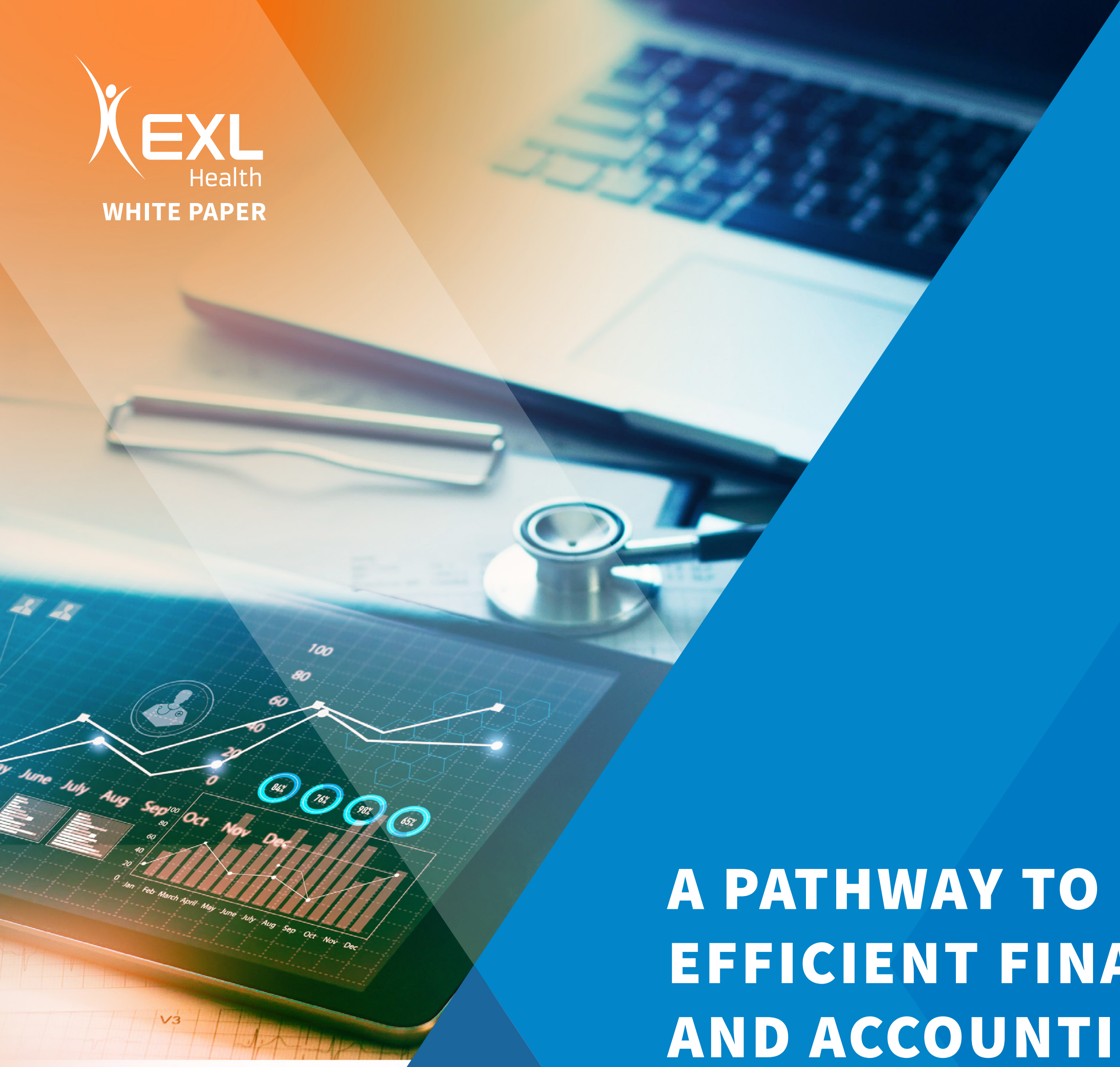

EXL Health

WHITE PAPER

A PATHWAY TO MORE EFFICIENT FINANCE AND ACCOUNTING OPERATIONS

A CFO Perspective on Data-Driven Finance, the Transformation Journey and Strategies for Sustaining Long-Term Return on Investment

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A PATHWAY TO MORE EFFICIENT FINANCE AND ACCOUNTING OPERATIONS

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On June 22, 2021, EXL hosted an executive roundtable presentation titled "A Pathway to More Efficient Finance & Accounting Operations," focusing on the impact COVID-19 has had on healthcare systems, how CFOs are responding, and emerging strategies that can successfully deliver holistic transformation toward data-driven finance.

