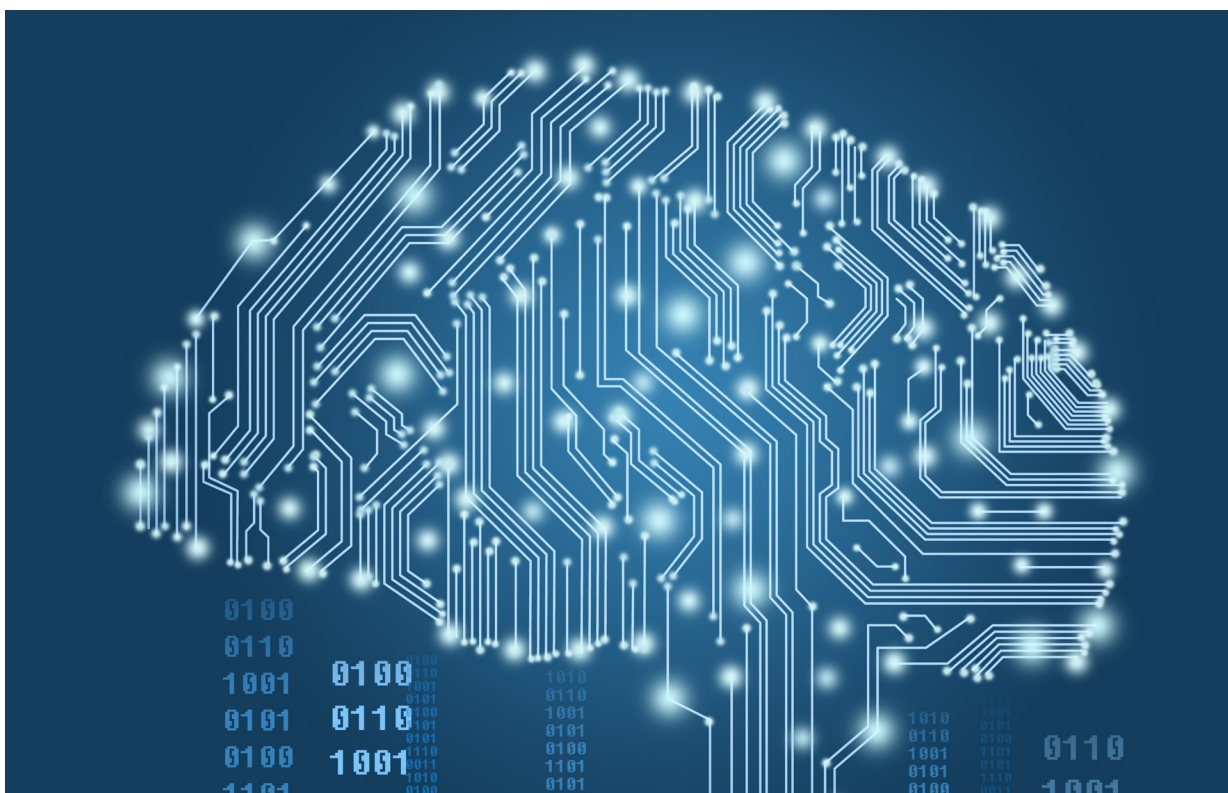Healthcare Systems and Services Practice

Digital is reshaping US health insurance— winners are moving fast

Greg Gilbert, Luís Almeida Fernandes, and Ajit Sawant

Digital is reshaping US health insurance—winners are moving fast

Although some payers are succeeding with digital, many risk being overtaken by disruptors. A winning formula of concrete steps can help other payers along the path to digital transformation.

Digital has begun to reshape health insurance markets. Payers in the United States have been slow to digitize and are still behind other industries in their use of artificial intelligence and automation, as well as in customer satisfaction.[1] They're now starting to catch up. Both incumbents and disruptors are making substantial and growing investments in digital programs. For incumbents, the impetus has been equal parts ambition and fear: the investments are simultaneously bold moves to capture new value pools and defensive actions in response to external tech-driven disruption.

Those payers that invest thoughtfully in human-centric digital transformation are beginning to see value, including material changes in member satisfaction and trust, increased revenue from digital branding and improved sales tools, and double-digit reductions in administrative costs. In addition, the stronger member relationships are often leading to lower medical costs. Nevertheless, many payers are still finding it difficult to establish successful digital programs.

By examining the experiences of successful payers and those still struggling, we have been able to identify both winning approaches and perilous pitfalls. One thing is clear: digital transformation demands a nuanced approach. There *are* best practices, but no "one-size-fits-all" solution.

