The Gartner COMPARE Scale: Updating the Common Sense Approach to HIPAA

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Conclusions

• Most healthcare organizations are finally taking HIPAA seriously, but payers are being more aggressive than providers.
• While HIPAA represents an opportunity to embrace E-business and lower costs, HCOs are not yet on board with these objectives.
• Most HCOs, including industry leadership groups, have not yet given full consideration to implementation issues.

Healthcare has collectively been holding its breath for the three to four years waiting for the details of what will actually be required, to be hammered out in the arduous process associated with finalizing the regulations mandated by this legislation. At long last some clarity is beginning to emerge. The final regulations on electronic transactions were published on 17 Aug. 2000 (resulting in a 16 Oct. 2002 deadline for all but a few small organizations) and the privacy regulations came out on 28 Dec. 2000 (giving a compliance deadline of 26 Feb. 2003). Only the security regulations now remain to be finalized.

Gartner completed its inaugural HIPAA Quarterly Panel Study (see Note 1) in November 2000 to assess how the healthcare industry is responding to existing and impending regulations for HIPAA compliance. Through 2003, we will use quarterly updates to this survey to chart the industry's compliance progress, as measured against our HIPAA COMPARE methodology. This presentation will summarize the results of this survey, analyze the implications of the industry’s early activities and lack of progress in pursuing compliance. Of particular interest is the industry awareness of the challenge of implementation across trading partners.
The HIPAA Panel Methodology

Responsible for Compliance
Randomly Selected
3-Year Commitment
to Quarterly Surveys
Unbiased
Equal Representation -
Entire Industry

Source: GartnerGroup

The Gartner HIPAA survey seeks to understand how healthcare organizations are responding to the challenges of HIPAA compliance over time by studying a representative sample of randomly selected providers and payers. The survey targets those individuals designated with responsibility for their organizations’ HIPAA compliance efforts. A total of 225 organizations participate, including 104 payers and 121 providers. Payer participants include both HMO and PPO organizations and private health insurers. Provider participants include representation from integrated delivery systems, hospital networks, stand-alone hospitals and physician groups.

One of the aspects that makes this panel study unique is the fact that unlike most other industry surveys, respondents were chosen randomly in representative numbers and not self-selected, which would have resulted in a sample of HIPAA-savvy respondents fueled by their interest in volunteering for such a survey. For example, some surveys solicit the participation of those individuals who are already subscribed to the sponsoring organization’s HIPAA list serve. That approach introduces a degree of bias into survey results, since one can assume that not every HCO has already taken an active interest in learning more about the regulations and their impact. Another unique aspect is that the panelists have agreed to continue participation for three years of quarterly surveys. This fact will eliminate the introduction of variability into quarterly results and allow accurate reporting of the industry’s true progress.
To rate the activity and readiness of HCOs, Gartner has developed the COMPARE scale for HIPAA AS. The COMPARE (COMpliance Progress And Readiness) scale is a tool originally developed and copyrighted by Gartner in 1997 for tracking an enterprise’s progress with year 2000 compliance. Gartner has subsequently adapted the instrument to track the progress of the healthcare industry’s activities and readiness to meet HIPAA AS mandates.

**Level One:** At this stage, an HCO has completed its organizationwide general education and awareness program; all preliminary activities are complete. **Level Two:** An HCO has completed (either internally or with outside assistance) a formal assessment of its vulnerabilities and activities needed to achieve compliance with EDI, security and privacy requirements. **Level Three:** At this stage, an HCO has quantified tangible and intangible costs and benefits to realize compliance, and used that information to formulate a comprehensive compliance strategy. This strategy will address HIPAA as an enabler for achieving the HCO’s overall e-business strategy. **Level Four:** An HCO has completed and communicated policies and procedures for achieving compliance to all affected entities, departments and employees. Selection is complete for all physical tools needed for EDI and security compliance, including upgrade or replacement of applications when necessary; there is nothing left to plan or negotiate. **Level Five:** All tools and applications have been implemented and tested. For security and privacy, the HCO has benchmarked the industry and has implemented all measures believed necessary to adequately address requirements. A formal process is in place to address “evolving” requirements and pursue “absolute” compliance.
Gartner has published extensive research positioning HIPAA administrative simplification as the enabler or catalyst for the healthcare industry to finally embrace the opportunities inherent in e-business. Towards that end, we were interested in discovering whether the industry was in fact ready for e-business, and asked if HCOs had such a strategy in place.

- While less than one-quarter of all HCOs currently have a documented e-business strategy, over two-thirds will have one in the future.

- Less than 10% of all respondents have completed or are currently involved in estimating ROI for implementing HIPAA-compliant electronic transactions.

