BlueCross BlueShield of Delaware

BCBSD 2008 Capabilities Assessment

Final Deliverable

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Confidential

Deloitte.

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Executive Summary

This section summarizes Deloitte's overall findings and conclusions.

Background and Objectives

- As part of the strategic planning process, Blue Cross Blue Shield of Delaware (BCBSD) asked Deloitte to assist with refreshing a 2004 assessment of operational capabilities.

- The objectives of this assessment are to:
  - Understand how BCBSD compares against future market requirements
  - Analyze how BCBSD compares against local and national competitors
  - Determine future capital requirements, priorities and high-level investment costs

- These objectives were achieved through a series of analyses, including an operational and technology capabilities assessment and a review of local and national best practices.

- The BCBSD team played an integral part in the assessment providing primary and secondary data for the capabilities assessment. Interviews and working sessions with the BCBSD executive team and department level managers were critical in understanding the current state baseline for BCBSD.

- What follows is a review of the changes since 2004, an executive summary outlining key strengths, areas of opportunity, high-level recommendations, and a summary of gaps and cost estimates.

Summary of Findings: Key Strengths

Since 2004, BCBSD continues to be the dominant player with strong brand recognition in the Delaware market. Key accomplishments over the past four years include:

- Established the company as an independent Blues plan from CareFirst
- Increased market share 11%*
- Grew total membership 19%*
- Increased revenues 57%*
- Contributed a total of $5.5 M in corporate charitable giving and community investments between 2005-2007
- Developed a consumer-driven health (CDH) product and experienced membership growth in the individual, large group, and CDH product segments
- Implemented several new technologies including:
  - An imaging / optical character recognition (OCR) solution
  - BenefitFocus for the employer and broker portal
  - An integrated care management application (MEDecision's CarePlanner)

Source: BCBSD 2004 and 2007 Financial Statements; Market Segments 2003 and 2007; Membership - Data Collection Tab; 2003-2007 Administrative Expense Analysis; Deloitte analysis
Note: * Data is for 2003-2007 unless otherwise stated

Summary of Findings: Areas of Opportunity

As part of the assessment, we identified several high priority areas of opportunity for BCBSD.

- The following topical areas were identified as critical to address so that BCBSD begins to lay the groundwork for the future:
  - Enterprise executive management dashboard and management reporting strategy
  - Financial systems upgrade
  - Product development process and benefit plan designs
  - Rating technology
  - Marketing resource management, campaign management and lead/opportunity management
  - Commission tracking and payment system
  - Online billing and payment capabilities
  - Core administration system
  - BlueCard process and BCBSA move to common ITS platform
  - Associate tenure and organization succession planning
  - Web capabilities development/enhancement for all stakeholders
  - Data management and reporting
- Address administrative cost structure
- Information technology has the potential to play a significant role in increasing the efficiency of operations.
- Alignment of the leadership team around the organization's strategic goals and objectives will be important. Decision-making processes and consensus-building will require the appropriate level of balance to avoid missed opportunities to innovate in the marketplace.

Summary of Findings: Recommendations

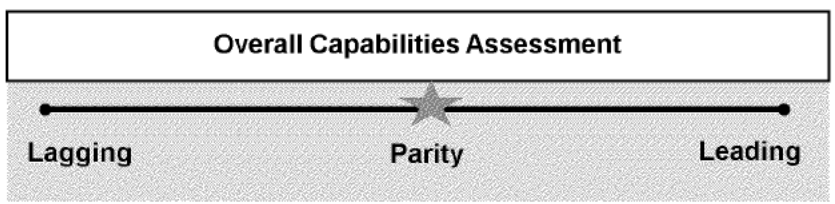
BCBSD should assess all the current gaps estimated at an investment of $100M to $129M. Our recommendations to address those gaps are below.

- Implement an **enterprise executive management dashboard and management reporting strategy** to provide leadership with a dashboard view of profitability, membership, growth trends and operational performance and help to manage and plan towards strategic goals and objectives.
- Formalize a **product development process** to incorporate the consumer 'voice' into product offerings and balance flexibility and customization with ease of administration.
- Implement a **rating technology** to automate pricing and underwriting processes that could be used with existing systems.
- Establish more sophisticated **Marketing and Sales capabilities** such as Marketing Resource Management, Campaign Management and Lead/Opportunity Management.
- Implement a **commission tracking and payment system** and re-evaluate the **broker commission structure**.
- Prepare for growth of CDH and **improve CDH administration** by offering improved member tools and better integration with other claims and customer service system and operations.
- Establish **online billing and payment capabilities**, specifically reconciliation and payment, to decrease administrative costs.
- Modernize/replace the **core administration system** because the current system is antiquated and cumbersome to code.
- Streamline or outsource the **BlueCard process** in order to meet BCBSA mandates.
- Focus on **succession planning** to address retirement eligible employees and establish the appropriate level of cross-training and knowledge transfer.
- Enhance **web portal capabilities** for members, accounts, providers and brokers.
- Establish an **enterprise data warehouse** to increase the rigor of data management, reporting, and profitability and trend analyses.

2008 Capabilities Assessment Approach

- Company performance was evaluated across two external and seven internal dimensions.
- External dimensions were assessed on favorability relative to current position and future outlook.

  ○ Unfavorable ○ Neutral ○ Favorable
- Internal dimension evaluations included two components:
  - BCBSD performance relative to current industry standard capabilities
  - BCBSD strategy and planned investments/initiatives relative to future market requirements
- Each internal dimension was provided an overall rating:



- Within each internal dimension, individual capabilities were given a rating based on the market.

Key Evaluation Factors

External Dimensions		
Marketplace		▪ Competitive, employer, demographic, legislative and regulatory dynamics
Public/Community Relations		▪ Degree of emphasis on and commitment to community mission and investments ▪ Brand awareness and strength/value in the local marketplace ▪ Public image and relations
Internal Dimensions		
Financial	**Performance**	▪ Ability to make future investments ▪ Performance relative to strategic corporate targets as well as competitor/industry performance
	Processes	▪ Assessment of growth and profitability over time ▪ Ability to plan, forecast and conduct profitability analyses
Product, Pricing and Distribution		▪ Content and structure of product offerings within core business relative to market/competitors ▪ Distribution strategy and performance across products/market segments ▪ Member account satisfaction with product portfolio and product development process
Network Management and Medical Management		▪ Size and composition of facility, physician and pharmacy networks ▪ Competitiveness of reimbursement for facility, physician and pharmacy networks ▪ Breadth/depth of medical management programs
Operational Performance		▪ Performance and capability levels of core plan operations including claims, customer service, enrollment and billing relative to market requirements and industry standards
Human Resources		▪ Overall headcount, tenure, turnover, leverage ratio, employee satisfaction results ▪ Quality and magnitude of learning and development process
Information Technology		▪ Level of functional and technical adequacy of the existing platforms ▪ Strategic alignment of major IT initiatives and investments
Informatics: Data Management and Reporting		▪ Data warehouse, data analysis and internal and external reporting capabilities

2008 Strategic Assessment: External Dimensions

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2008 Strategic Assessment: Internal Dimensions

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2008 Strategic Assessment: Internal Dimensions

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Gaps and High-Level Cost Estimates

BCBSD has a number of capability needs that will require significant investment over the next several years.

