



IDC MarketScape

IDC MarketScape: U.S. Healthcare Payer Fraud, Waste, and Abuse Services 2015 Vendor Assessment

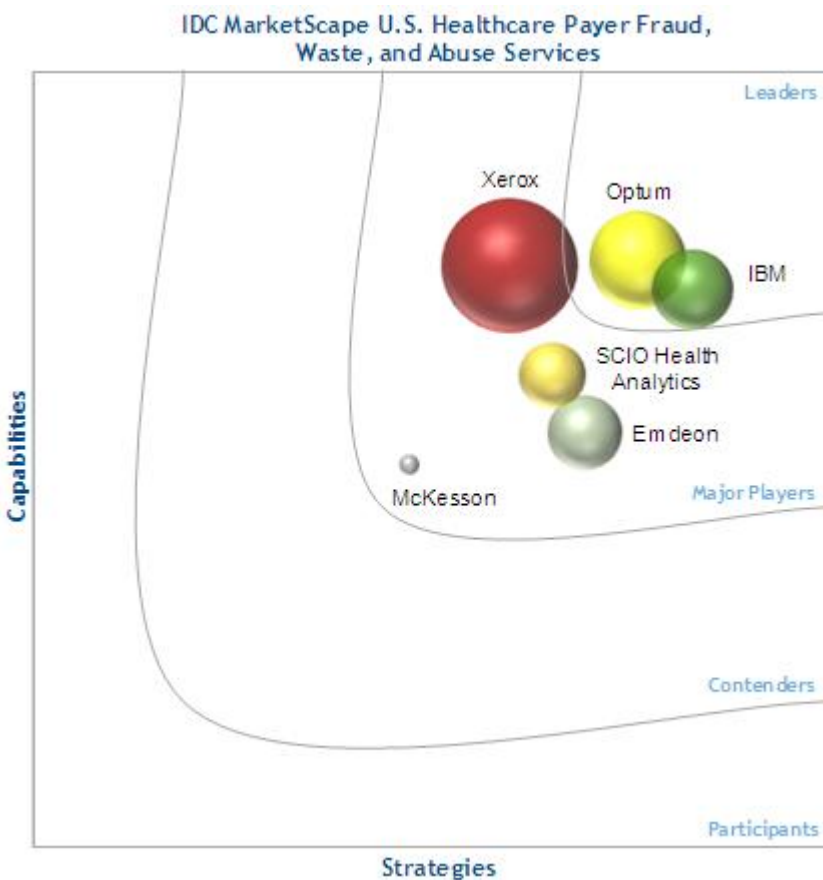
Sven Lohse

THIS IDC MARKETSCOPE EXCERPT FEATURES OPTUM

IDC MARKETSCOPE FIGURE

FIGURE 1

IDC MarketScape U.S. Healthcare Payer Fraud, Waste, and Abuse Services Vendor Assessment



Source: IDC Health Insights, 2015

Please see the Appendix for detailed methodology, market definition, and scoring criteria.

IN THIS EXCERPT

The content for this excerpt was taken directly from IDC MarketScape: U.S. Healthcare Payer Fraud, Waste, and Abuse Services 2015 Vendor Assessment – Focus on Managed Workflow Services (Doc #HI253636). All or parts of the following sections are included in this excerpt: IDC Opinion, IDC MarketScape Vendor Inclusion Criteria, Essential Guidance, Vendor Summary Profile, Appendix and Learn More. Also included is Figure 1.

IDC OPINION

Rising Importance of Payer FWA Services

This IDC MarketScape describes distinctive offerings and capabilities from six fraud, waste, and abuse (FWA) services providers and the market they compete in. This IDC MarketScape examines in detail the FWA consulting and business process outsourcing (BPO) services. These services are described mainly in isolation from related software solutions (vendors almost universally go to market with some mix of both software and services). The combined FWA solutions have been described in *IDC MarketScape: U.S. Healthcare Payer Fraud, Waste, and Abuse Solutions 2014 Vendor Analysis* (IDC #248079, April 2014) Key findings about FWA services include:

- Priority for investment in payer fraud, waste, and abuse solutions is rising quickly on payer executive agendas because of the accelerated rate of evolution of the payer marketplace in the wake of government-mandated reform. Investment in U.S. healthcare payer FWA solutions (software and services) is rising rapidly in 2014-2015. While already present in some form in over 50% of payers, in the next few years, such solutions will become ubiquitous among payers of all types and sizes in both the commercial and government sectors in some form. According to IDC Health Insights survey data, a large proportion of buyers of these solutions currently report that they have been increasing spending for these solutions in 2014 and 2015. In the next three to five years, many payers will continue to enhance their overall FWA defensive capabilities by investing in oftentimes complementary solutions from multiple vendors.
- The services component of payer FWA solutions is becoming more and more important, and it is now common for payer FWA software to be delivered to buyers "as a service." Even in cases where clients still buy and install software on-premise and maintain considerable specialized in-house FWA talent, payer FWA solution vendors frequently supply their clients with complementary services that continuously augment and enhance software solutions. The most important reason for the growing importance of the services component is that technology improvements in analytics and software-as-a-service (SaaS) solution delivery have made it more feasible for vendors to provide rapidly scalable, outsourced services at decreasing costs with defensive capabilities that outstrip those available to all but the largest payers.

Because of these developments, payers are therefore seeking guidance on how to invest in the different types of service offerings available and how the major vendors compete with each other. A detailed profile supports the evaluation of the offerings from each of the six selected payer FWA services vendors. Each profile outlines a vendor's offering components, evolution, strengths, and challenges.

IDC MARKETSCOPE VENDOR INCLUSION CRITERIA

IDC frequently has unique visibility into vendor selection processes within the healthcare payer industry through clients and other contacts in the industry. A comprehensive list of the vendors that do business in the commercial and government FWA marketplaces would include more than three dozen entities, but this research has focused only on what is believed to be the most noteworthy. The vendors considered for inclusion in this study of FWA services were judged by IDC Health Insights to be the cream of the crop in terms of total FWA services revenue (combined consulting and outsourcing) and/or deemed sufficiently differentiated and innovative to merit in-depth evaluation and comparison. Long-standing competitors such as IBM and Xerox have been compared with recent market entrants such as SCIO Health Analytics and Emdeon. McKesson has competed successfully in this marketplace for many years, but it is only now launching its FWA analytics services business as a separate offering; McKesson's recently introduced offering is evaluated independently of other software and services offerings. Brief portraits of each of the six vendors that appear in this IDC MarketScape are presented in Table 1.

The inclusion criteria were applied to the FWA services providers in terms of both their current capabilities and their strategies. Research and due diligence were conducted to narrow an initial list of vendors down to only those that IDC viewed as highly differentiated contenders for future deals within the healthcare payer FWA services market. This IDC MarketScape evaluates the FWA services from six vendors. The combined revenue of these vendors accounts for a significant portion of the industry subsegment revenue, thus representing a sizable sample of FWA services on offer to health plans.

The vendors described in Table 1 go to market with important services components to their offerings. Another related cohort of vendors offer solutions that are based much more heavily on software. The service-oriented cohort is profiled in this IDC MarketScape. To some degree, all of the vendors featured here do business with federal and state clients.

TABLE 1

Portraits of Featured Payer Fraud, Waste, and Abuse Services Vendors

Vendors	Healthcare Revenue Share of Total (%)	Healthcare Revenue Share from FWA	Size of Dedicated Healthcare FWA Services Teams	Percentage of Healthcare FWA Team That Is Hired Out of the Healthcare Industry	Years Firm Has Competed in Healthcare Industry
Emdeon	100	Moderate	Large	Very high	20+
IBM	High	Moderate	Large	High	60+
McKesson	Very high	High	Small	High	180+
Optum	100	High	Very large	High	18
SCIO	100	Very high	Moderate	Moderate	8
Xerox	10	Moderate	Very large	Low	40+

TABLE 1

Portraits of Featured Payer Fraud, Waste, and Abuse Services Vendors

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Note: McKesson's payer FWA offerings include many well-developed software tools; however, only the company's recently introduced analytic services offerings are featured in this IDC MarketScape.

Source: IDC Health Insights, 2015

ESSENTIAL BUYER GUIDANCE

Because of quickly rising interest in FWA solutions and services, IDC has conducted in-depth research on highly differentiated software, services, and vendors; the market drivers; and above all, the buyers of FWA solutions and services. This research included structured interviews with over two-dozen experienced users of FWA solutions and services, with numerous other complementary interviews. Key findings about the best practices that health plans employ when hiring and managing FWA services from external vendors are presented in *Best Practices: U.S. Healthcare Payer Fraud, Waste, and Abuse Services*, IDC Health Insights #HI253306, January 2015). Highlights are restated below:

- **Finding and maintaining appropriate talent are the greatest challenges** that health plans and services providers face as they defend themselves against FWA. FWA services vendors are well placed to make this a core competency, but buyers should evaluate FWA personnel well.
- **Quality services depend on quality software** because quality software output can reduce the incidence of false positives and waste of recovery resources, plus improve provider and member relationships and branding. Health plans are therefore well advised to make sure that FWA services vendors deploy high-quality analytic and workflow tools (or switch to them, if necessary).
- **A common understanding about data requirements and data flows** forms a solid foundation for a successful relationship between a health plan and its FWA services vendor. This requires significant initial investment and patience on the part of both the health plan and the FWA services vendor.
- **FWA services vendors can offer exceptional insight into industry relationships.** Health plans can look to such vendors for insights beyond technology and process questions, which is especially important as the profile of FWA services extends beyond the Special Investigative Unit (SIU) to other constituencies and stakeholders within the payer enterprise.
- **Managing relationships with FWA service vendors** should be multifaceted and should encompass open and immediate dialog about roles and responsibilities, vendor workflows, and recovery cash flows. Such communication can benefit the health plan's relationships with providers, members, and even (in the case of dual eligibility issues) other payers.

VENDOR SUMMARY PROFILES

This section briefly explains IDC's key observations resulting in the vendor's position in the IDC MarketScape. While every vendor is evaluated against each of the criteria outlined in the Appendix, the description here provides a summary of each vendor's strengths and challenges.

Optum

Optum (which was formerly branded as OptumInsight and, before that, as Ingenix) is a subsidiary of the publicly traded UnitedHealth Group (UHG). UnitedHealthcare, a very large payer subsidiary of UnitedHealth Group, serves the health benefit needs of individuals, employers, Medicare and Medicaid recipients, and active and retired military personnel and their families. Optum offers a range of payer and provider market-oriented software and service solutions for population health, care delivery, and healthcare operations. Optum was founded in 1996 and is headquartered in Eden Prairie, Minnesota. In FY13, Optum had revenue of \$37 billion. The various elements of Optum's current payment integrity solutions and services have been integrated from elements of Optum's acquisitions and from the payment integrity and SIU units that were carved out of UnitedHealthcare.

Optum offers a broad set of platform and services solutions. Optum's FWA services include analytics capabilities, consulting, and BPO services. Optum utilizes proprietary analytics and has partnered with SAS to offer a broader selection of tools and capabilities. In consulting and BPO roles, Optum boasts over 800 consultants, subject matter experts, and clinical and administrative professionals. The scale of this employee cohort is based in large part upon Optum's history and current relationships as a part of UnitedHealth Group. These personnel provide analytics as a service and other FWA functions on a BPO basis for the detection, investigation, resolution, and compliance processes. Optum has partnered closely with SAS software in creating and going to market with its payer FWA solutions, but in this evaluation the focus has been on Optum's services.

Strengths

Because of Optum's evolution from (and continuing relationship with) the UnitedHealth Group, the company's experience in the payer FWA market is well grounded in the commercial marketplace. Optum has also established numerous government client relationships, and its offerings are thus well balanced across the spectrum of payment integrity customer segments and expertise. Optum currently serves a wide range of payers, from the very large multiline payers to the small specialty players. Smaller payers are an important client segment, and these clients particularly value the best practices for payer FWA operational management that Optum shares. Multiple customer interviews from both commercial and government clients reveal a high level of satisfaction with Optum's breadth of expertise, with Optum's pricing, and with the realized ROI from Optum's services.

Where Optum may seek to expand its payer FWA services in the future, it is likely that it will bring value to customers quickly and at an inexpensive price point. Across a range of healthcare-related capabilities, Optum has already shown a ready willingness and speedy capability to acquire or partner with other companies. This is an operational asset that should not be overlooked as buyers of payer FWA services evaluate how their services vendors will expand and change to remain in alignment with future market developments and with the evolution of their own organizations. With respect to the pricing of its services to payer FWA clients in particular, Optum is already at a distinct advantage over its competitors because it already effectively operates extensive offshore operations that leverage ready access to employees with appropriate language skills and industry knowledge.