- Similarly, among payers nearly two-thirds have not considered marketing opportunities associated with HIPAA.
It is not surprising that payers are being more aggressive than providers in their compliance activities, especially when one considers that they may need to accept standardized transactions before the compliance deadline. In addition, payers may not be as able as providers to rely on their third-party software vendors, since many of their processing systems are self-developed.

What is surprising about the Level 1 survey results is that barely half of payers have completed or even begun most of these milestone activities, and providers are even further behind. The first final rule, on standardized EDI transactions, has been in place since August 2000. These activities represent the basic organizational steps required just to begin planning subsequent compliance activities. In their press release announcing the first final rules, the DHHS left open the slightest possibility of rescinding the EDI regulations if consensus on privacy regulations could not be reached by DHHS. Perhaps many HCOs took this as an indication that it would be premature to begin attacking HIPAA compliance until it was a 100% "sure bet." This assumption was a mistake. More likely, these HCOs have been hindered by a post-Y2K ambivalence among non-IS executives about any initiative perceived to be "just another IS department nuisance."
Payers are also far ahead in their planning activities around the EDI regulations. When the first provider organization begins submitting claims and other transactions in ASC X12N formats, a payer must be ready to accept these inbound transactions, or else incur the added expense of utilizing a clearinghouse service, which it cannot pass on to the provider. If a competing payer’s processing systems are already prepared to accept the EDI standard, the non-compliant payer risks a competitive disadvantage.

Although most HCOs already completed an inventory of applications and review of vendor contracts as part of their Y2K compliance efforts, only about half of those organizations have begun or completed updating those tasks regarding HIPAA. For providers, these activities will likely be relatively more resource intensive than for payers. A typical integrated delivery system may have more than 100 IT vendor contracts, many maintained by individual departments. These must be identified and organized before beginning a systematic assessment, with legal counsel, of vendor responsibilities.

Apparently, many HCOs expected the DHHS to publish final security regulations before privacy, since the proposed privacy rule generated so much controversy. With the privacy rule published in December 2000 and only 23 percent of providers having started assessments of their vulnerabilities, it is clear that substantial work lies ahead in the short term for most HCOs.
Providers (37 percent) are far less likely than payers (56 percent) to have initiated an organization-wide HIPAA-awareness program. HIPAA’s transaction and code set standards will have a significant impact on the business processes of most HCO departments, and large providers such as IDSs have many more departments than payers. More importantly, the entire enterprise must become fanatical about protecting patient privacy and introduce much more stringent policies and procedures. The communication of these changes and their reasons must begin early. Of grave concern is the minuscule percentage of care delivery organizations that have begun educating their physicians. The work patterns of doctors will be significantly disturbed as an HCO establishes and enforces the policies required for HIPAA compliance. Physician leaders must be consulted during the process. A first round of awareness is necessary so that they will give the assessment process sufficient attention.

The relatively small percentage of HCOs that have begun examining their business associates is another concern. That exercise will serve as the foundation for developing procedures to protect or disidentify patient data as it is transmitted among stakeholders, and for establishing formal chain of trust agreements. Also, the activities and readiness of data interface (both EDI and paper) partners must be assessed in order to coordinate new or modified transaction processes.

Since virtually no HCOs have completed any of the significant milestones of COMPARE Level 3 or beyond at this point, we will withhold detailed reporting of those results until subsequent quarterly surveys.
Early Compliance Cost Estimates

Source: Gartner HIPAA Panel Survey, 4Q 2000

Strategic Planning Assumption: For at least 75 percent of HCOs, the time and money spent on achieving HIPAA compliance by 2004 will represent between one and two times their efforts and costs for year 2000 compliance (0.8 probability).

Source: GartnerGroup

Wall Street analysts, reporters and consultants have all attempted to put a price tag on the industry achieving compliance. In almost every case, these predictions have been presented without estimating assumptions, and without real data collected from providers and payers to support their figures. Further, many of the early estimates have not even considered that most of the final HIPAA rules had not yet been published. By asking our panelists about their planned HIPAA costs, we have validated our opinion that it is simply too early to try to publish "one number" predicting total compliance costs. Eighty-five percent of all organizations polled indicated that they have not developed preliminary overall budgets for achieving compliance. Even narrowing down the spending timeframe to 2001 (for which most HCOs have already finalized corporate budgets), 76 percent had not estimated near-term HIPAA compliance costs.