Internal Dimension	Area	Recommended Action	Cost Range	Duration
Financial	**Financial Processes**	Implement an executive management information system (Dashboard)	$3M - $5M	12 months
Product, Pricing and Distribution	**Product**	Formalize a product development process	~$250K	3 months
	Pricing/Underwriting	Implement rating technology to automate pricing and underwriting processes	$2M - $5M	9-15 months
	Sales and Marketing	Establish more sophisticated Marketing (Marketing Resource Management, Campaign Management) and Sales (Lead / Opportunity Management) capabilities	$4M - $8M	12-30 months
	Commissions	Implement a commission tracking and payment system	$300K - $500K	6 months
Network and Medical Management	**Network and Medical Management**	• Fully integrate iExchange with a new core admin system to more fully automate pre-authorizations • Implement a provider profiling system and pay-for-performance	$5M - $10M	18-24 months
Operational Performance	**Membership and Billing**	Establish an online bill presentment and payment capability (group and individual)	$1.5M - $3M	12-18 months
	BlueCard	Outsource BlueCard Host claims	$3M - $5M*	12-14 months
Human Resources	**Human Resources**	Build and execute succession plan	$2M - $3M	6 months

Note: * Based off of benchmarks from other plans; would require negotiation with NASCO

Gaps and High-Level Cost Estimates (cont'd)

Internal Dimension	Area	Recommended Action	Cost Range	Duration
Information Technology	**Core Administration – TBS (Claims, Enrollment, Billing, Provider)**	Perform assessment of core administration landscape to begin to formulate short list of possible vendor (assessment cost would be $250K-750K) This exercise will help in documenting specific capabilities that BCBSD should prioritize in any affiliation arrangement	$35M - $50M (for full replacement)	24-48 months
	CDH	Migrate CDH products to the future core administration system and build more advanced CDH tools.	$3M - $5M	12 months
	Web Portals	Once BCBSD has established a formal IT Strategy including portal rationalization, enhance online capabilities (e.g., CDH member tools, transactional capabilities)	$8M - $10M	18-24 months
	Service Oriented Architecture (SOA) / Enterprise Service Bus (ESB)	Select vendor and establish architecture for integration	$3M - $5M	12-24 months
	Electronic Data Interchange (EDI) / Business to Business (B2B) Services	Determine longer term business requirements for functions such as Claims Pre-adjudication, in order to incorporate into SOA/ESB vendor selection	N/A	N/A
Informatics: Data Management and Reporting	**Document Management**	Enhance workflow and OCR capabilities	$500K - $2M	12-18 months
	Informatics	Establish an enterprise data warehouse (EDW) and enhance data management and security	$9M - $15M	24-36 months
	External Client Reporting	Implement interactive account reporting capabilities	$3-5M	6-12 months

IT Gaps and High-Level Cost Estimates

There are a mix of "quick-hit" and longer term initiatives BCBSD can undertake to improve IT operations and delivery.

Capability	Recommended Action	Cost Range	Duration	Comments
IT Strategy and Planning	Develop IT Strategy	$500-$750K	3 Months	
Program and Delivery Management	Perform Capability Maturity Model Integration (CMMI)-like maturity assessment and develop maturity roadmap	$250-$500K	3 months	
Resource Management	Formalize skill set cross-training / SME development program	$250-$500K	4-6 months	• As a pre-requisite to the SME program, performing a review of internal/external staffing mix and targets would be advisable
Vendor and Alliance Management	Formalize and centralize the vendor management function	~$250K	3 months	• In progress; cost may be minimal
Value Management	Introduce more formal ROI / business case model to major corporate initiatives	~$100K	6-12 months	

Next Steps

- Develop an overall information technology strategy
- Develop a strategic plan to determine priorities given the recommendations from the capabilities assessment
- Determine whether BCBSD will make investments to meet the market requirements or affiliate with another health plan to meet the needs

Overview of Deloitte Engagement

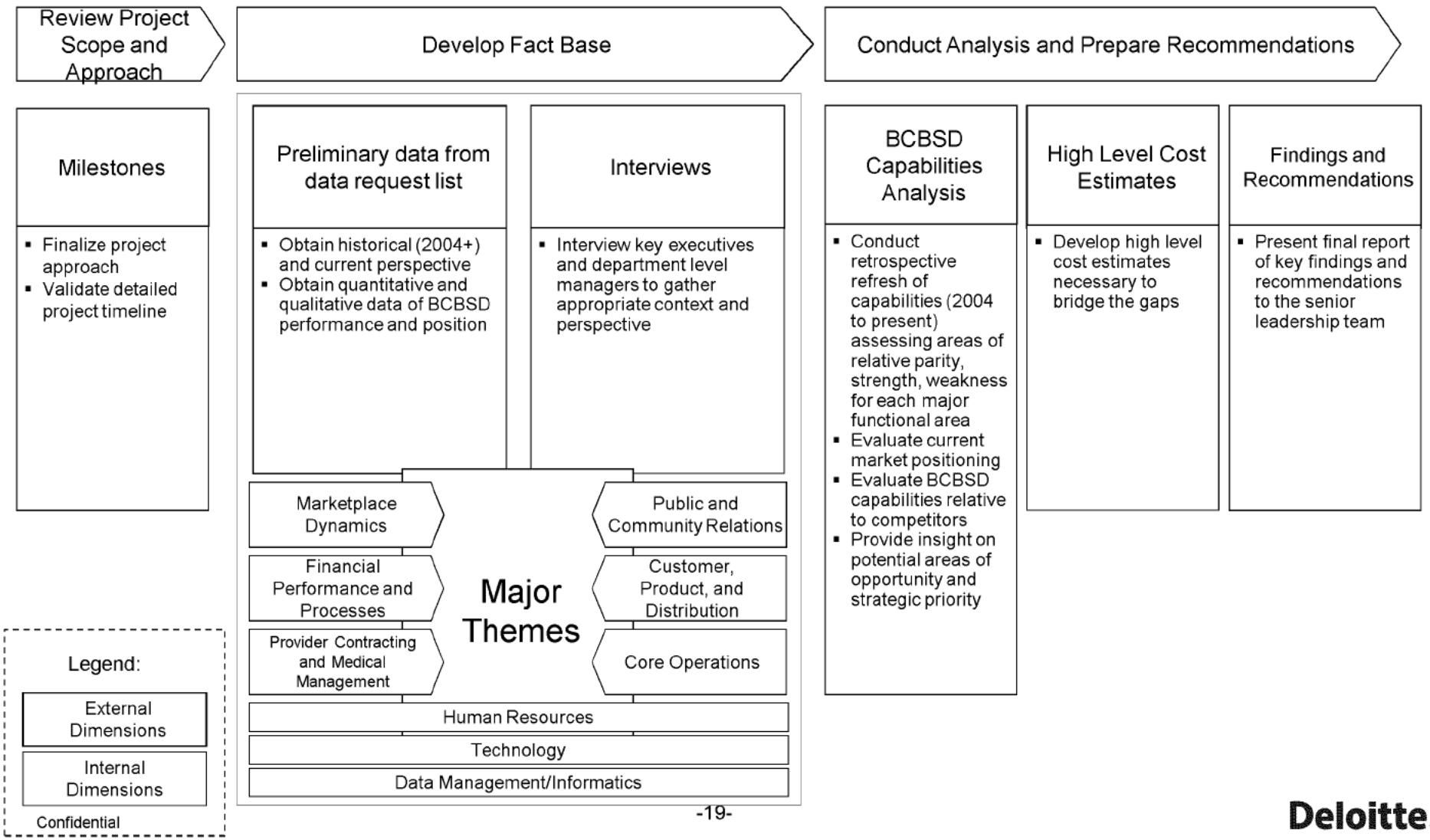
This section provides the background and objectives, scope and approach, and methodology for the Deloitte engagement.