Featured speakers included Anita Mahon, EXL Executive Vice President and Chief Growth Officer, Narasimha Kini, EXL Senior Vice President and Head of F&A Business, and Mickey Coontz, New York Life Vice President and Head of Finance Data Strategy.

This article summarizes the key points of the discussion, defining data-driven finance, the use of data and digital technologies to improve patient care and business outcomes, and how healthcare CFOs can lead organizations to and through a technology transformation that creates sustainable gains.

How the Pandemic Has Altered Consumer Healthcare Preferences

Few industries were hit as hard by the COVID-19 pandemic as healthcare. The impact it had on hospitals and health systems was far-reaching and long-term, trending in a number of significant ways.

Positive Industry Perception

The nation's focus on health care during the pandemic drew attention to the commitment, quality and genuine care hospitals, doctors and especially nurses pour into their work. Respect and admiration for our healthcare industry is as high as it has ever been, and this positive public perception serves as bankable trust the industry can leverage as it continues to adapt to an evolving, uncertain future.

Adaptability Under Pressure

The industry proved its ability to remain flexible under pressure. Mask mandates, social distancing and lockdowns kept people from coming into facilities for care, and many elective procedures were put off, placing a crimp on revenue and growth. In response, the industry embraced new ways of interacting with patients. Between Q1 2019 to Q1 2020, patients increased usage of telehealth services by 50%. Americans learned that they could access quality care without actually entering a medical facility. In a very short time, virtual care became a service line for many institutions, especially in primary care and behavioral health settings.

Whole Person Care

Whole person care became another reality for the industry, as consumers increasingly sought help for issues beyond the scope of illness or disease. Social, economic and other non-medical factors, including food availability, transportation and education, heightened awareness of behavioral care access. According to one McKinsey & Company study, organizations implementing a whole person approach, integrating telehealth services based on behavioral and physical health data, could reduce total US annual healthcare spend by as much as $185B annually going forward[2].

Data and Tech-Driven Care

Of course, telehealth and whole person care rely heavily on data, so it is no surprise that data and tech-driven patient care are also on the rise. Data multiplies with every patient transaction in real-time. So, the adoption of data and digitally driven patient care services, supported by regulatory forces, API frameworks, cloud capabilities, AI and automation, all serve to bring new, innovative data-based services to the market. As the demand for more personalized care increases, these technologies will become even greater differentiators for healthcare organizations seeking new growth and stability. According to Deloitte, 42% of people use technology to measure fitness and health goals. These numbers will only continue to increase[3].

Transparent Pricing

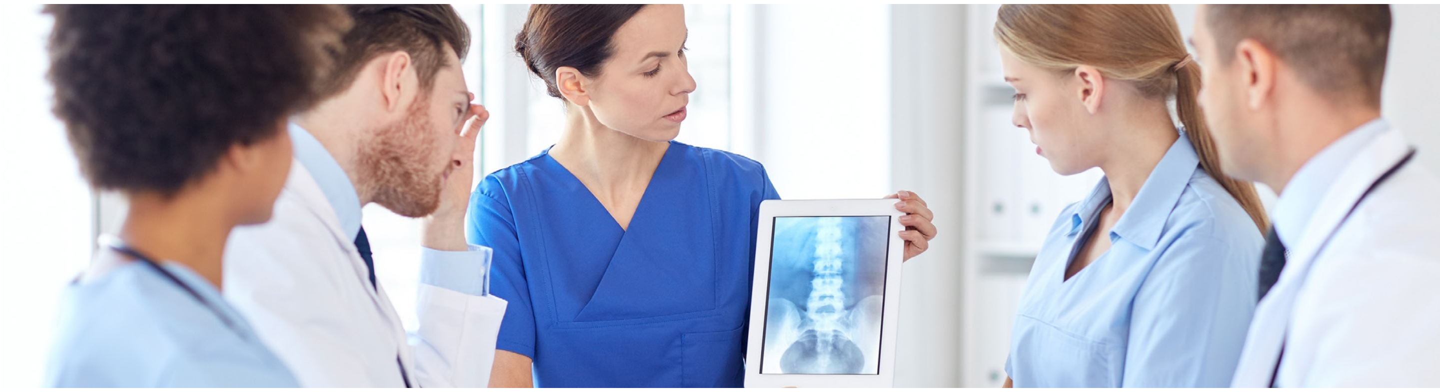
While COVID may have kept many people from coming into a facility over the past 18 months, McKinsey reports that 60% of consumers want more information about pricing before deciding when and where to seek healthcare. Unexpected bills that seem to follow even well-planned elective procedures are being contested, and the regulators have responded. On January 1, 2021, Congress passed the Price Transparency Rule, requiring all US hospitals to make public a list of standard charges for items and services via the Internet in machine-readable format. The result: payers and providers will now have to manage data that provides price transparency across all billing and financial systems.

