Group Market as employers with 1-50 employees until 1 January 2016. After this the definition will be 1-100 employees |
| Early 2017 | States may allow business with more than 100 employees to purchase coverage in a Health Benefits Exchange |

Establishing transparency in the Payer markets

According to the PPACA, small businesses with up to 100 employees can purchase health coverage for their employees at a Health Benefits Exchange. Beginning in 2017, the states may also allow businesses with more than 100 employees to purchase coverage in the exchange.

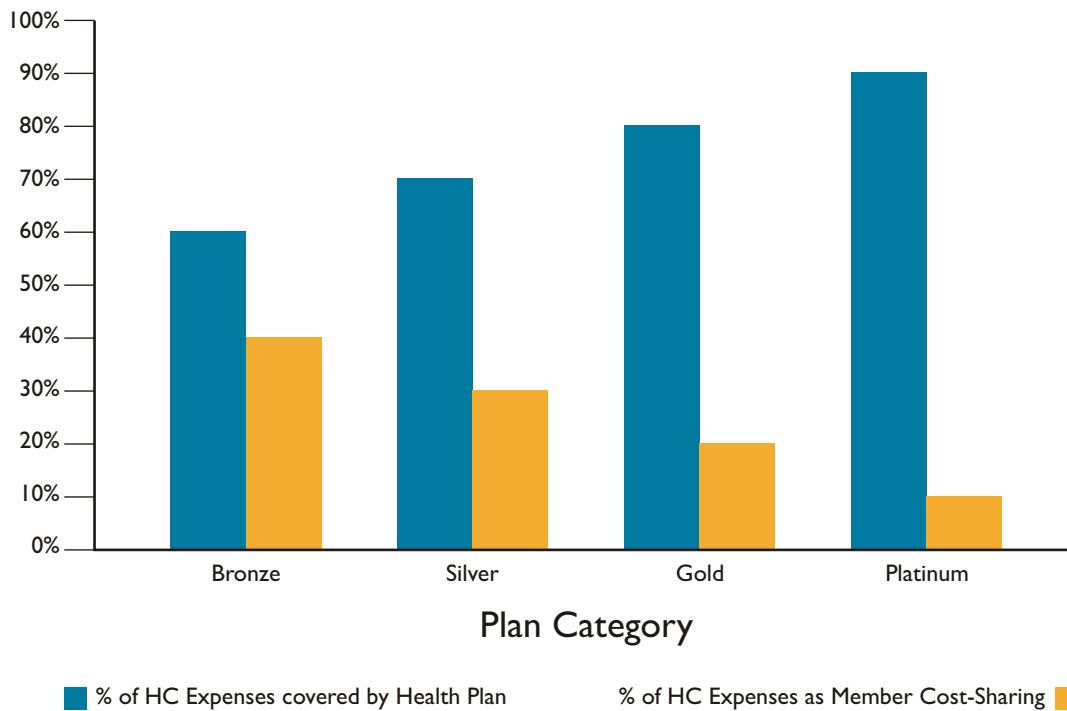
The network of Health Benefit Exchanges is expected to drive down insurance product prices for individuals and small business by pooling their purchases across states. It is the "pooling effect" that is the engine driving the success of the PPACA and the Health Benefit Exchanges. However states will not be able to negotiate with insurance companies on benefit offerings and price. Communication, innovation and collaboration are the three pillars on which the Health Benefit Exchanges rest

Understanding Insurance under the PPACA

Under the guidance of the PPACA, the Health Benefit Exchanges will enable essential health benefits that are similar to or the equivalent of those, offered by large employers. Accordingly, the health benefit packages are mandated to cover the following categories of services:

- Ambulatory Patient Services
- Emergency Services
- Hospitalization
- Maternity and Newborn Care
- Mental Health and Substance Abuse Disorder Services (including behavioral health treatment)
- Prescription Drugs
- Laboratory Services
- Preventive and Wellness Service and Chronic Disease Management
- Pediatric Service including oral and vision care