Background and Objectives

- As part of the strategic planning process, Blue Cross Blue Shield of Delaware (BCBSD) asked Deloitte to assist with refreshing a 2004 assessment of operational capabilities.
- The objectives of this are assessment are to:
  - Understand how BCBSD compares against future market requirements
  - Analyze how BCBSD compares against local and national competitors
  - Determine future capital requirements, priorities and high-level investment costs
- These objectives were achieved through a series of analyses, including an operational and technology capabilities assessment and a review of local and national best practices.
- The BCBSD team played an integral part in the assessment providing primary and secondary data for the capabilities assessment. Interviews and working sessions with the BCBSD executive team and department level managers were critical in understanding the current state baseline for BCBSD.

Project Scope and Approach

Our project approach focused on developing a fact base, conducting strategic analyses and identifying potential areas of opportunity and strategic priority.



Deloitte.

Key Evaluation Factors

External Dimensions		
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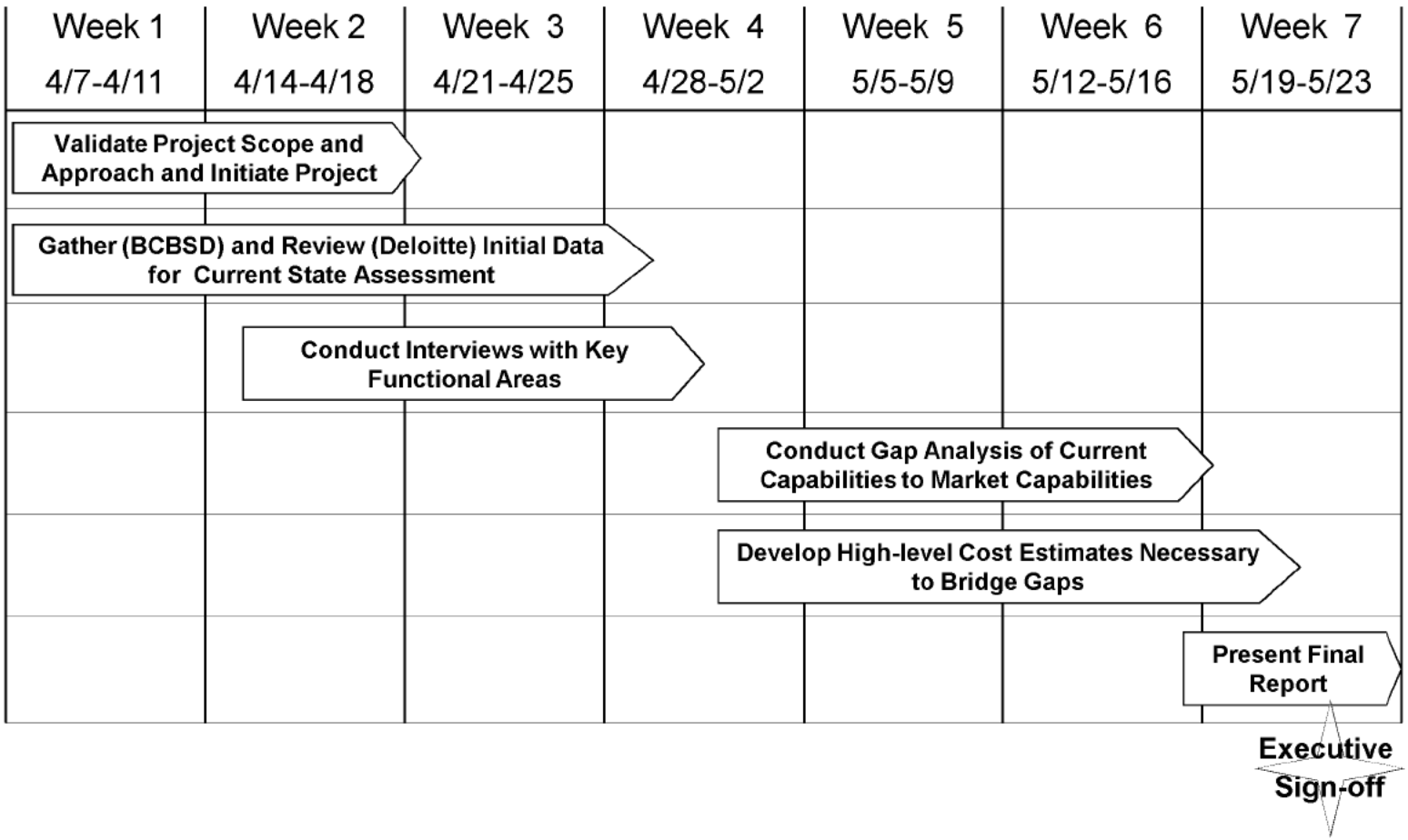
Informatics: Data Management and Reporting		▪ Data warehouse, data analysis and internal and external reporting capabilities

Timeline

Below is an overview of the high-level steps that were followed to complete the project.



Data Collection: Interview List

Interviews were conducted with over 40 participants across every major functional area within the company.