"To successfully compete and grow, health systems are putting patient care at the center and using data and digital to deliver personalized patient experiences and better outcomes."

Economic Implications Suggest a Change in Direction

As most in the healthcare industry would agree, the pandemic eroded revenues and margins, tightened cash flow and increased losses for healthcare providers. Operating losses reported by hospital systems between 2019 and 2020 nearly doubled, rising from 23% to 42% through the peak of the pandemic. The drop in inpatient visits, compounded by lower spending on elective and discretionary care, aggravated an already pale margin situation for most health systems, with median operating margins dropping from 2.4% to 0.5% across 2020, and operating cash flow margins dropping from 8.4% to 6.7% in the same period. Meanwhile, revenue gains were cut nearly in half, falling from 5.9% in 2019 to only 3.0% year-over-year industrywide[6].

Rising competition and market consolidation further strained the system, as M&A activities increased into Q4 2020, and health systems, community outreach and government hospitals shared strategies, equipment, treatment discoveries and resources to stay ahead of the virus. CB Insights reported a rise in healthcare investments over the period of 29%, with funding for healthcare AI startups up 45% and funding for telehealth startups up 65% over the same timeframe. And, the boom in digital investment is expected to continue; the bar for integrating data and digital thinking in healthcare has only been raised as the need for transparency and more affordable and personalized care becomes more acute.



Lastly, the payer mix is changing, with an increased emphasis on value-based care. According to HFMA, approximately 70% of hospital and health system leaders are preparing for a spike in self-pay consumers and Medicaid beneficiaries entering the system; Medicaid rolls now exceed 80 million and the numbers are rising. This trend toward less lucrative payers in the mix will only heighten the need for efficiency and cost optimization, creating urgency for more data-driven finance. The key will be learning how to leverage value-based care to improve outcomes and experience, instead of leaning on outpatient volume to remain afloat.

A New Way of Thinking for Healthcare CFOs

The fact is, every hospital is reexamining its operating model, based on who they really compete or collaborate with and where they must invest to advance. The finance function can no longer lead from the back office. CFOs must provide insight and direction based on shrewd analysis of the data, helping steer the organization – not only in ways that make it more efficient – but in ways that uncover opportunities for innovation and improve patient experience.

Making the patient the central focus will require designing unique, personalized experiences that deliver better outcomes at lower cost. Top performing data-driven businesses use data and analytics in other industries; healthcare can no long lag. The time has come for CFOs to become strategic partners for growth. But how?

The Use of Data and Digital to Improve Patient Care and Business Outcomes

The shift to data and digital in healthcare finance started well before the pandemic; the pandemic only accelerated it.

Today, the most successful businesses are data-led, and not just the tech giants such as Amazon or Netflix. John has manufactured a tractor that measures nearly 15,000 data points per second using 300 IoT sensors, 150 controllers, and a combination of AI, machine learning and computerized vision-autonomous driving. Health systems are prime to take advantage of the same kind of thinking, especially in finance and accounting operations.

Demand forecasting, investment prioritization, liquidity management, resource management. All can be effectively improved using advanced data and digital solutions to extract insights and make better decisions. As organizations mature in the use of these solutions, CFOs will evolve not only as strategic financial officers, but also strategic performance officers, using accurate, granular information in context to drive sustainable growth and profitability at speed.

> **“In response to changing business priorities, CFOs are retooling their strategies to drive the dual agenda of managing financial sustainability and driving future success.”**

Data-Driven Finance Explained

Data-driven finance enables finance teams to interpret data at great speed for the purpose of delivering improved efficiency, better business outcomes and superior customer experiences. It grounds business decisions in facts versus intuition and validates every course of action.

It can be applied in managing simple, day-to-day transactions to eliminate waste, improve working capital and prevent leakage. But more important, it can be used to provide guidance on strategic decisions, such as how to allocate capital, evaluate M&As and maximize enterprise value.

To leverage the power of data-driven finance, organizations must have in place three strategic enablers:

- **Be Brilliant at Basics:** Build on strong foundational operating capabilities. This includes fundamentals such as process documentation, internal controls, talent and, in a post-COVID environment, quality work-from-anywhere infrastructure embedded in a culture of continuous improvement.
- **Acquire Practical Digital Capabilities:** Deploy and integrate smart digital tools and solutions, including point solutions, as well as enterprise-wide applications. Investments should be made based on ROI, not just technology for technology's sake. Carefully evaluate before you deploy.
- **Create a Data Factory that Supplies Insights:** This is where analytics shines. Consistently generate and evaluate meaningful data in context and refine your data value chain as you go. Monitor actions and measure outcomes from initial input through final result and adjust accordingly.