Signs of a digital revolution are emerging

In the United States, healthcare accounts for almost 18% of GDP[2] and 11% of employment,[3] but the industry overall has been generally slow in adopting digital innovation. McKinsey's Industry Digitization Index, which combines 27 indicators to measure the digital assets, digital usage, and digital workers in each sector, ranked healthcare near the bottom in 2015 (Exhibit 1).[4]

The healthcare industry has since been catching up, with CEOs and boards calling for greater digital innovation. As a result, investment in digital assets is increasing heavily. Our research indicates that some payers have started to spend almost half of their IT capital budgets on technology innovation; in some cases, this amounts to several hundred million dollars annually. Venture funding in digital health has grown by an average of 32% year-over-year since 2011 and approached $6 billion in 2017.[5]

Although payers can derive immediate and direct value from digital innovation, much of the impetus for them to digitize has come from the threat of industry disruption. The largest technology companies are already making big bets on healthcare (although what they are planning is not always clear). There is also a flourishing ecosystem of smaller services

**Greg Gilbert,
Luís Almeida
Fernandes,
and Ajit Sawant**

[1] American Customer Satisfaction Survey, 2018.
[2] CMS.gov. National healthcare expenditure accounts for 2016.
[3] Bureau of Labor Statistics. Employment by major industry sector.
[4] Manyika J et al. Digital America: A tale of the haves and have-mores. McKinsey Global Institute. December 2015.
[5] Includes all healthcare-related startups. See: Jain R, Zweig M. 2017 year end funding report: The end of the beginning of digital health. *Rock Health.* January 8, 2018.
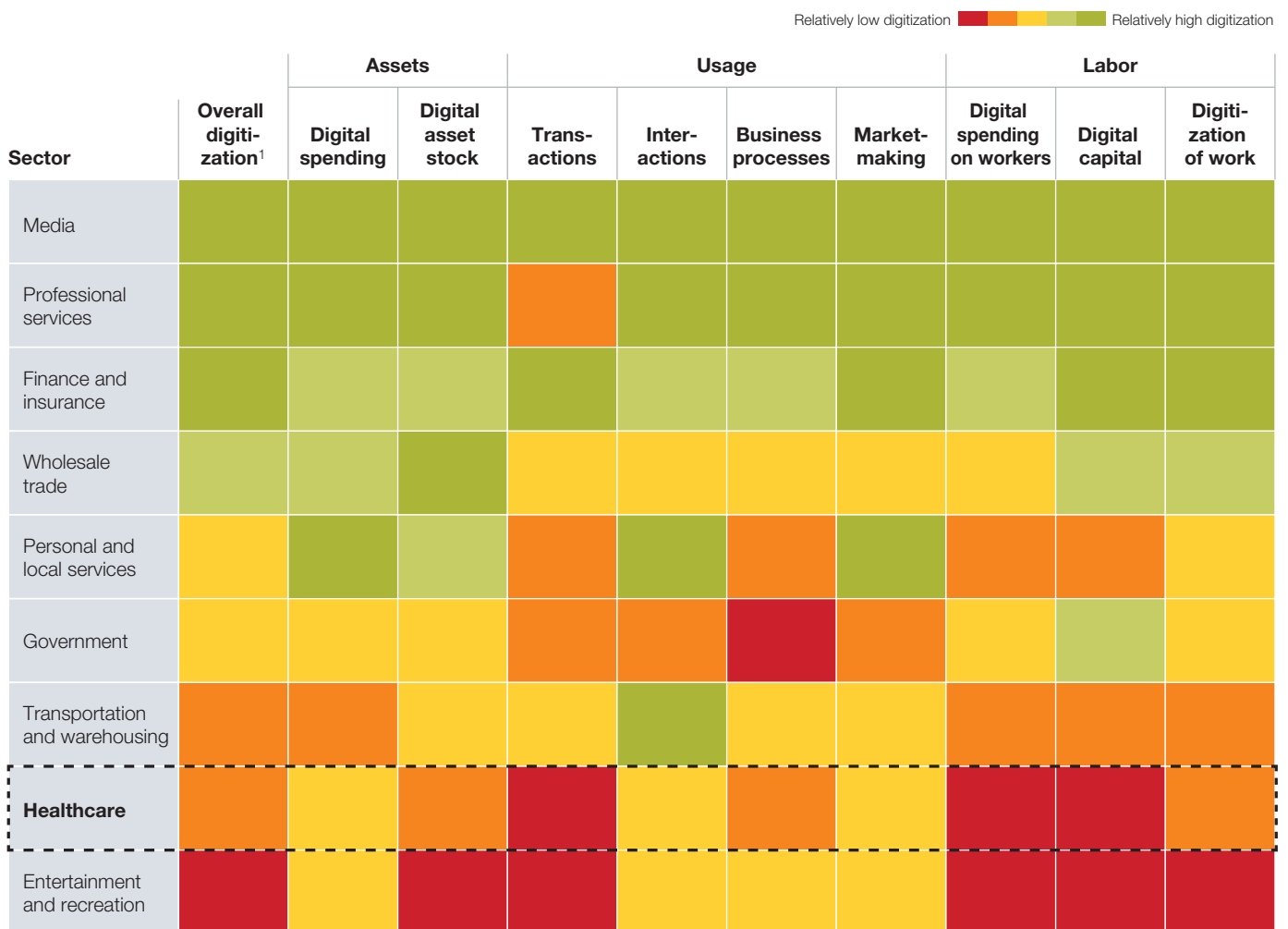
and technology companies that could develop offerings that challenge parts (or all) of the traditional payer value proposition.