Account Retention
- Jay Reed
- John Savage

Actuarial Services
- Joe Klimchak

Agency
- Sue Dahms

Audit and Assurance Services
- John Ross

Behavioral Health
- Tim Toole

Claims*
- Esther Dill
- Jenifer Fioravanti
- Mickey Matthews
- Keith Richard
- Roy Underwood

Corporate Communications
- Darelle Riabov

Corporate Compliance / HIPAA
- George English
- Karen Kane
- Maureen Marshall

Corporate Controller and Treasurer
- Phillip Carter
- David Goins
- Gwen Olmstead
- Stuart Oser
- John Van Nostran

Corporate Marketing
- Chris Alrich

Corporate Planning
- Scott Fad
- Donna Gunkel

Customer Service
- Frank Savage
- Paula Simpson

Enrollment and Billing
- Frank Savage
- Tony Zambino

Finance
- Lauren O'Brien

General Counsel
- Bill Kirk

HSA / Flex
- Scott Fad
- Jeff Kitchen

Human Resources
- Susan Slaysman

Information Technology
- Richard Foley
- Bill Jones
- Sally Retzko

Network and Medical Management
- Dr. Paul Kaplan
- Mark Meddings

Operations
- George English

Provider Relations and Contracting
- Judy Charles
- Eileen Masterson-Carr

Provider Service
- Wendy Norman
- Diana Ortiz

Quality Improvement
- Debbie Sweeney

Sales / Product Development`
- Carl Fink

Statistical Services
- Jill Macconi

Underwriting
- Iris Carr
- Melisse Tonge

Note: * Claims include individuals from BlueCard

Data Collection: Other Sources

Key data elements and deliverables* were reviewed to conduct a preliminary assessment of BCBSD's past, present and future position.

Mission and Corporate Strategy	Financial	Operations
▪ Mission and vision statements ▪ Annual reports ▪ Relevant marketing collateral ▪ Business, financial and incentive plan	▪ Financial statements ▪ Operating/Administrative expense ▪ Loss ratio, expense ratio ▪ Top accounts ▪ Operating results by product line	▪ MTM, FEP and BlueCard scores ▪ Electronic claims % ▪ BlueCard claims % ▪ First call resolution ▪ ID card production volume ▪ Claims first pass rate, financial and processing accuracy
Market	**Sales, Product and Distribution**	**Network and Medical Management**
▪ Market share ▪ Membership ▪ Key account wins/losses ▪ Retention rates ▪ Competitor profiles ▪ Average price changes ▪ Market environment	▪ Sales target and performance ▪ Incentive plans ▪ Broker, member, provider and employer survey results ▪ Brand performance survey results ▪ Current product listing	▪ Number of providers/hospitals contracted and coverage ▪ Pharmacy utilization and trend ▪ Inpatient utilization trends ▪ Average reimbursement increases
Employees	**Technology**	**Public Image**
▪ Organizational structure ▪ Employee survey results ▪ Employee demographics ▪ Employee turnover rate ▪ Employee to member ratio	▪ IT investment budget / capital investments ▪ Corporate initiatives ▪ Technological improvements ▪ Web strategy ▪ Application listing	▪ Newspaper headlines and articles ▪ National accreditation ▪ Community initiatives ▪ Budget for corporate donations ▪ Working Well Report

Note: *The list provided is not exhaustive but is intended to provide an overview of key data elements

2008 Capabilities Assessment

This section explores BCBSD's competitive strengths and gaps today relative to current market demands and competitor offerings. In addition, this section provides Deloitte's perspective on BCBSD's positioning and plans relative to emerging future requirements and industry trends.

BCBSD Fast Facts

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Marketplace

Marketplace Perspectives

BCBSD continues to be the dominant player in the Delaware market even when national competitors have increased focus on the local marketplace.

- From a demographic perspective, the Delaware population grew 8.9% from 2000 to 2006 and is expected to continue to grow, particularly the senior population (age 65+).
  - The senior population is expected to grow 36% nationally between 2010-2020. Within Delaware, the senior population is projected to grow 37% within the same time frame compared to an overall 9% state population growth.
- BCBSD maintains the position of market leader even though competitors are making a play for market share.
  - Over the past 4 years, Aetna and United have increased market share through acquisitions.
  - Coventry decreased market share with the loss of the State of Delaware account but has a renewed focus and success in the small group market.
- The top two employers in the state of Delaware are customers of BCBSD.
- The regulatory environment within the state has become more challenging since 2003.

Source: U.S. Census Bureau; Delaware Population Consortium; BCBSD Interviews

Service Area Demographics and Population Growth

The population of the counties which comprise BCBSD's service area is expected to surpass 1 million by 2025, which is a 17% growth.

Population Growth

- BCBSD services 3 counties: New Castle, Kent and Sussex. Sussex County is projected to have the largest population growth by 2025 at 31%, compared to Delaware state's 17% growth.
- Delaware's population is expected to grow 9.8% over the next 10 years and 22% by 2030.
- Delaware's senior population, age 65 and older, is expected to increase by 22% by 2015 and by 61% by 2025.
- More Delaware residents commute to another state for work than those residents who commute within the state of Delaware. Individuals who commute out of state are not part of BCBSD's potential market which is confined to the three counties in Delaware.
  - In 2006, 87% of the Delaware labor force worked within the state and 13% (approximately 56,000) worked outside of their state of residency.
  - Today, an estimated 31,000 people commute into Delaware from other states. It is expected that 51,000 will commute outside of Delaware for work in 2020.
- The uninsured population comprises 12% of the state population, which is below the national average of 15.8% in 2006.

	2000	2006	% Change[1]	Comments
Population	**783,600**	**853,476**	**8.9%**	▪ **The U.S. population grew at 6.2% between 2000-2006.** ▪ **The insurable population (age 18-64) in Delaware has experienced a 9.8% growth between 2000-2006 with a significant increase in the senior population ages 60-64.**
# of Firms	**20,167**	**21,069 [2]**	**4.5%**	▪ **Approximately 45% of Delaware companies have 1-4 employees, which is very close to the U.S. statistic of 47% of companies.**
# of Delaware Residents in the Labor Force	**401,152**	**434,952**	**8.4%**	▪ **This includes individuals ages 16 and over who are in the labor force.** ▪ **The U.S. labor force has increased 4.7% between 2000-2006.**

Source: U.S. Census Bureau; State of Delaware website; BCBSD 2007 Environmental Assessment with Implications for 2008; University of Delaware Population Study; Deloitte Analysis
Note: [1] Data only available for years 2000 and 2006 for Delaware; [2] Number of firms is from 2005 data

BCBSD Competitors and Market Share

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Top 10 Accounts[1]

REDACTED

Top 20 Accounts vs. Top 20 Employers

REDACTED

Top Employers in Delaware (No. 21-50)

REDACTED

Stakeholder Relationships

BCBSD has maintained strong stakeholder relationships by addressing the evolving needs of each constituent. Today strong stakeholder relationships appear to be an area of competitive advantage.