Challenges

Optum received good marks for overall satisfaction from clients of its services offerings, although some reported concerns about Optum's account management and the efficiency with which Optum managed its internal operations. In particular, one current large enterprise client noted that Optum could present a more unified face to the client manager. Optum's nominal "single point of contact" was ineffective in this role, which caused considerable loss of efficiency. However, at smaller, less complex accounts, client references reported that they were very happy with their account management counterparts from Optum, and particularly with the depth of payer expertise that they demonstrated. In future, Optum will likely have to restructure its account management function more effectively and perhaps staff it with personnel whose strengths are less technical and more effective at coordinating and conveying delivery of Optum's overall value proposition. At the same time, it might be appropriate if Optum made an effort to better market its broad-based value proposition, which combines deep payer FWA services expertise at competitive price points with a high level of client satisfaction in overall ROI.

APPENDIX

Reading an IDC MarketScape Graph

For the purposes of this analysis, IDC divided potential key measures for success into two primary categories: capabilities and strategies.

Positioning on the y-axis reflects the vendor's current capabilities and menu of services and how well aligned the vendor is to customer needs. The capabilities category focuses on the capabilities of the company and product today, here and now. Under this category, IDC analysts will look at how well a vendor is building/delivering capabilities that enable it to execute its chosen strategy in the market.

Positioning on the x-axis, or strategies axis, indicates how well the vendor's future strategy aligns with what customers will require in three to five years. The strategies category focuses on high-level decisions and underlying assumptions about offerings, customer segments, and business and go-to-market plans for the next three to five years.

The size of the individual vendor markers in the IDC MarketScape represents the market share of each individual vendor within the specific market segment being assessed.

IDC MarketScape Methodology

IDC MarketScape criteria selection, weightings, and vendor scores represent well-researched IDC judgment about the market and specific vendors. IDC analysts tailor the range of standard characteristics by which vendors are measured through structured discussions, surveys, and interviews with market leaders, participants, and end users. Market weightings are based on user interviews, buyer surveys, and the input of a review board of IDC experts in each market. IDC analysts base individual vendor scores, and ultimately vendor positions on the IDC MarketScape, on detailed surveys and interviews with the vendors, publicly available information, and end-user experiences in an effort to provide an accurate and consistent assessment of each vendor's characteristics, behavior, and capability.

Market Definition

FWA Solution Components

FWA solutions include prevention, detection, discovery, investigation, and reporting components. FWA solutions can be implemented in the claims pre-adjudication, adjudication, and payment processes. Where FWA solutions are successful, health plans gain not only insight into existing schemes and schemers but also opportunities to measure their responses within the context of an evolving economic and political environment. FWA solutions are in use by government and commercial payers across various medical, pharmacy, dental, and facility lines of business. For more information about the business processes associated with FWA, see *Business Strategy: U.S. Healthcare Payer Fraud, Waste, and Abuse Solutions Marketplace Overview* (IDC Health Insights #HI248027, May 2014).

Within payer environments, the toolsets and services sourced from external vendors can be highly fragmented. Some FWA solutions are composed of components from multiple vendors (e.g., McKesson employs FICO's predictive analytics and Optum employs SAS' analytics). Furthermore, many payers employ FWA solutions from multiple vendors (so suspect providers or claims may have to evade multiple FWA screens with both automated and manual processes). Tools can include identity management (master data management), business rules, predictive models, case management and workflow tools, business intelligence dashboards, and automated closed-loop feedback mechanisms. Vendors develop proprietary solutions and source them in part or whole from partners and/or customize them as needed for individual clients.

After being cleansed, data can be integrated from claims, medical facility, pharmacy, and provider and member sources. The data can then be scored and evaluated by claim, specialty, or behavior, with increased speed and reduced error rates (false negatives and false positives). As threats emerge, the bitter lessons of experience from within and outside the enterprise can be quickly integrated into these tools and associated services, including analytics as a service and special investigative unit services.

FWA solutions usually utilize rules engines that integrate the lessons learned into current claims processing. Most vendors and many payers cooperate to some extent with industry groups and government authorities to share information about FWA, thus speeding industry reactions to identification of fraudulent providers, new fraud schemes, market disruptions, common claims errors, and ineffective medical procedures. Using these industry resources, healthcare payers can respond to threats with greater speed, move faster into participation with state and federal health exchanges, counter disruptions caused by the (eventual) implementation of ICD-10, and invest in accountable care initiatives.

Predictive Analytics

Health plans hope to improve on "pay and chase" practices with predictive analytics tools. These tools offer the potential to prevent improper payments, deter future attempts at FWA, and otherwise reduce medical and administrative costs and improve service to and satisfaction among members. These solutions are particularly valuable for payers in managing their provider contracts and individual providers. Predictive analytics tools and techniques assign risk scores to questionable providers, claims, and provider behaviors at the stages where payers anticipate, detect, and discover threats. These tools use analytic techniques such as decision trees, network analysis, clustering, and anomaly detection.