We've identified several possible future scenarios based on technology-driven disruption (Exhibit 2). Notably, status quo is not among them.

Digital is increasingly delivering value for some payers

Some payers are already deriving direct benefits from their digital investments, finding value in enhanced customer experience, administrative and medical cost reductions, better mem-

EXHIBIT 1 **Healthcare ranks near the bottom in the McKinsey Industry Digitization Index**

Relatively low digitization ▮▮▮▮▮ Relatively high digitization

Sector	Overall digiti-zation[1]	Assets		Usage				Labor		
		Digital spending	Digital asset stock	Trans-actions	Inter-actions	Business processes	Market-making	Digital spending on workers	Digital capital	Digiti-zation of work
Media										
Professional services										
Finance and insurance										
Wholesale trade										
Personal and local services										
Government										
Transportation and warehousing										
Healthcare										
Entertainment and recreation										

[1] Based on a set of metrics to assess digitization of assets (8 metrics), usage (11 metrics), and labor (8 metrics).

Sources: Appbrain; Bluewolf; Bureau of Economic Analysis; Bureau of Labor Statistics; Computer Economics; eMarketer; Gartner; industry expert interviews; International Digital Center; LiveChat Customer Satisfaction Report; US Census; US Contact Center Decision-makers' Guide; McKinsey Global Institute analysis; McKinsey Payments Map; McKinsey Social Technology Survey

ber health, and revenue growth (Exhibit 3). Not surprisingly, given the required investments, many of the leading players have been large national payers, which have often partnered with smaller tech companies to make bold moves. (To date, smaller regional payers have generally used a targeted approach to address specific challenges.)

EXHIBIT 2 **Potential future healthcare scenarios**

Scenario		Rationale and objectives
Vertical integration to lock in members and control medical costs	**Payers integrate** with the value chain (e.g., PBMs, providers)	• Support members consistently across their entire care journey • Increase retention and cross-sell
Tech start-ups chip away at payer value proposition	**Rich ecosystem of technology vendors offer new solutions**	• Provide targeted and innovative solutions to traditional industry challenges • Take over payer functions where innovation can drive meaningful value
Tech players attack value pools	**Technology giants go after large value pools** (e.g., medical data management, care management, healthcare payments, healthcare distribution)	• Attack, given the industry's high spending and reliance on old approaches • Try to establish market/ecosystem solutions, taking the role of connectors
Digital payers threaten to disrupt from within	**Digital-native payers steal market share from traditional payers** by creating simpler consumer experiences	• Heavily leverage technology to completely reimagine payer delivery model • Attract tech-savvy consumers that are frustrated by experience incumbent payers provide

PBMs, pharmacy benefit managers.

EXHIBIT 3 **Typical breakdown of value generated through digital transformation**

Total impact, %		Example capabilities
Administrative cost savings	~35–40	• Self-service tools (member/provider) • Paperless communications • Sales support process automation
Medical cost savings	~35–40	• Analytics-driven provider pricing • Provider contract standardization • Guided care/pharmacy selection
Revenue growth	~20–30	• Decision support tools for age-in conversions • Unified CRM solutions enabling better lead management and cross-sell/up-sell

CRM, customer relationship management.