Overall member satisfaction has decreased since 2004 but competitors had the same experience:

- *Members are satisfied with the network and the ease with which they can obtain good care*
- *Accuracy of ID cards was rated highly*
- *Customer service representatives received high ratings but members would like problems to be resolved in a more timely manner*

Members
Rating: (+)

Providers
Rating: (+)

Provider relationships have been mostly positive since 2004:

- *Voice Response Unit (VRU) was not effective in getting issues resolved*
- *BCBSD has a competitive advantage in written materials and provider seminars*
- *Providers gave high ratings to timeliness in processing provider applications and ease of the referral process*

BCBSD

Employer satisfaction has trended downward for both BCBSD and its competitors since 2004 but leveled off in 2007:

- *Employers would like increased web capabilities*
- *Overall enrollment process and timeliness of ID cards were not rated highly*
- *Employer groups with 51-199 employees would like additional options for controlling costs*

Employers
Rating: (Neutral)

Brokers
Rating: (+)

Broker relationships have remained consistently strong:

- *Brokers are more likely to recommend BCBSD than any other carrier*
- *BCBSD has a competitive advantage in commission rates/bonuses*
- *Support is provided to brokers in sales for Consumer Driven Health Products (CDH)*
- *Sales and Retention representatives have strong product knowledge*

Source: 2007 BCBSD Stakeholder Analysis; 2007 Broker Satisfaction survey; BCBSD Member Real Time Summary 2007; BCBSD New Member Enrollment Satisfaction 2007; BCBSD interviews

Regulatory Environment

BCBSD has experienced some changes in the regulatory environment and will be impacted by the 2008 elections, which include the election of a new insurance commissioner for the state of Delaware.

- There has been an increased focus on health plan regulations within the state of Delaware.
- The passage of Regulation 1310, *Prompt Pay*, has implemented more stringent claims payment timeliness standards.
  - This had an impact on operations and raised administrative costs.
- Changes to the regulatory environment will likely occur with the election of the new commissioner.
- In general, BCBSD does not see significant amount of litigation activity against the company.

Source: BCBSD Interviews

Public/Community Relations

Public/Community Relations Overview

BCBSD has been proactive in sustaining a favorable corporate public image in the community through community programs and charitable giving activities.

- Through the *Working Well Together* initiative, BCBSD:
  - Addresses the concerns of increasing healthcare costs in Delaware as an active participant in healthcare related forums.
  - Makes contributions to organizations that are focused on health-related issues, including increasing health awareness, improving quality and safety of patient care and meeting the healthcare needs of diverse membership.
- The budget for community donations in 2007 was $4 Million. In the same year, BCBSD contributed to 103 community events and programs, based on receiving and processing over 250 requests from local organizations.
  - Contributions to local organizations fall under the purview of Corporate Communications.
  - BCBSD has recently established a donor-advised fund with an advisory council who determines the recipients of donations.
  - In 2007, BCBSD donated $2 M to the donor-advised fund and a one time gift of $1.5 M to St. Francis Foundation.
- BCBSD maintains strong public awareness and is viewed favorably relative to its competitors per the *BCBSD Brand Perception Study* in 2007.

Source: 2006 and 2007 BCBSD Brand Perception Study; Working Well Together 2007 Report; Newspaper clippings; BCBSD interviews; Deloitte Analysis

Financial Performance

Competitor Snapshot

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Revenue Growth and Membership

REDACTED

Operating Income and Reserves

REDACTED

Administrative Expense/Ratio

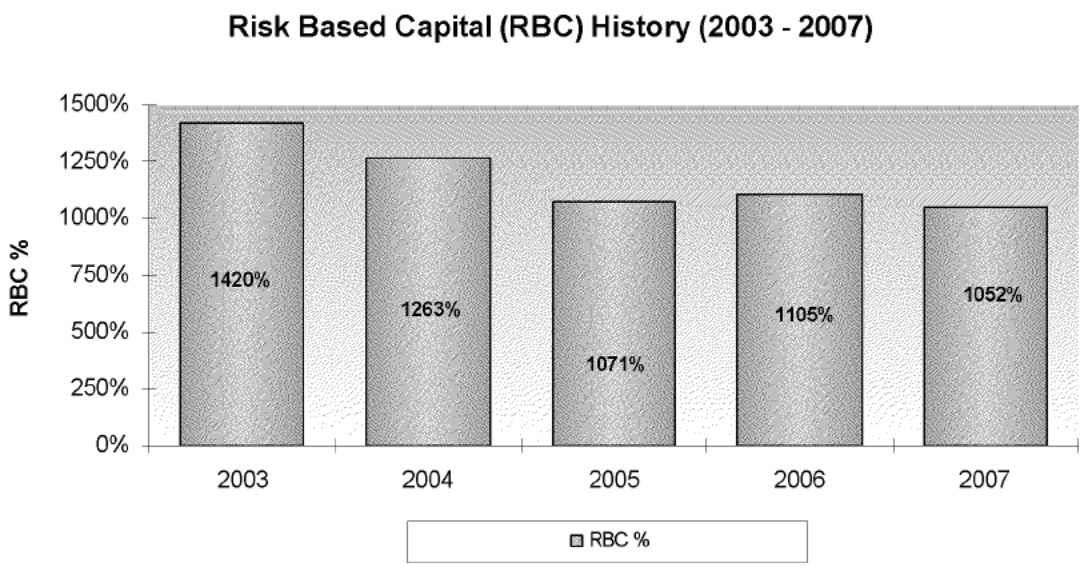
REDACTED

Medical Loss Ratio (MLR)

REDACTED

Risk Based Capital (RBC)

BCBSD's high level of risk based capital is a positive measure of the company's performance.



Key Findings

- BCBSD's RBC level is well above regulatory thresholds for the State of Delaware.
- RBC has decreased by 358 percentage points since 2003 but is still extremely favorable.

Source: HRBC 1999 thru 2007; Deloitte Analysis

Financial Processes

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Financial Processes

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Financial Processes

Since disaffiliating from CareFirst, BCBSD independently manages financial functions and processes.

Key Findings	Opportunities
▪ An executive dashboard is created but it is a manual process to consolidate information from all business areas. ▪ There is lack of key performance indicators (KPIs) that are consistent with the overall corporate strategy. ▪ Business owners feel that BCBSD lacks a data strategy and the skill sets required to conduct in-depth financial analyses. ▪ BCBSD creates an annual plan that has a business, financial and incentive component. ▪ BCBSD does not have dedicated skilled resources (i.e. medical economist) to analyze and predict medical costs. ▪ BCBSD does not have standard reports that provide actionable medical cost data to management.	▪ Dedicate more time to forecasting administrative and medical costs to improve accuracy in forecasting and budgeting activities. ▪ Consider opportunities to collaborate budgeting and strategic planning activities with financial monitoring activities. ▪ Create a centralized data repository. Multiple sources of data and manual processes involved in preparing reports create opportunities for error and require a significant amount of time for creating the reports. ▪ Increase rigor of profitability analysis. Track profitability by segment, product and account. ▪ Develop an overall strategy for the organization by determining whether the goal is to increase profitable growth or increase membership count.

Product, Pricing and Distribution

BCBSD Customer and Products

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REDACTED

Product, Pricing and Distribution: Product

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REDACTED

Product, Pricing and Distribution: Product (cont'd)

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Product, Pricing and Distribution: Product

BCBSD is able to offer highly customized products which must be balanced with managing administrative complexity and product profitability.