EXL has found that in a data-driven organization, the traditional resource pyramid will be flipped, from allocating 80% of the resources on transactional finance and 20% on analytics, to 60% on analytical finance and 40% on transactions. As you move in this direction, costs will come down, data will become democratized enterprise-wide, and data-based decisioning will prevail. According to Gartner, health systems that allocate resources this way will reduce spending to less than one percent of revenue, while spending less than 40% on finance personnel and 60% on experts, data and technology[10].

The Path to Becoming Data-Driven

Understanding the benefits of being data-driven is easy; becoming data-driven is not. Every organization will have hurdles to overcome along the way. These include:

- Getting organizational buy-in (proof of concept)
- Availability of quality data (garbage in, garbage out)
- Linking insights to outcomes (working the full data value chain)
- Quantifying outcomes (rationalizing investment decisions)
- Acquiring/developing talent (inside and outside the organization)

Interestingly, most companies start the journey to "data-driven" by focusing on technology. They implement a new ERP system or some planning and reporting tools and hope that this will result in a data-driven finance operation. It won't. To overcome the challenges, CFOs must integrate and orchestrate three core transformations at once – culture, data and talent.

Culture

The logical starting point is culture. Culture, according to Gartner, can make or break your pivot toward data-driven finance. It is the most critical piece of the puzzle to get right, and it may be the most difficult to negotiate. It starts at the top and requires persistence. Like building a new muscle, it must be stressed at all points, especially when setbacks occur. When the question arises, "why should I change," you must be able to answer. Being able to explain clearly "what's in it for you, what's in it for the organization," will go a long way to enabling the change. Start small, with a pilot project and prove the value of it. Learn from your failures and point to your successes to build support and grow your pipeline of initiatives until you create critical mass.

Data

Second, you will need to establish a practical, working data strategy with proper governance in place from the start. Don't wait for perfection. Start with the best, cleanest data you have and build from there. Where does the data come from, who has permission, what information is relevant, how can it be accessed, what tools do you have to sift it, parse it, expand it, shape it and discern meaningful insights from it should all be considered – with an eye at breaking down traditional silos and making your best information available to those who need it. Do this consistently over time and you will create the effective data factory you need to make better business decisions.

Talent

Lastly, CFOs must address the skill gaps in the organization. Most health systems do not have the full cadre of skillsets needed to run an efficient, data-driven operation. You will need a blend of business and technical knowledge at hand to build an analytics visualization technology platform capable of producing consistent results. Reciprocal mentoring presents a good way of cultivating this kind of knowledge. Get business and functional leaders to mentor each other, hire data scientists and other experts where there are gaps, and collaborate as you learn to create better outcomes with every execution. In time, your team will mature and deliver.

Case Study: How New York Life's Finance Is Shifting to Data-Driven

Problems

Data ownership role has not been defined or assigned in Finance functions.

Solution

Define a holistic data governance model from a one-finance view, while keeping in mind unique functional needs

Problems

Lack of governance and control frameworks beyond what is managed through the general ledger

Solution

Identify and catalog single sources of the truth to capture and manage finance data

Problems

Limited existing rulesets for finance data architecture across systems and data assets

Solution

Access data through easy-to-use and self-service data applications

Problems

Heavy dependency on limited resources for data needs and absence of cross-functional skills

Solution

Democratize data assets and enhance training documentation

Start the Journey with EXL

As health systems move on from life during the pandemic into a new order of healthcare delivery – one that is centered on the patient, grounded in facts and driven by technology – finance and accounting leaders will be relied on more than ever to set the direction for success. By making a place for data and digital to thrive in your organization now, you can expect not only to lower cost and achieve more efficient, profitable operations, you can shine the light on new opportunities to grow and invest in the future.

Indeed, it is a good time to be a CFO in the healthcare industry. And there has never been a better time to talk to EXL about how you can accelerate your journey toward data-driven finance and accounting operations.

To learn more, visit www.EXLservice.com.

About EXL

EXL (NASDAQ: EXLS) is a leading operations management and analytics company that helps our clients build and grow sustainable businesses. By orchestrating our domain expertise, data, analytics and digital technology, we look deeper to design and manage agile, customer-centric operating models to improve global operations, drive profitability, enhance customer satisfaction, increase data-driven insights, and manage risk and compliance. Headquartered in New York, EXL has more than 32,800+ professionals in locations throughout the United States, the UK, Europe, India, the Philippines, Colombia, Australia and South Africa. EXL serves multiple industries including insurance, healthcare, banking and financial services, utilities, travel, transportation and logistics, media and retail, among others.

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