Categories of Plans to Individuals and Small Business (<50 Employees)









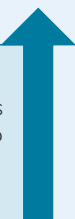





Key Stakeholders and their Needs




- Health Plans:** The health insurance companies must have the ability to access the risks and price their insurance accordingly. They must have the ability to integrate seamlessly with exchanges. They should set strategic objectives that will help them gain sustainable competitive advantage by winning additional market share with increasing subscriber base.
- Customers:** The Health Benefits Exchange is designed for the customers to easily compare the plans provided by various insurers. Transparency is maintained so that the customers know the intricate details of the plan that is suiting them.
- Exchange Operator:** The existing exchange operators need to adhere to the compliances set by the Federal agency. They should also be able to scale up their operations to cater to a larger group as and when the demand shoots up, especially, during the enrollment period.
- Federal/State agency:** They ensure that the people are given access to wider array of health coverage. They should also ensure that adverse selection does not occur which might make the exchanges unviable in the long term. Finally, cost control is one of the key propositions government agencies look for in a Health Benefit Exchange.

To Participate or Not to Participate in a Health Benefits Exchange – A Health Plan Perspective

It could be inferred that the creation of health insurance exchanges, across the states, would mean a Strategic Inflection Point in the businesses of health plans. This is, because, the fundamentals of the businesses of health plans are changing due to the external environment which, here, is the PPACA reforms. The key questions that need to be answered to make a strategic decision are

- 1) Whether to participate or not to participate in the Exchange based business model?
- 2) If participating, do we participate in all States, or selective States?
- 3) If participating, which segments of a State (subsidized individual, unsubsidized, small group etc.) are we to participate in?