Key Findings	Opportunities
▪ Speed to market in new product roll out is 2-9 months. ▪ There is a demand in the marketplace for senior products. Currently Medicare supplement is the only offering. ▪ A consumer-direct health (CDH) product was recently implemented. Educating a broader group of BCBSD employees on the details of the product is ongoing. The TBS system cannot administer CDH products which is a key challenge. ▪ The ability to customize plans can be both a strength and a weakness. Highly customizable benefit plans are a market differentiator, however, they are more difficult and expensive to administer and may not be priced accordingly.	▪ Focus on development of an overall product strategy. Groups are moving to the lower cost alternatives reducing overall premium revenue. ▪ Focus on reducing medical cost through benefit plan designs. For example, BCBSD could charge a triage fee and/or actively discourage accounts from going to the emergency room (ER) by charging a higher co-pay for ER than an urgent care center to reduce ER utilization rates. ▪ Integrate member touch points with other functional areas (e.g. marketing and medical management) to enhance the member experience, improve medical management outcomes and identify cross-selling opportunities. ▪ Build consumer voice into products by conducting an appropriate level of consumer research and using it to develop innovative product designs.

Source: BCBSD interviews

Product, Pricing and Distribution: Pricing/Underwriting

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Product, Pricing and Distribution: Pricing/Underwriting (cont'd)

REDACTED

Product, Pricing and Distribution: Pricing/Underwriting

REDACTED

Product, Pricing and Distribution: Sales and Marketing

REDACTED

REDACTED

Product, Pricing and Distribution: Sales and Marketing (cont'd)

REDACTED

REDACTED

Product, Pricing and Distribution: Sales and Marketing (cont'd)

REDACTED

Product, Pricing and Distribution: Sales and Marketing

The BCBSD brand and broker relationships are a key strength relative to competitors but there are opportunities to evaluate broker commission structure and incentives.

Key Findings	Opportunities
▪ BCBSD is a dominant player in Delaware in the 51+ market and is doing well in the 1-9 market. ▪ Broker relationships are a key strength. ▪ Market research is supported by pre-established relationships through CareFirst, which provides overall trends but Delaware market specific research is somewhat limited. ▪ Online tools for brokers were piloted but not working optimally. Modifications are in process to enable e-quoting. ▪ BCBSD brand remains a key strength. ▪ BCBSD's image campaign continues to be well aligned with its objectives of regional, community-oriented positioning. Community giving aligns with BCBSD's role as a healthcare company focused on improving the health of members of the community. ▪ State of Delaware, as the largest client, has significant leverage and is provided additional services at no cost.	▪ Consider offering internal sales skills training which is currently somewhat limited. ▪ Explore whether an internal captive sales force could handle sales leads for individual products more efficiently in lieu of the current practice of referring them to a broker. ▪ Actively manage broker performance. ▪ Explore opportunities to automate sales functionality for key functions such as lead management, call documentation, sales forecasting and management reporting. ▪ Consider opportunities to streamline review of internal and external communications to improve timeliness. ▪ Focus on profitability for the individual market. ▪ Increase focus on the fully insured market, a key success for BCBSD. A reduction in administrative costs may be necessary in order to price competitively in the fully insured market segment. ▪ Evaluate broker commission structure and incentives to be consistent with the market.

Network Management and Medical Management

Network Management

REDACTED

Network Management

BCBSD has the most comprehensive network in Delaware, but opportunities exist to increase automation of network management functions.

Key Findings	Opportunities
Contracting and Reimbursement: ▪ TBS is a flexible system that supports provider contract administration and multiple reimbursement arrangements. ▪ BCBSD has a comprehensive hospital network with 100% network access. ▪ BCBSD has a 95% participation rate from providers within the state of Delaware. ▪ Average reimbursement increases for hospitals and physicians have remained at 5% and 2% respectively since 2003. ▪ Less than 20% of providers receive direct deposit reimbursements. ▪ Nearly 99% of groups contract for the pharmacy benefit. **Credentialing** ▪ Credentialing and re-credentialing are handled via paper. Primary source verification is outsourced to Credentialing Connection, Inc. (CCI). **Provider Relations** • Provider relations are a key strength for the company. Provider satisfaction scores are strong.	▪ Explore opportunities to automate current network management functions: – Eliminate monthly mailing of paper provider directories. – Eliminate mailing paper member lists to PCPs. – Focus on opportunities to increase electronic provider reimbursement . – Explore opportunities to automate credentialing. – Explore opportunities to support web portal for provider self-service to update demographic information. ▪ Explore opportunities to analyze provider inquiry trends within Provider Service. ▪ Continue efforts to identify and implement a provider profiling system to have the option of exploring tiered networks. ▪ There is an opportunity to consolidate multiple provider databases. ▪ Explore future opportunities to pursue pay-for-performance and quality initiatives, perhaps with a strategic partner. (Method to rate physicians on service has been initiated.)

Source: BCBSD Interviews

Medical Management

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Medical Management

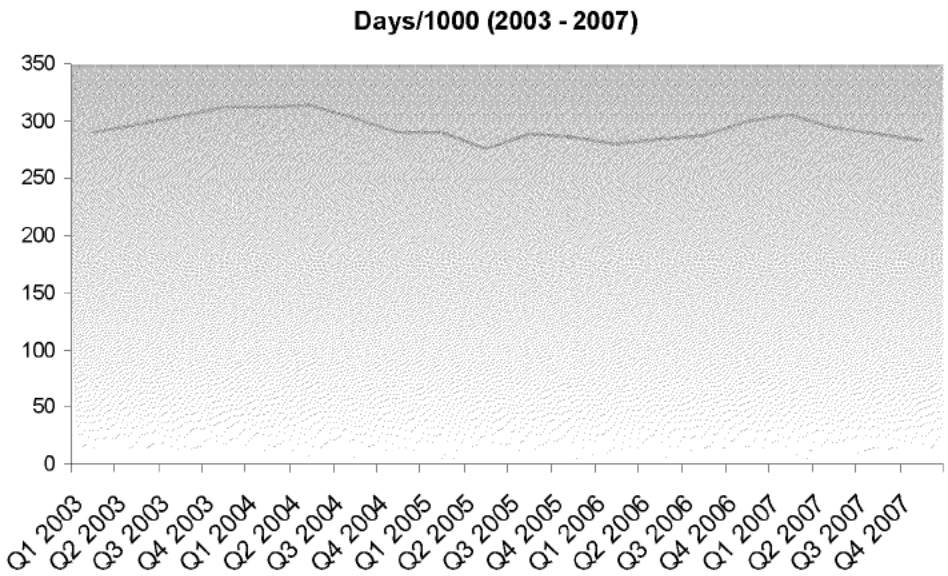
Since 2004, BCBSD has invested in an integrated care management system.