Source: McKinsey Digital Health Practice

However, a few digital disruptors are starting to make inroads by reimagining healthcare as we know it. (For more details about which payers are "winning" with digital, see the sidebar below.)

Digital leaders recognize the advantages of being a trusted partner for patients as they go through care journeys. Common areas of focus include guiding patients to the right care (e.g., through provider-finder tools or tailored communication at the right time and in the right

way) and improving care management (using both simpler member interfaces and advanced analytics).

These payers are also finding ways to gain market share with digital solutions. Some of them have invested heavily to improve critical member-facing functions, such as enrollment for those purchasing individual insurance. In the small-group segment, some have digitized the sales process so they can empower agents and bro-

Who is winning?

There is no "one-size-fits-all" approach to digital transformation—which one is best for a given payer depends on its size, line(s) of business, and appetite for innovation. Nevertheless, the payers that are starting to succeed with digital share several common traits.

Large national incumbents
Leading national payers are investing heavily in digital to optimize administrative costs, engage constituents, and simplify the lives of their provider partners. The leading incumbents are finding ways to invest close to a billion dollars or more annually on opportunities likely to have a high return on investment (ROI). In doing so, they are attracting the digital talent that allows them to stay ahead of the pack.

These payers are also increasing their presence in the broader technology ecosystem so they can benefit from the innovative solutions being created in a very dynamic healthcare tech market. They are creating their own venture capital arms (to keep their relationships with

smaller companies), partnering with large tech providers, and orchestrating coherent member-facing solutions that leverage external best-of-breed solutions.

Leading payers view digital and analytics as direct growth opportunities. They are also generating new revenue streams by creating solutions to offer to other payers (e.g., software as a service, integrated services, consulting support). In addition, they are striking bold industry partnerships and leveraging emerging technologies such as blockchain to design scalable and secure platforms. For example, five companies—Humana, Multiplan, Optum, Quest, and UnitedHealthcare—have launched a pilot program to apply blockchain technology to improve data quality and reduce administrative costs.[1]

However, even the large nationals remain behind other industries in their use of digital and still have room to grow. They have not yet tapped the significant potential in applying

[1] Japsen B. Optum, Humana, and Quest in blockchain deal to improve doctor directories. Forbes. April 2, 2018.

kers through better information and a faster and simpler sales experience. Additionally, some payers have found ways to better retain members as they transition into Medicare, using digital to deliver targeted analytics (to internal sales associates), as well as timely interactions and personalized messaging (to members).

All payers are prone to digital disruption of their administrative functions. We estimate that many payer-centric activities, such as data processing and data collection, could be heavily automated using existing technology. Our experience suggests that achievable administrative cost savings in effort-intensive areas could range from 15% to 40%, depending on the nature of work being automated and the extent to which technology is already being used. Leading payers have recognized this threat and are investing to stay ahead of it. Some, for example, are starting to use artificial intelligence solutions to improve payment integrity.

Who is winning? *(continued)*

automation technologies such as robotic process automation, smart workflows, and artificial intelligence. As a result, they still have higher administrative costs than necessary and continue to trail other industries in customer satisfaction.[2]

Regional payers

Given their smaller scale, regional payers often find it challenging to justify the capital required for large-scale digital transformations and identify opportunities for investment that deliver compelling ROI. However, the leading regional payers are laser-focused on their digital investments, keep an agile capital-allocation portfolio that systematically reassesses ROI, and size the business cases for each opportunity by considering its broader benefits (e.g., revenue growth, medical cost optimization).

Leading regional payers also find ways to avoid direct capital requirements for new investments. They embrace technology-centric partnerships with larger payers or service companies (in some cases, through shared multi-tenant tech-

nology platforms). They also establish win-win partnerships with smaller tech companies with compelling value propositions.

Market disruptors

A set of new tech-native payers is emerging, most of which are heavily funded (in some cases, close to a billion dollars) and often surrounded by fanfare. The winners in this set are those that have created distinctive digital capabilities and have benefited from a clean slate (no tech debt) and a vibrant start-up talent pool. They treat technology as central to their value proposition, and their digital designers have a seat at the table when the companies' direction is being defined.

The winning companies started with very narrow customer segments: those displeased with larger incumbents and eager for tailored digital solutions. As these disruptors have grown, they have started to expand to other segments and geographies so they can establish the scale required to be successful.

[2]American Customer Satisfaction Survey, 2018.

As impressive as these advances may seem, we believe that far more can be done. Indeed, it is highly likely that the next wave of digital innovation will prove even more valuable for payers (Exhibit 4).