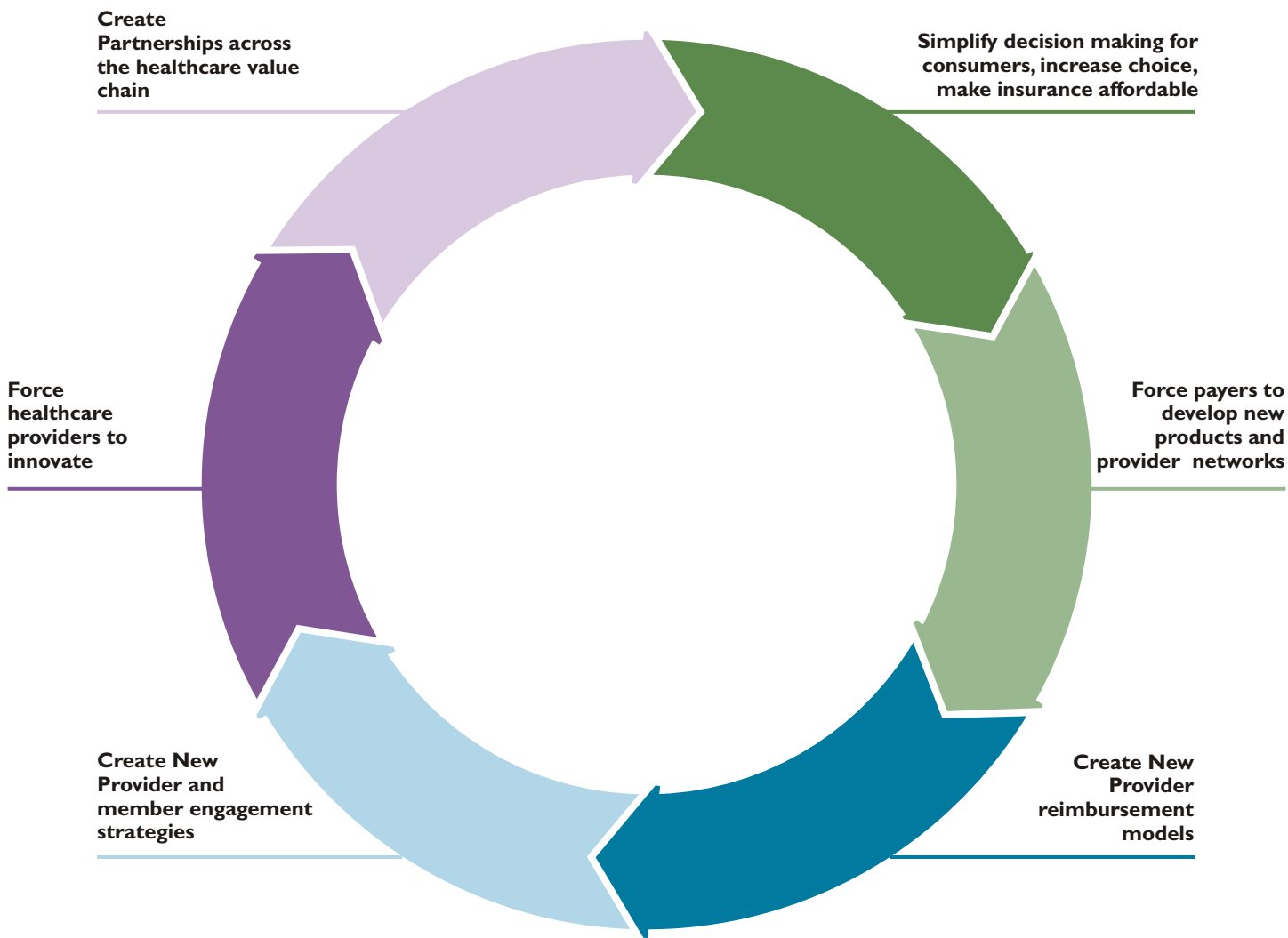
| Factors | Participate | Not to Participate |
|-------------------------------|---|---|
| Revenue Growth |  <ul style="list-style-type: none"> Volume Play: increased membership; share of the market and growth in revenue. Potential for the Cost Leader to gain share from other plans |  <ul style="list-style-type: none"> Leaving revenue opportunity on the table; potential loss of switching members Small group employer Insurance population expected to switch to Exchange will no longer be a target. |
| Margin Growth |  <ul style="list-style-type: none"> Depending on Internal cost effectiveness, potential for enhancing Enterprise Value. At the same time, risk of destroying Enterprise Value, if new set of lean and automated capabilities are not built |  <ul style="list-style-type: none"> Margins likely downgraded due to expected loss of membership - Individual / SG markets and some employer market in the long run. Need high membership volume to cover the fixed cost |
| Risk & Utilization |  <ul style="list-style-type: none"> Potential adverse selection in certain States based on how effective their policies are. The transition of uninsured to insured is likely to have pent-up need for care leading to higher utilization and lower margins |  <ul style="list-style-type: none"> Not to deal with riskier population |
| Member Loyalty |  <ul style="list-style-type: none"> Opportunity to enhance member loyalty/stickiness due to portability factor on those who switch to Exchange |  <ul style="list-style-type: none"> Member loyalty and stickiness may get impacted on a selective population |
| Brand Image |  <ul style="list-style-type: none"> May help enhance or expose quality performance issue if any |  <ul style="list-style-type: none"> May create adverse impact on the branding and public perception |
| Next Generation |  <ul style="list-style-type: none"> Volume Play: increased membership; share of the market and growth in revenue. Potential for the Cost Leader to gain share from other plans |  <ul style="list-style-type: none"> Continue to Invest but not a disruptive innovation |

 Positive Impact
  Relative Adverse Impact
  Neutral Impact

Driving Change: A Top Level View

The PPACA calls for vast changes in the health care system that will impact patients, insurers, health care providers, hospitals, pharmaceutical companies, medical technology vendors, physicians, regulators, business models, public healthcare administrators, products and services. The changes are so vast that analyzing its complete impact and implication is difficult.

