

A photograph of two scientists, a woman and a man, in a laboratory setting. They are both wearing white lab coats over blue collared shirts. The woman is in the foreground, looking down at a notebook she is holding. The man is behind her, also looking down at the notebook. The background shows laboratory equipment and a clean, bright environment.

**IMPROVING FINANCIAL  
MANAGEMENT, RISK, AND  
COMPLIANCE FOR  
HEALTH PLANS**

**TERADATA**

## EXECUTIVE SUMMARY

When the Patient Protection and Affordable Care Act (ACA) was signed into federal law in March 2010, it enacted a series of new protections and coverage options for the more than 50 million uninsured individuals in the United States. For healthcare payers, however, it also signaled a series of complex changes in the way health coverage is paid for and provided, while introducing significant new regulatory requirements.

As they seek to adapt to the extensive changes required by this reform, finance executives at health plans have found that their existing financial systems are not up to the task. With these new ACA regulations, they now need to manage their businesses at a greater level of detail than in the past, and in a more integrated, holistic fashion. Most companies' enterprise resource planning (ERP) and source systems architectures are not designed to provide this detailed, transparent view of the business. As a result, finance and IT leaders see an increasing need to overhaul systems that are complex and disconnected.

This paper shows how leading finance executives in the health insurance industry are adapting to the challenges of reform by rethinking traditional financial architectures to mitigate risk, remain compliant, and improve financial performance using advanced analytics.

## NAVIGATING THE CURRENT HEALTHCARE LANDSCAPE

From tracking medical loss ratio (MLR) and risk corridors to monitoring cost of sales and profitability in new health insurance exchanges, finance executives now have a myriad of new responsibilities—all of which are directly impacting the ability to effectively manage key reporting, planning, and budgeting functions. In fact, according to a 2013 chief financial officer (CFO) sentiment study conducted by the CFO Alliance, healthcare reform is considered the second greatest internal influence on budgeting and business planning, after finding and retaining talent.

As the industry transitions to an outcome-based reimbursement system driven by quality of service, health plan CFOs need to understand and manage a number of new critical changes. The following three finance and performance management issues, in particular, are being singled out as top of mind for today's CFOs.

### Medical loss ratio

Under new ACA provisions, insurance companies for large employer plans must spend at least 85 percent of all collected premium dollars on healthcare services and healthcare quality improvement. For companies selling individual or small employer plans, that threshold is 80 percent. If they fail to meet these standards, the company is required to send a rebate to all individuals who have made claims. New medical loss ratios impact strategic planning, annual budgeting, and operational reporting. In 2012, eight publicly traded insurers paid a combined \$850 million in rebates for exceeding the limit. UnitedHealth alone was expected to pay \$307 million.<sup>1</sup> To properly budget under these guidelines, it is essential to integrate key expense and related driver/indicator data to provide early visibility of potential rebate risk.

### Health insurance exchange

When uninsured Americans begin signing up for new ACA benefits on October 1, 2013, they will be doing so through health insurance exchanges. Once these online marketplaces go into effect, health plans will want to track the cost of sales and profitability for new individually insured members, initially and after six, 12, 18, and 24 months. Accurate actuarial understanding of new members will be critical to drive the success of health plans under these retail-oriented exchanges.

### Three Rs

To reduce adverse selection of new patients that may arise from a health plan's inability to deny coverage under healthcare reform, the ACA established three mechanisms designed to mitigate risk:

- ~ **Risk adjustment:** Redistributes total payments across health plans based on the relative risk of plan participants
- ~ **Reinsurance:** Supplements the risk adjustment tool by reimbursing insurers for the cost of individuals who have unusually high claims
- ~ **Risk corridors:** Reduces the pricing risk that payers face when data on health spending for potential enrollees is limited

Although designed to mitigate risk for health insurers under new ACA requirements, this three-pronged risk-sharing model still introduces a significant level of uncertainty into plan profitability. This primarily has to

More than two-thirds of global CFOs believe “pressure to reduce the enterprise cost base, make faster decisions, and provide more transparency to external shareholders will increase” through the end of 2013.

— 2010 IBM Global CFO Study

do with the fact that the specifics of risk adjustment calculations—and even who performs those calculations—still need to be fully defined. Given the fluidity of the situation and the resulting financial implications, it is important to have an architecture that is nimble and responsive to change.