Many payers struggle to get going with digital

Despite the success that some payers have achieved with digital, most are falling behind. We have identified five challenges that payers typically need to address if they want to head down the digital path.

Lack of enterprise-wide collaboration. Historically, many payers have used functional approaches and created silos as a way to optimize individual department performance. For some national payers, the market-level commercial structure added additional complexity. Digital success, however, heavily depends on delivering an end-to-end constituent experience that is consistent and seamless across functional boundaries. (The term *constituent* covers a range of stakeholders, including members, providers, brokers, employers, and internal employees.) Creating this type of end-to-end experience involves a level of cross-departmental collaboration that can be hard to establish.

EXHIBIT 4 **The next wave of digital transformation at payers**

	Current dimensions of digital value	**Next wave of digital innovation**
Member experience	• Omnichannel experience and human-centric design to simplify digital interactions and incentivize the use of apps and portals • Leading payers are creating digital-first, attrition-free member engagement journeys	• Machine learning and analytics will drive proactive member engagement, anticipate service needs, and solve issues and communication gaps before they even come to a member's awareness
Administrative costs	• End-to-end simplification of administrative journeys, using automation tools such as RPA, intelligent workflows, and dynamic-validation user forms • Leading payers are reducing administrative costs by 20–40%	• Commodity administrative functions (e.g., credentialing, provider data management, and claims processing) will be performed by a small group of entities that serve the entire industry, removing redundancy
Medical costs	• Point solutions using machine learning and analytics to improve payment accuracy, find members in need, and support members in finding providers • Ubiquitous use of wellness tools with unproven value	• Members will own their clinical data and allow payers and external parties to use it in ways that promote their well-being • Health support and access analytics will be delivered in real time to members via digital channels
Revenue growth	• Digital solutions empower sales team and brokers through simplified product definition, customization tools, and client intelligence • Analytics-driven tools for individual sales (e.g., for Medicare Advantage age-ins)	• New revenue streams will result from technology disruption. Leading payers will operate member-centric solution marketplaces, create digital-only products, and offer industry-serving data and analytics assets

RPA, robotic process automation.

EXHIBIT 5 **Top digital talent combines new technical/functional skills with behavioral/leadership capabilities**

New technical and functional skills …   **… combined with new behavioral and leadership capabilities**

New technical and functional skills …	… combined with new behavioral and leadership capabilities
Agile development and DevOps[1] skills	Operate at a different clock speed
Mobile skills	Experimentation mind-set
Sophisticated design skills	Ability to connect the dots across IT and problems
Analytics capabilities	Ability to work in increasingly cross-functional team environments
Skills in new IT technologies and tools (e.g., cloud, test automation)	Inspirational collaborative leader

[1]DevOps is a new approach that focuses on cross-departmental integration and automation.

Internal orientation. Digital transformation requires reimagining all operations from the constituents' perspective. It usually involves breaking old norms and reimagining the way things work. Typically, payers transform business processes using traditional levers. They tend to treat technology teams as back-end functions, but that approach will no longer do. Digital entails greater collaboration and proximity between technology and business; from the outset of the transformation, technology needs to be involved and represented on targeted cross-functional teams.

Digital talent. Digital demands the sort of talent that payers usually cannot find in-house (Exhibit 5). This talent is in short supply and is typically attracted to technology companies and/or health-tech start-ups. Most payers still rely on old recruiting approaches, mostly waiting for inbound applicants. Our research suggests, however, that only 4% to 5% of digital talent applies to posted job openings.[6]

As a result, payers rarely find the best digital talent. Attracting and retaining digital talent requires rethinking culture, performance management, and candidate experience. Most payers struggle to find the HR flexibility to adjust these processes to a new type of talent.

Technology foundation. Healthcare lags other industries in technology investments, and as a result has accumulated significant "technology debt." Most payers still take conventional approaches to infrastructure and technology updates. They are also slow to embrace organizational agility or "DevOps" (a new approach that focuses on cross-departmental integration and automation), both of which could help them improve turnaround cycles. In many cases, payers remain trapped in large multiyear efforts to change core systems or consolidate redundant platforms. Many of them have also been slow to adopt IT architecture based on modular application programming interfaces (APIs), even though that architecture would

[6]Stack Overflow Developer Survey.

pave the way for external partnerships with more innovative tech companies and start-ups.

Scale. All these challenges are exacerbated for payers that lack scale. Most smaller payers struggle to keep up with the investments necessary to overhaul their operations and technology so they can expedite their digital transformation.