Largely, the PPACA and the Health Benefit Exchanges will:



Customer Centricity at the Heart of the Health Benefits Exchange Strategy

The business opportunity in Health Benefits Exchange is phenomenal. The market resulting out of the PPACA will be twofold:

- A primary market: The primary market will be the setting up of the Health Benefits Exchange platform. Thus, the primary market will see the creation of a platform in the most cost effective and efficient manner, which will include a web access portal for individuals to enroll. This will mainly be System Integration (SI) work, since these portals will link the various regulatory agencies, initiate the eligibility verification component, and the tax-credit tracking component. Winning this is critical, for the winner becomes the anchor, the gate keeper to future SI and possibly some BPO work (secondary market).

A secondary market: The secondary market will be the subsequent BPO services in support of the Health Benefits Exchange. These may include, and are not limited to, such areas as call center support, data validation, data warehousing, and payment processing / tracking. It is in this secondary market that the biggest growth of services is anticipated.

Service providers need to offer the full range of services required by the Health Benefits Exchange. The greatest financial opportunity will be in the BPO/platform services that will be required by the states on an ongoing basis.

The number of players involved, and the importance of the federal and local governments in this process means, that in addition to a market strategy, effective "nonmarket" strategies for clients to engage in over the next three years, will have to be developed.

Operational Models in Health Benefits Exchange

It is believed that there could be three models of operating a Health Benefits Exchange

1) Free Market Model: In this model the state selects a group of health plans and forms an exchange. Here, the State control on the exchange is limited, to ensure that the exchanges provide the benefits to the people, as prescribed by the HHS.

2) State Controlled Model: In this model, the state has an upper hand and controls the functioning of the exchange. They monitor the benefit offerings of the health plans and intervene as and when required. This is mainly for those states that have an elderly population, less educated and limited access to internet.

3) Hybrid Model: Here, the state offers a free market for the health plans who offer their products through the exchange. However they intervene in the functioning of the exchange as and when they feel that it is necessary.

Winning theme in Setting up an Health Benefits Exchange

The Health Benefits Exchange market is estimated to generate \$4 billion in yearly revenues (Johnson, A.). Initial contracts in states like Florida, Utah, Missouri, and Georgia have already been awarded. These are small contracts that provide evidence of the growth opportunity. These states are establishing healthcare and healthcare information technology consortia that have begun the initial work of designing their Health Benefits Exchange systems. These consortia are coordinating with state officials, trade associations, and insurance companies to prepare for Health Benefits Exchange implementation.

An example is Georgia where public and private sector working groups are already operating in partnership with the state's Office of National Coordinator for Health Information and Office of Health Information Technology and Transparency. Some of these partner firms have already received small contract awards from the state of Georgia for consulting and preliminary Health Benefits Exchange work. Participation by private sector firms at this level is important because their affiliation with these consortia allows them to design the state's Health Benefits Exchange. This will put these firms in a better position to compete for the larger Health Benefits Exchange contracts that the state will award. The aim is to generate business value from a Health Benefits Exchange. This can be accomplished by following a unique differentiation strategy that is suited to the local market needs.

Technology Capability – Innovative Solutions to drive the Health Benefit Exchanges

- 1) Exchange Gateway: The exchanges should have the ability to route inbound and outbound transactions, content to the Exchange in real-time. They should adhere to the HIPAA compliance that includes authentication, authorization and encryption security mechanisms.
- 2) Lean Automated Administration: Health Benefits Exchange has simple product designs and benefit rules. Health Plans should consider a Straight through Administration Processing – STAP Capability in real-time which will help in cutting down costs.
- 3) Technology enabled Care Management: The exchanges should sponsor or enable Remote Home Care and Monitoring for Providers. Remote consultation reduces admission, readmission and complications thereby saving costs.
- 4) Web2.0 based Customer Experience: The portal used by exchanges should provide superior customer experience. This can be done using Interactive technologies and Rich Internet Applications. Social media also plays a huge role in gaining customer satisfaction.