## ADDRESSING THE CHALLENGES

CFOs today are no longer simply concerned about managing profitability. With new ACA regulations comes a plethora of new responsibilities. No wonder 72 percent of CFOs expect their roles to expand in 2013.<sup>2</sup>

To limit their exposure under new MLR, reinsurance, and risk-related regulations, health plan CFOs need detailed insight into revenue, administrative expenses, and operating costs. Yet accessing this is not so easy, especially with the challenge to do the following:

- ~ **Reduce enterprise cost:** In the face of major regulatory and industry-based change, health plans face intense pressure to reduce finance and IT costs across the company. As a result, CFOs are focused on how best to consolidate, simplify, and standardize their finance architectures. The ultimate goal: do more with less.
- ~ **Provide more transparency:** The three Rs are only one example of the pressures health plans face to provide greater transparency (for internal and external purposes) between aggregate general ledger (GL) balances and the underlying transaction data, such as claims. This drives a need to link these two data sources in a clear, auditable manner that enables fast, insightful queries and maximizes reporting accuracy.
- ~ **Accelerate decision making:** According to a study conducted by The Data Warehouse Institute (TDWI), more than 60 percent of respondents said that finance teams spend too much time on data collection,

validation, and reconciliation.<sup>3</sup> For healthcare payers, this results in a lack of flexibility to adapt to market changes and new regulatory requirements. CFOs need faster, automated data management processes if they hope to actively partner with the business and better support healthcare product design, contract negotiations, and service-level agreement (SLA) tracking amidst the demands of reform.

- ~ **Integrate risk management with financial reporting:** Plans that start to accept new individual members do so without claim history, health history, or knowledge of preexisting conditions. This uncertainty represents significant risk. As it stands, risk management and financial reporting are typically viewed as two separate functions. To ensure appropriate funds are available in case of a surge in high-risk members, financial reporting and risk management need to be properly integrated.

To appropriately address these challenges, CFOs are realizing that a transformation of their overarching financial architectures is needed.

## ADOPTING THE RIGHT MINDSET

Today, many finance organizations use separate databases and tables based on different functions—such as accounts payable, accounts receivable, or GL—each with its own reporting mechanisms, tables, and systems. Although these separate systems are able to communicate with each other, they may not be fully integrated. Each application can only access information in its siloed database. This application-centric approach is no longer suitable for today’s complex requirements.

CFOs must instead adopt a data-centric approach toward enterprise information, and the first step in enabling that shift is adopting the right mindset. Some of

the key attributes today's leading CFOs have ingrained into their finance organizations include the following:

- ~ Passion for standardization and simplification
- ~ Lean cost structure, with a greater percentage of cost dedicated to value-added services, including analysis and early warning insights
- ~ Expectation that speed, timeliness, and short cycle times are business as usual
- ~ Carefully selected metrics focusing on what is really important (e.g., ten important metrics versus 100 noncritical ones)
- ~ Ability to use technology to improve efficiency and flexibility, while gaining insight to out-think and out-execute the competition

The last attribute, in particular, is critical. If selected with care, an organization's technology infrastructure can enable faster, more accurate financial analysis and reporting. This likely explains why 54 percent of corporate finance executives in the United States plan on increasing technology spend in 2013.<sup>4</sup> To simplify, standardize, and consolidate data and key processes, many leading CFOs are teaming up with IT to deploy highly streamlined, next-generation finance system architectures.

## CASE STUDY: BCBSNC IMPROVES MEMBER SERVICE

As the leading healthcare insurer in North Carolina, Blue Cross and Blue Shield of North Carolina (BCBSNC) knows that its success depends on continual and innovative development of healthcare products, services, and information that help its members improve their health and well-being. As a result, BCBSNC initiated a medical quality management assessment program that relies on a robust data- and analytics-driven environment, fueled by the Teradata enterprise data warehouse.

In just two and a half years, the program delivered \$95 million of medical cost-saving initiatives on an original investment of \$5 million and helped the company comfortably maintain a medical loss ratio within the requirements outlined by the ACA. As a result of this success, BCBSNC expanded the way it uses the Teradata solution, extending it into areas such as strategic planning, network management, product design, and fraud prevention and remediation.