Elements of a winning formula

As daunting as the challenges sound, digital winners have already started cracking the nut in the health insurance industry. We have identified several elements of a winning formula that can help payers gain traction along the digital transformation journey:

Make digital business-led and not IT-led. The business leadership team must be responsible for the success of the digital transformation. Business leaders need to create the digital vision, define and prioritize concrete areas of improvement, and mobilize their teams around joint implementation with the IT and digital organizations. In addition, they must track progress towards delivery and, ultimately, ensure business value is captured after rollout.

Appoint a chief digital officer (CDO). Digital is not IT. It requires a strong leader who can paint a bold vision of the future and excite the entire organization around it. The CDO needs to assume a role equal to that of other functional leaders; working with these leaders, the CDO can devise digital-first approaches for the organization. (For a fuller understanding of what the role of a CDO entails, see the McKinsey white paper, "Transformer in chief: The new chief digital officer."[7])

"Meet" your constituents. Successful digital programs require a human-centered design approach that is rooted in a deep understanding of all constituents. One of the first tasks for the CDO is to reorganize the organization's technology delivery teams to ensure that constituent voices are driving all product-design decisions. Designers and product owners who are experts in user experience should be put at the helm, informed by business leaders. The CDO must ensure that there is consistency across functions and technology offerings in the experiences delivered to users.

Manage talent differently. A dedicated talent team for digital-specific needs should be created within the HR department, and this team should be given autonomy to bring innovation in attracting, hiring, retaining, and incentivizing digital talent. A payer's mission-driven work, combined with its technology ambitions, can be used to attract the best talent.

Adopt new ways of working. New approaches, including design thinking, agile, and DevOps, can be used to shatter organizational silos and improve a payer's speed to market. This is as much a transformation for business as it is for technology.

Look outward and partner heavily. The digital ecosystem is dynamic. Payers must therefore keep an eye on emerging technologies and potential partners across the value chain. They should be realistic about their strengths and weaknesses, and prepared to strike bold partnerships to improve constituent outcomes and experiences (Exhibit 6).

Don't neglect the foundation. Pursuing business wins is important, but so is continuous investment in the technology foundation.

[7]Rickards T et al. Transformer in chief: The new chief digital officer. McKinsey white paper. September 2015.

EXHIBIT 6 **Potential approaches payers can take to leverage the tech ecosystem**

①	**②**	**③**
VC and PE investment in future winners	**Partner with the disruptor marketplace of the future**	**Orchestrate the ecosystem (tech/services marketplace)**
Payers take active investment role in the tech ecosystem to: • Gain financially from the success of start-ups • Gain better alignment with strategic objectives of start-ups • Selectively integrate capabilities aligned to their core offerings	Payers rely on large tech providers to: • Inorganically create capabilities to leverage the tech ecosystem • Gain buy-in and trust from tech ecosystem from partners' prominence	Payers identify the right start-ups and create an ecosystem of their own to: • Leverage their own data/reach to attract tech partners • Gain better control of governance and partner selection

The first and third approaches require significant scale.
The second one does not.

PE, private equity; VC, venture capital.

Whenever possible, legacy complexity should be eliminated; when it's not possible, the older systems should be consolidated and upgraded. API-enabled interaction points can be added to the technology infrastructure to allow for external partnerships.

Prioritize momentum builders. "Lighthouse journeys"—early transformation projects— can create value and build excitement, and so focusing on them is important, especially for smaller payers. The success of the light-house journey should demonstrate what is possible and free up the financial resources necessary to invest in the next waves of innovation.

Start now. The CDO should have a strong bias for action. There is never a perfect time to kick off a digital transformation, and so the lighthouse journey should be started as soon as possible to get the organization going. That project can help the CDO begin to build

the capabilities needed for longer-term success. Early efforts may not be perfect, but the organization can learn as it goes along.

• • •

Strong digital skills are now a must-have—not a nice-to-have—for US health insurers. A few payers have succeeded with digital; those that haven't cannot afford to be left behind. The steps outlined in this article can help all payers meet the expectations of today's consumers. ◦

Greg Gilbert (Greg_Gilbert@mckinsey.com) is a partner in McKinsey's Washington, DC, office. Luís Almeida Fernandes (Luis_Almeida_ Fernandes@mckinsey.com) is a partner in the New Jersey office. Ajit Sawant (Ajit_Sawant @mckinsey.com) is an associate partner in the Boston office.

healthcare.mckinsey.com