Key Findings	Opportunities
▪ Relative to competitors, BCBSD has a solid member outreach and overall medical management offering and is the market leader in the state of DE for clinical guidelines. ▪ BCBSD lags in Informatics relative to Aetna who is the forerunner in the market. ▪ A key success since 2004 is the implementation of MEDecision's CarePlanner product with minimal customization (v3.4, upgrading to v5.1). ▪ The TBS system cannot keep up with CarePlanner because it is antiquated. ▪ BCBSD tracks both inpatient and outpatient utilization through a comprehensive dashboard. ▪ CareFirst serves as BCBSD's PBM and Argus handles pharmacy claims. There are issues with Argus (no test system, issues with CDH claims). The pharmacy trend rate is at about 4-5%. ▪ There are many requests to do more employer group and community activities (e.g. health fairs) but Medical Management is not staffed to meet the volume of requests. ▪ BCBSD has their own medical policy committee but also works with CareFirst to review and update medical policy. ▪ Quality Compass is used for external benchmarking. ▪ BCBSD is in the RFP process to identify a radiology vendor for implementation in October 2008. ▪ There is an internal effort to identify cost savings through medical management activities. Healthways is able to provide ROI on DM programs for large accounts. Other vendors (e.g. Accordant) can provide aggregate ROI data. ▪ BCBSD is well integrated with Healthways on DM. Biweekly calls are set up to discuss issues coupled along with an issues log. ▪ BCBSD can view utilization and enrollment on individual member charts online.	▪ Focus on greater integration of pharmacy and behavioral health into other medical management disciplines. ▪ Explore next generation health and wellness opportunities. Staffing would be critical for it. ▪ Explore opportunities to rebalance case management activities (e.g. moving prescreening activities to mid-level clerical personnel). ▪ Need to educate providers to use iExchange for automated preauthorization functionality. However, there is a system limitation that hinders use. ▪ Across Marketing, Customer Service and Medical Management, focus on (1) integrating member touch points and (2) leveraging a longitudinal view of member data to enhance care management programs (as well as cross-selling opportunities). ▪ Continue efforts to explore cost reduction strategies for high dollar services and pharmaceuticals (e.g. radiology, chemotherapy drugs). ▪ Identify opportunities to streamline decision-making processes to avoid missed opportunities for care management innovation (e.g. Clipboard Methodology). ▪ Assess whether CareFirst and Argus are meeting PBM/Pharmacy claims needs.

Source: BCBSD Interviews

Medical Management Landscape

Since the year 2003, days/1000 have remained relatively flat, which is consistent with industry trend. The average length of stay has stayed constant.



	2005 Adjusted [1]	2006	2007 Projected [2]
Average Length of Stay	4.6	4.6	4.6

Key Findings

- BCBSD is able to hold utilization relatively flat, consistent with industry trend.
- All admissions used to require pre-authorization but it has been slimmed down to focus on procedures that really warrant preauthorization.
- iExchange is used to do some automatic pre-authorizations but capabilities are limited because the system cannot integrate with TBS to read specific plan design limitations (e.g. pre-existing conditions).

Source: Manage Care Tracking Q1 2003 – Q4 2007; Inpatient Utilization Dashboard Report 2007; BCBSD interviews; Deloitte analysis

Note: [1] 2005 is adjusted data because data was first entered into CarePlanner January 26, 2005; [2] 2007 data is projected because of data availability

Operational Performance

Operational Performance: Membership and Billing

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Operational Performance: Membership and Billing

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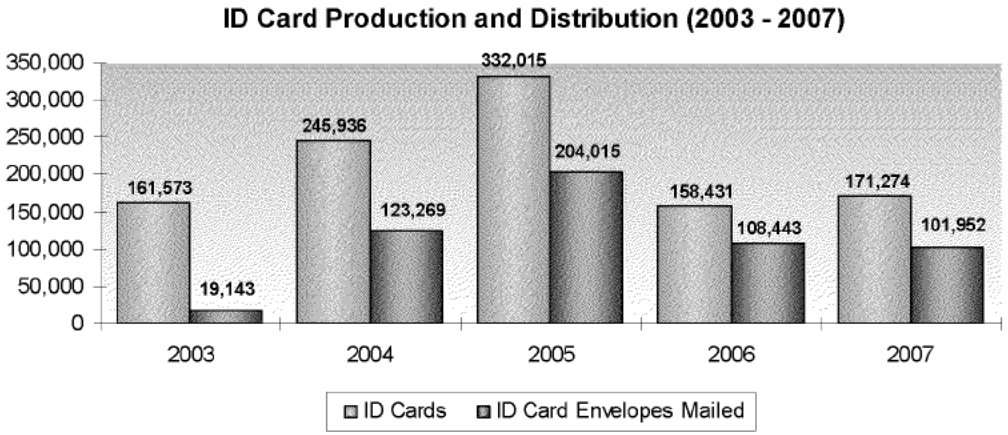
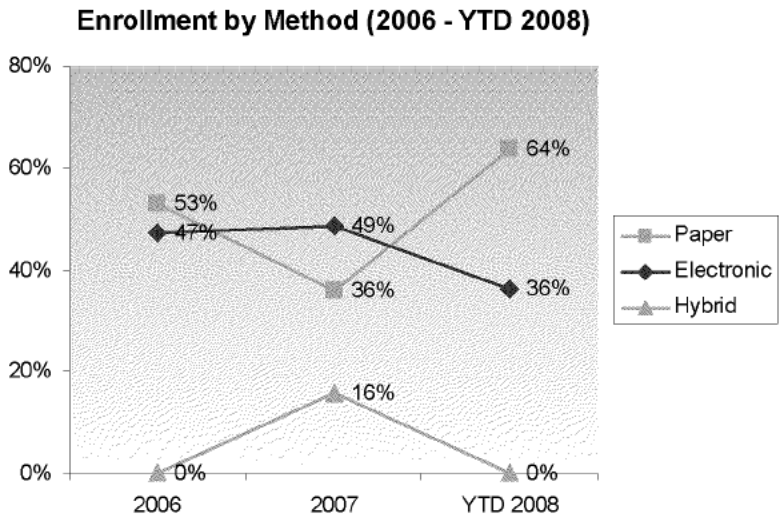
BCBSD Operating Performance (2003 – 2007): Membership and Billing

ID card production hit a peak in 2005 because of new membership from the purchase of Mid-Atlantic Health Plan. Electronic enrollment was at 49% in 2007 but is tracking significantly lower in 2008.

Key Findings

- The acquisition of Mid-Atlantic Health Plan created a significant number of new members that required high ID card production in 2005.
- BCBSD provides employers with the option to send ID cards directly to the members or in bulk to the employer. Distribution has increased significantly between 2003-2004.
- Electronic enrollment was the dominant method in 2007 but paper enrollment has been extremely high for YTD 2008. This is normal for this time of the year as renewals have not yet occurred for the bigger accounts.
- Hybrid enrollment format is unique to BCBSD. It has been immaterial in 2008.





Source: ID Card and Distribution; 2006-YTD 2008 Enrollment Timeliness; Deloitte Analysis

Operational Performance: Claims

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Operational Performance: Claims

TBS is a flexible system but can be cumbersome and inefficient for core administration activities, including claims processing.