## BUILDING A NEXT-GENERATION FINANCE ARCHITECTURE

To stay competitive, health insurance companies need to perform both trend and predictive analysis, in addition to calculating cost, quality, and utilization metrics related to claims, premiums, and enrollment processing. This requires payers to integrate data in a way that enables any application to pull the data it needs from a consistent source tied to other financial applications. Health insurance companies need to establish how their various applications should work together and tie them to a shared data warehouse platform.

There are four key building blocks that health plan CFOs must incorporate into their data-centric technology vision:

- ~ **Financial data warehouse:** Healthcare payers need to integrate data from various functions, whether it is claims, billing, or member systems. Yet, this is extremely complicated without an underlying infrastructure that can tie these multiple systems together. A financial data warehouse (FDW) is built from the finance-specific subject areas of an enterprise data environment, and it is this foundation that is uniquely capable of serving as a systems integration platform. The FDW links financial details to claims and risk-related data, while simplifying the provision of consistent data to countless applications and users.
- ~ **Accounting hub:** To ensure integrity, the FDW must reliably reconcile source transactions, such as related group claims and journal line detail to the GL. An accounting hub enables control, consistency, audit trail, and transparency in the complex accounting rules, treatments, mapping, sets of books, reporting dimensions, and aggregations that turn transactional data from claims or billing systems into summary, automated, and substantiated GL postings. This provides for a three-way reconciliation among the FDW, GL, and operational systems. With accounting treatments centralized and managed consistently at one point in the architecture, major efficiency improvements can occur.
- ~ **Hierarchy management:** In the face of new law, health plans need the ability to view and manage the business at varying levels of detail, aggregated across multiple dimensions or classifications, such as group type or segment type. They also need to be able to pull up this information in various views, such as a regulatory

MLR reporting view or a management reporting view—each with different measurement parameters and requirements—and ensure these different views reconcile and are driven from a common core set of data. To support financial reporting, business users must be able to flexibly view and manage these dimensions in hierarchies and change the underlying data structures that drive reporting across the broader architecture, without IT involvement.

- ~ **Calculation engine platform:** A next-generation finance architecture must integrate prepackaged software applications and highly flexible calculation engines with powerful business rules that deliver organization-wide profitability, risk, planning, forecasting, and allocation capabilities. By using the same data model and strategic platform, calculations such as the profitability of newly insured members can be shared across the enterprise to gain a competitive business edge.

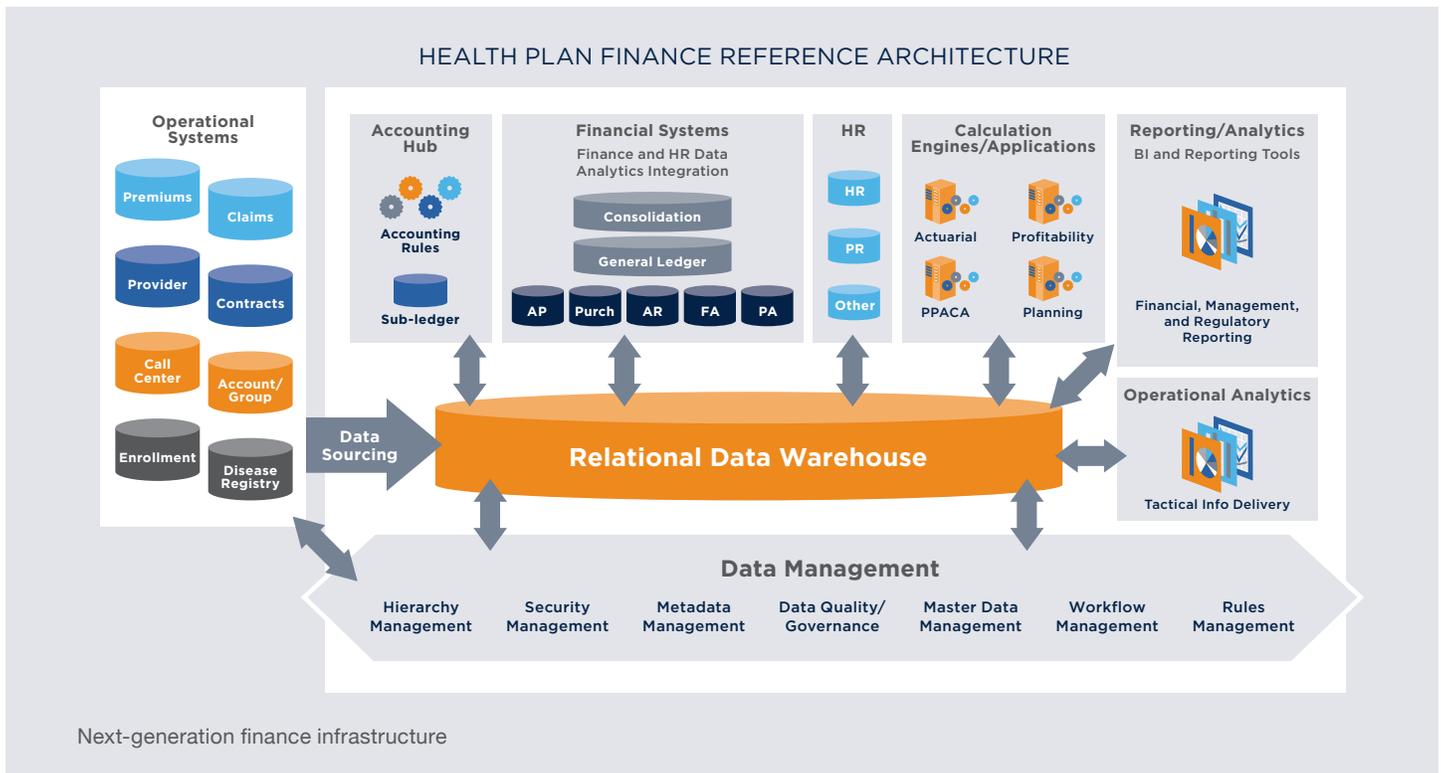
By understanding these requirements and working together with IT to deploy a next-generation finance

