

INGENIX[®]

Real-time Medical Underwriting:

Accelerating small group medical underwriting while improving efficiency, accuracy, and effectiveness

The information in this document is subject to change without notice.

This documentation contains proprietary information, which is protected by U.S. and international copyright. All rights are reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying and recording, without the express written permission of Ingenix, Inc. Copyright 2006 Ingenix, Inc.



The Small-Group Quandary

Health plans face a growing dilemma: their small-group business suffers from stagnant growth year after year. Businesses employing between two and 50 people generally “shop” for competitive bids every year and switch carriers every three years. Such high turnover compounds an already challenging barrier: an inefficient underwriting process that impedes growth.

The time-consuming, manual processes necessary to complete individual employee health questionnaires result in only 10 percent of initial quotes leading to medical underwriting—that means 90 percent of prospects never receive a final rate. Errors and omissions in questionnaires also mean that underwriting decisions can be based on inaccurate health profiles, undermining the integrity of the quote.

Time for a Transformative Approach

Methodologies are now available to speed the time to a final quote from 10 days to 10 minutes; to replace reliance on volunteered medical histories with access to objective risk assessment data; and to determine rate quotes with a standardized automated algorithm rather than a variable decision-making process.

Taking a look back at the home mortgage industry in 1995 remains instructive for today’s health plan executive:

Prior to 1995, getting a mortgage in the United States involved completing extensive paperwork, with an application approval procedure that took days or even weeks. It was a manual, pen-and-paper process built on subjective judgment and variable criteria. The numerous steps entailed created a barrier to certain types of borrowers and certain products—particularly refinancing.

In the mid- to late ‘90s, the mortgage industry experienced dramatic change as automated underwriting (AU) technologies began to be applied to traditional, paper-intensive workflows. Accordingly, early adopters of this movement—in particular, secondary lenders Fannie Mae and Freddie Mac—experienced accelerated growth through the thoughtful deployment of AU, which:

- required minimal information from consumers;
- was built on objective credit scores and scientifically managed criteria;
- was completed on near real-time basis;
- increased the size of a consumer market and drove growth in an industry.

These same general principles— increasing speed, ensuring greater accuracy, and ultimately giving more people the opportunity to buy a home—are analogous to today’s small-group medical underwriting dynamics.

Critical Elements for Success

Reinventing the medical underwriting process will enable health plans to grow their small-group business by capturing a significant portion of that revenue that is currently lost. Three elements help facilitate this technology-based solution

Data: Prescription Profiling

A proprietary prescription profiling methodology is now available to deliver a small group’s medical profile online within minutes. Compiled from data electronically retrieved on a group’s members from multiple sources, these profiles convey the detailed prescription drug claim and insurance eligibility information included in most members’ five-year pharmaceutical benefit history. In addition, it includes their prescribing physicians and possible diagnoses, eliminating the reliance on health questionnaires.

Exact security measures in the authorization and transmission of applicant data must maintain strict adherence with U.S. privacy and confidentiality regulations governing protected health information, including the Health Insurance Portability and Accountability Act (HIPAA).

Analytics: Predictive Modeling

This technology takes the detailed medical information provided by prescription profiling, combines it with additional claims-based findings, and checks them against a class of analytic tools (predictive models) to forecast that group’s future need for medical resources.

Predictive modeling technology allows underwriters to quickly segment populations into measurable risk pools by disease or condition to better ascertain future risk. The result of the predictive model is a prescription-based risk score that quantifies the group's future risk.

Technology: Automated Rating

The automated rating engine utilizes the prescription-based risk score in conjunction with additional rating factors to generate a final medically underwritten quote without manual intervention.

An underwriting methodology with real-time capabilities affords health plans the opportunity to drive profitable growth by simplifying their underwriting process. It increases underwriting accuracy so health plans can realize this profitable growth without lowering their rates. This innovative way of doing business increases the speed and accuracy of the underwriting process as well as the opportunity to buy, while allowing health plans to organically grow their membership and increase revenue by 2 to 5 percent, as per Ingenix findings to date.

Health Plan Return on Investment

Simulated automated underwriting processes suggest that a health plan can experience a return on investment of 3:1 by automating 50 percent of a health plan's small group new business quotes. Specifically, Ingenix customer beta findings indicate that a health plan can increase the number of sold cases by 43 percent and increase revenue by 2 to 5 percent.

In fact, focus groups and simulations demonstrate that a technology-enabled system can improve issuance speed from 10 days to 10 minutes; issuance accuracy from .1R2 to .23 R2; and issuance rate from 10 percent to 55 percent. Thirty months of claims and enrollment data were examined to perform multiple simulations, studies and focus groups

Proof of Concept

Ingenix found that a technology-enabled system took the time required to obtain a final rate quote from 10 days to 10 minutes; increased the accuracy of the final rate quote; and increased the number of small groups receiving a final rate quote from 10 percent to 55 percent. Suddenly, what had been a three-step process turned into a single-step process.

Conclusion

Since small-group premiums can constitute 40-plus percent of a carrier's revenue, the challenges inherent in traditional medical underwriting—lack of speed, inaccuracy, and a low issuance rate—greatly impact the overall growth and success of the entire plan.



For Information: 800.765.6696 | insight@ingenix.com
Ingenix, Inc. | 12125 Technology Dr. | Eden Prairie, MN 55344
www.ingenix.com

About the Company

More than 1,200 payers now look to Ingenix for solutions to their complex business challenges. By integrating a diverse suite of products and services, Ingenix helps its clients increase revenue, manage medical costs, and simplify complex administrative and financial processes with powerful data, software, consulting, and outsourcing solutions. Consistent capital investment, stability of resources, and continual innovation have made Ingenix one of the largest and fastest-growing U.S. health care information companies.

About the Authors

Phillip Harker is the vice president of Risk Management Solutions for Ingenix, Inc. He is responsible for multiple product lines focused on underwriting and actuarial solutions. Harker holds an MBA from Arizona State University, with an emphasis in Finance. He was awarded his Bachelor of Science degree in Electrical and Computer Engineering from Brigham Young University.

D. Bradford Johnson is director of Underwriting Services Development for Reden & Anders, Ltd., an Ingenix company, where he is responsible for the operational implementation of predictive modeling solutions in underwriting. Johnson earned an MBA in Finance from the University of Chicago and a Bachelor's degree in International Relations from the University of Southern California.

James Minnich has served as the national practice leader for Underwriting Services at Reden & Anders, Ltd. since 2000 and has more than 20 years of underwriting experience. He has helped many insurers and HMOs incorporate predictive modeling, electronic medical underwriting, and pharmacy claims data into their underwriting process. Minnich earned a bachelor's degree from the University of St. Thomas and his CLU and ChFC designations from the American College.

Ingenix | Intelligence for Health Care | www.ingenix.com

From North America, call: 1-800-765-6034 • ingenuity@ingenix.com
For a list of Ingenix global office locations, please refer to our web site.

Corporate Headquarters | 12125 Technology Drive, Eden Prairie, MN 55344
Ingenix and the Ingenix logo are registered trademarks of Ingenix, Inc. All other brand or product names are trademarks or registered marks of their respective owners. Because we are continuously improving our products and services, Ingenix reserves the right to change specifications without prior notice. Ingenix is an equal opportunity employer.

06-10304 09/06 Original © 2006 Ingenix. All Rights Reserved