Implementing the Health Benefits Exchange – WIPRO Offerings

Wipro offers a blueprint methodology in establishing a roadmap for Payer from current state to Health Benefits Exchange readiness. The services include:

- 1) Consulting Services: Wipro offers high end consulting for the implementation of the exchanges. We follow a phased approach, that starts with the discovery phase, where we analyze the various market opportunities for the health plans and perform a SWOT analysis, on the prospect of taking part in the exchanges. We also perform Capability analysis for the exchanges from the business capabilities perspective and revenue generation perspective. We then perform a Gap analysis and develop a strategy to set up a program office.
- 2) Core Development Services: Wipro offers solutions on Health Exchanges, helping Healthcare payers' organizations provide services that allow integrating disparate systems and information sources. Some of the

key enablers include Functional Models/Inventory Set, Technology Toolkits/frameworks, Best in Class Infrastructure Support, Channel Enablement's for Access. Wipro offers a dynamic architecture for the exchange which takes care of the future changes with minimal reengineering and ensures a scalable platform to cater to increasing demand for services. The various services in a Health Benefits Exchange where Wipro's expertise can be used are:

- a. Portal Services: Wipro's solutions for e-Portals address Enrollment/Eligibility Services, Inquiry Services, Content management framework, Self Service Functions. Also offers frameworks/jumpstart kits for Business Process Choreography /Management (BPM), ESB /Workflow management, Business Rules Management & Reporting (HEDIS, CAHPS).
- b. Security/Infrastructure services: Wipro helps organizations with efficient end-to-end security/ governance controls & monitoring to prevent poor visibility and controls on unauthorized access to customer information. Our differentiator solution includes Integrated Common Security Framework, Identity Access Management (IDAM) in a rack, Data Encryption and Privacy Controls.
- c. BPO and Testing Services: Wipro helps in bending the Cost curve by offering Business Process outsourcing solutions and testing services that include Customer Service Support, Eligibility & Credentialing Services, and Payment aggregators.

Future State: Where do we go from here?

Legislative measures to control health care costs and make them accessible calls for innovation in creating systems, partnerships, service delivery models and business models. Technology can be an enabler for each of these aspects that govern the success of Health Benefit Exchanges. Exchanges could be self sustainable by focusing on implementation using the latest technologies.

The focus for technology companies addressing the Health Benefits Exchange opportunity needs to be around the integration of stakeholders on a common platform, ensuring quick and easy access to medical records, patient data, insurance service providers and products, automated physician entries, and payment channels.

Larger opportunities are building up on the Health Benefits Exchange horizon. The opportunities are in the form of providing data management, storage, encryption, security, analytics and visualization including medical and business analytics; application integration across the eco-system; application design, testing, implementation, maintenance and support; and infrastructure management.

Technology providers that capture and distribute health care information between stakeholders, deliver patient insight and drive efficient cost management will hold an edge over competition. But the overarching factors for success in the new markets opening around Health Benefit Exchanges will be investments made in healthcare technologies, acquisition of domain expertise, partnerships with key healthcare organizations, understanding the patient landscape and meeting regulatory guidelines.

Health Benefit Exchanges are in the development stage. An early blueprint to participate in and shape the future of IT deployment in Health Benefit Exchanges has several implications in terms of building domain-specific expertise, an understanding of the underserved healthcare insurance market in the US, regulatory hurdles and creating partnerships within the eco-system that ensure front-row participation in the design of state Health Benefit Exchanges.

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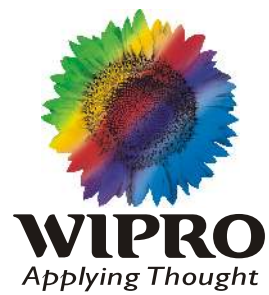
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