architecture, health plan CFOs will be in a far better position to overcome today’s challenges and reap the following benefits:

- ~ Improved transparency to fuel strategic decision making
- ~ Reduced and optimized risk
- ~ Greater accountability

## PUTTING IT TOGETHER

It is important that CFOs gain integrated and detailed visibility across all finance functions and their supporting IT resources. Built on the core principles of simplification, standardization, and consolidation, a health plan finance reference architecture (see figure) provides services, platforms, applications, and tools that result in a more effective and streamlined financial operation. This, in turn, allows finance departments to do more with less, while establishing a flexible environment that can meet the healthcare industry’s changing requirements.



“Being positioned to deliver high-value healthcare can depend in large part on organizations’ ability to collect, share, analyze, and manage information, and their ability to innovate.”

— Harry Greenspun, M.D., Senior Advisor for Health Care Transformation and Technology, Deloitte Center for Health Solutions

## CONCLUSION

With healthcare reform in full swing, health plans must now respond quickly to environmental change. For most health insurance companies, 2013, in particular, is a critical year of preparation for major ACA changes that will be implemented in 2014. How will the cost of a strategic investment affect MLR? What can be done to avoid adverse selection of new individual members? These are the types of questions health plan CFOs must ask themselves, and they will need a robust finance systems architecture to help answer them.

Is your current architecture up for the challenge? Find out by answering these three simple questions:

~ Do you have synchronized and reconciled data in your analytics engines?

- ~ Can you perform real-time actuarial risk calculations?
- ~ Are you comparing the cost of your calculation engines to industry best practices?

To effectively balance actuarial risk and operate with true reporting transparency, your organization needs a simplified, streamlined data-management infrastructure. Teradata can help you meet these goals by informing your strategy, tracking profitability, and performing new analysis—all with greater effectiveness and accuracy.

Learn more about developing a next-generation finance architecture by visiting [www.teradata.com/Finance-and-Performance-Management/Teradata-Finance](http://www.teradata.com/Finance-and-Performance-Management/Teradata-Finance).

## ABOUT THE AUTHOR

David Wiggin is the global program director of healthcare and life sciences for Teradata. His responsibilities include industry strategy, marketing, offer development, field enablement, and support. He has more than 25 years of experience in both the business and IT dimensions of the healthcare industry and is a frequent industry speaker.

## ENDNOTES

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4. “Annual CFO Survey Report 2012,” TD Bank, 2012.



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