Key Findings	Opportunities
▪ The core system is flexible but cumbersome and inefficient (e.g. requires multiple screens/files to approve a service; requires a lot of special notes). TBS cannot do gradation of payment (e.g. urgent care vs. ER) or a front end batch reconciliation process. ▪ There is no front-end batch reconciliation system to track and reconcile claims which has resulted in issues with auditing processes. ▪ A Performance Improvement Committee (PIC) reports inventory, performance tracking and operations issues. ▪ There are two trainers in the claims area but they are frequently pulled into other activities (e.g. claims audits) that detract from their intended roles and responsibilities. ▪ Level of rework is high. BCBSD denies many claims intentionally because of policy reasons which require reprocessing. (e.g. emergency room claims are denied intentionally because medical records are required). ▪ Complex product and provider contracting increases inefficiency. ▪ Staff in the operations areas tend to be very tenured with many employees approaching retirement age. Knowledge transfer and bench strength is a concern.	▪ Stabilize imaging system to maximize the potential efficiency and then explore opportunities to add additional auto-workflow capabilities. ▪ Assess overall operations training and quality needs to determine an appropriate course of action to maintain service levels. ▪ Focus on succession planning and building bench strength across operations areas. ▪ Assess the long-term viability of TBS because it is antiquated and it is difficult to integrate with systems with newer technologies.

Source: BCBSD Interviews

BCBSD Operating Performance (2003 – 2007): Claims

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Operational Performance: Customer and Provider Servic

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Operational Performance: Customer and Provider Service

Customer and provider service continue to be a key strength for BCBSD.

Key Findings	Opportunities
▪ Customer service levels are viewed as a key strength for BCBSD relative to competitors. ▪ The core system is flexible but cumbersome and inefficient (e.g. requires multiple screens/files to approve a service; requires a lot of special notes). TBS cannot do gradation of payment. ▪ Customized benefits results in added complexity in TBS and customer service processes. ▪ The VRU is a source of frustration for customers and discourages self-service. ▪ There is a formal customer service training area but customer service has limited knowledge of BlueCard and ITS processes. Customer service trainers also do quality review and support projects, which can suffer when there are competing priorities ▪ Inquiry accuracy has improved significantly since 2004. All calls are recorded through the NICE system which allows for real-time feedback and training.	▪ With upcoming VRU replacement (2009), consider leveraging hold messages (e.g. to communicate self-service capabilities and direct members to the web). ▪ Provide BlueCard/ITS training opportunities to customer service representatives. Assess overall operations training and quality needs to determine an appropriate course of action to maintain service levels. ▪ Integrate member touch-points with other functional areas (e.g. marketing and medical management) to enhance the member experience, improve medical management outcomes and identify cross-selling opportunities. ▪ Offer an opt in/opt out option for membership communications to reduce administrative expense if aligned properly by line of business. ▪ Enhance web portal capabilities and provider quality and performance data to assist with member decision making. ▪ Assess the long-term viability of TBS because it is antiquated and it is difficult to integrate with systems with newer technologies.

Source: BCBSD Interviews

BCBSD Operating Performance (2003 – 2007): Customer and Provider Service

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Operational Performance: BlueCard Operations

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Operational Performance: BlueCard Operations

REDACTED

ITS Host and Home

REDACTED

Human Resources

REDACTED

Human Resources (cont'd)

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REDACTED

Human Resources Profile

REDACTED

Information Technology

Information Technology

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REDACTED

Information Technology (cont'd)

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Information Technology

REDACTED

IT Investments

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BCBSD's Application Landscape

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Applications and Infrastructure Details

Over the past 3-4 years, BCBSD has focused significant effort on meeting BCBSA mandates, implementing select new technologies and enhancing TBS.

- **Core Administration –** Performed limited Enrollment, Billing and Claims enhancements on the TBS core system
- **Enrollment and Billing –** Implemented BenefitFocus (BF) for electronic enrollment for a select market segment; Developed a home-grown system (Blue Express) that is also for electronic enrollment; Developing Automated Eligibility (AE)
- **Claims** – Implemented the first phase of imaging and Optical Character Recognition (OCR) but additional investments are required to realize full functionality; Implemented one workflow to track suspended claims
- **Customer Service** – Implemented NICE phone system that records 100% of the calls; Implemented BlueChip that is a Windows-based application for users to access information stored in TBS; Replacing Voice Response Unit (VRU) system
- **Provider Service** – Launched iEXCHANGE to automate pre-authorizations on select procedures
- **Network and Medical Management** – Launched an integrated care management application (MEDecision's CarePlanner)
- **Informatics/Analytics** – Limited analytics and no data warehouse exists; Reports are created manually by pulling data from multiple sources
- **Web Portals** – Portals are delivered through BCBSD and CareFirst; Developed standard web portal capabilities for members; Provider directory is very robust; Provider portal, via CareFirst, allows physicians to check claim status, obtain information and download forms; Broker portal capabilities are limited.
- **Infrastructure** – Established new facilities (including Data Center), computers, printers and phone system

Source: 2004 - 2008 IT Capital Project Activity; BCBSD Interviews

Informatics: Data Management and Reporting

Informatics: Data Management and Reporting

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Informatics: Data Management and Reporting

BCBSD has started the process to acquire many of the tools that are used for reporting and analytics but it would require a significant amount of time and investment to reach market parity.

Key Findings	Opportunities
▪ Many business owners would like to make more data-driven decisions but BCBSD lacks the tools to do so. ▪ Many reports are generated using Statistical Analysis Software (SAS) but few associates know how to use the tool to generate reports themselves. ▪ The business has expressed the need for various technologies and investments such as provider profiling capabilities but the underlying infrastructure to support that is unavailable.	▪ Establish an Enterprise Data Warehouse so that all data is stored in a single repository that supports ad hoc and structured analytics and reporting. ▪ Automate the creation/extraction of standard reports that are used on an ongoing basis. ▪ Enhance web capabilities to allow automated transactions and interactive reporting. Enhancements are in the plans for employer groups. ▪ Increase rigor of informatics to forecast and identify areas of challenges: – A provider profiling system would provide greater ease in managing and monitoring health care delivery. – Increase self-service for commonly used reports so that associates' time is freed up to focus on customized reports and to conduct in-depth data analysis. Develop a code library to support self-service. – Report profitability by account.

Source: BCBSD Interviews

Appendix

Supporting slides that outline foundational and emerging capabilities by functional area.

Foundational and Emerging Capabilities – Financial Processes

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Foundational and Emerging Capabilities – Product, Pricing and Distribution

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Foundational and Emerging Capabilities – Product, Pricing and Distribution

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Foundational and Emerging Capabilities – Network and Medical Management

REDACTED

Foundational and Emerging Capabilities – Operational Performance

REDACTED

Foundational and Emerging Capabilities – Operational Performance

REDACTED

Foundational and Emerging Capabilities – Human Resources

REDACTED

Foundational and Emerging Capabilities – Information Technology*

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Foundational and Emerging Capabilities – Information Technology*

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Foundational and Emerging Capabilities – Information Technology*

REDACTED

Foundational and Emerging Capabilities – Informatics: Data Management and Reporting

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