Data for these tools can be integrated from claims, medical facility, pharmacy, provider, and member sources. Unstructured data is being used by more advanced solutions. Simple solutions make available limited toolsets for analyzing a narrow set of variables, while more sophisticated solutions

can be dynamically updated (even through automated processes) to evaluate customizable data sets and variables. The next generation of FWA analytics is likely to employ sophisticated cognitive computing that analyzes vast quantities of unstructured data in addition to the structured data sets now available.

FWA Services

Associated FWA services can include management consulting (operations and process reengineering), IT consulting (design, architecture, project management), IT infrastructure outsourcing, plus business process outsourcing for analytics as a service, and special investigative unit services. Technology solutions that are delivered via on-premise, hosted, software-as-a-service, and cloud models frequently include outsourced services. Outsourced models can be onshore or offshore – or a combination of both. Some vendors derive the majority of their revenue from services (e.g., SCIO, Optum, McKesson), and others are much more focused on selling software tools (e.g., SAS, FICO). The vendors featured in this research are primarily focused on payer FWA service offerings. Figure 2 shows healthcare payer FWA business process flow components in which vendors offer services.

FIGURE 2

Healthcare Payer FWA Business Process Flow Components



Source: IDC Health Insights, 2015

Economic Impact of FWA

The scale of potential impact for FWA solutions and services is large and growing. Up to 30% of the U.S. healthcare industry's spending is estimated to be lost as leakage to fraud, waste, or abuse (source: Institute of Medicine, 2009). Given that America's National Health Expenditure is projected to exceed \$3 trillion in 2014 (according to the Centers for Medicare & Medicaid Services), the absolute

dollar impact of FWA solutions is very large. While definitions vary, it is clear that the greatest financial leakage is not from intentional fraud; rather, it is from waste and abuse. Outright fraud constitutes 3-10% of total healthcare spend, while waste and abuse are estimated to constitute 20% or more of total healthcare spend.

For more information about the economic impact of FWA to the healthcare industry, see documents listed in the Related Research in the Learn More section.

Market Drivers

The market environment in which health plans are making decisions about FWA investments is shifting rapidly. Key drivers of investment for FWA solutions include:

- Health insurance exchanges and the evolution of a consumer-driven healthcare market
- Payer adaptation to minimum loss ratio requirements
- Improved capabilities of payer IT functions
- Enhanced FWA functionality, including predictive analytics

These market drivers are described in greater detail in *Business Strategy: U.S. Healthcare Payer Fraud, Waste, and Abuse Solutions Marketplace Overview* (IDC Health Insights #HI248027, May 2014).

LEARN MORE

Related Research

- *Best Practices: U.S. Healthcare Payer Fraud, Waste, and Abuse Services* (IDC Health Insights #HI253306, January 2015)
- *Business Strategy: U.S. Healthcare Payer Fraud, Waste, and Abuse Solutions Marketplace Overview* (IDC Health Insights #HI248027, May 2014)
- *IDC MarketScape: U.S. Healthcare Payer Fraud, Waste, and Abuse Solutions 2014 Vendor Analysis* (IDC Health Insights #248079, April 2014)

Synopsis

This IDC Health Insights report uses the IDC MarketScape methodology to assess six vendors competing in the U.S. healthcare payer fraud, waste, and abuse (FWA) services market. This methodology is based on a comprehensive framework and a set of parameters that are used to assess those factors expected to be most important to the success of a given solution in a given market over both the short term and the long term.

The complexion of fraud, waste, and abuse incurred by U.S. healthcare payers is evolving quickly, and many payers are seeing associated costs rise. Payer investment in FWA solutions is rising dramatically in 2014-2015. This document evaluates market-leading payer FWA service offerings in depth, offering guidance to those evaluating the purchase of FWA consulting and outsourcing services.

Disruption caused by health insurance exchanges and the adoption of value-based care delivery is coinciding with a long-term rise in non-medical professional, "consumer based" fraud. Payers therefore seek more adaptive, cost-effective counter-fraud defenses. Predictive analytics are evolving rapidly to address that need, and this has led to a new generation of analytics-as-a-service offerings. "Predictive analytics create a major departure from 'pay and chase' industry practices," says Sven Lohse, research manager at IDC Health Insights. "This IDC MarketScape helps payers quickly and cost effectively evaluate best-of-breed FWA services."

About IDC

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