Still, the relatively few HCOs that have estimated their HIPAA spending offer at least anecdotal comparative data. Of those 15 percent who had developed a preliminary total budget, HIPAA spending is expected to average almost $9 million. Slightly more HCOs (24 percent) have identified their HIPAA budgets for 2001 only, with a $5 million average expectation for the current year. However, the healthcare industry is historically poor (on the low side) at predicting costs. To draw a cautionary parallel, IDSs as late as 1999 predicted that their total year 2000 remediation would cost an average of $4.8 million. By early 2000, those same IDSs reported that year 2000 had cost over twice that amount on average.
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Decision Framework: Although security and privacy mandates are necessary and require investment, they do not have the same potential as the HIPAA EDI and standardization rules for cost savings.

The Best Possible Bad News

Providers

- Lower Paper, Postage and Fax Costs
- Lower A/R Days (cash flow)
- Real-Time Eligibility
- Lower Collection Costs
- FTE Reductions (e.g., billing clerks)
- Real-Time Referral Authorizations

Payers

- Fewer Checks Written
- Enhanced Enrollment
- Electronic Invoice Presentment & Payment
- FTE Reductions (e.g., claims processors, cust. service reps.)
- Enabled Medical Management
- Improved CRM

Source: GartnerGroup

Stop stressing over HIPAA privacy and start thinking of HIPAA EDI as your key to business transformation. No matter what it costs, your return can be phenomenal if you spend wisely.

Actual, conservative HIPAA return on investment (ROI) examples:

- A large hospital system will reduce rejected claims from 11% to 5%, resulting in $15 million additional yearly revenues.
- A Blues plan will cut or re-deploy dozens of claims clerks, resulting in net cost reductions over $3 million a year.
- A mid-size hospital system, through reductions in paper, people and postage, and more efficient processes, will accelerate reimbursement over $6 million per year, and lower administrative costs by over $4 million annually.

Seeking the least expensive means of complying with HIPAA’s transaction, code and identifier requirements is a sure way to lose competitive standing, because cost savings will be missed. HCOs should put their most creative and aggressive efforts toward these requirements, not just to comply but to actually exploit opportunities through restructured in-house processes and business relationships that take advantage of electronic data interchange and the availability of standards.
New Rules/New Realities: Recently passed Medicare relief to the Balanced Budget Act is welcomed, but not a panacea to financially ailing HCOs. Given budget restraints, the only reason to invest in any non-clinical initiative is to improve business processes, and thus bottom lines.

Despite a continuing growth of dramatic and very achievable ROI examples, Gartner found in our first quarterly HIPAA panel survey that only 7 percent of healthcare organizations had even considered the ROI opportunities inherent in HIPAA. Clearly, in an era of reimbursement pressures, as well as growing consumer and employer demand for better quality and lower costs, HIPAA offers a tremendous chance for HCOs to gain competitive advantages, if they prioritize their HIPAA activities and spending appropriately.

The reality is that most provider and payer organizations are seeking tactical solutions for HIPAA compliance that emphasize cost and resource minimization. Following on the heels of year 2000, and after 3 years of financial struggles due to Balanced Budget Act Medicare reimbursement cuts, many HCOs consider HIPAA to be just another conformance nuisance. They also are treating HIPAA as “another IS headache,” and are loath to invest in any technology-related initiative, due to a perception of minimal value derived from previous investments.

This mentality presents an opportunity for more progressive organizations to realize true competitive advantages in their markets. Lower costs and improved customer service are inevitable results of being able to conduct standardized business transactions on-line. Those organizations that realize this fact first and take actions to capitalize will be positioned to survive, and even thrive.
Imperative: E-commerce is just the beginning and only a short term differentiator. Healthcare organizations must exploit collaborative commerce opportunities for long term survival.

HIPAA: Change Agent for E-Business

E-Health: business transformation process driven by Internet enabled solutions, has two components.

E-commerce: For healthcare organizations, e-commerce using the Internet as a more efficient and cost effective conduit decreases operational costs and improves customer relationships and interactions. But, administrative efficiency, although with huge savings potential, is only a small part of the potential of e-business to transform and improve healthcare processes.

Collaborative commerce: linking physicians, consumers and purchasers to increase health and medical management holds greatest promise of substantially reducing the cost of healthcare delivery while also improving quality. As the focus of healthcare shifts to prevention and wellness, collaborative commerce capabilities will become increasingly important. Collaborative commerce evolution requires sufficient security and privacy is demonstrated to consumers so that confidential healthcare transactions will be appropriately secured and monitored.

HIPAA is a change agent leading healthcare organizations into the technologies and business skills required for e-health. By enabling secure Internet use and mandating standards it provides the opportunity to disintermediate value-added networks where this makes Internet sense. By requiring encryption and high-quality user authentication it can motivate investments in PKI, which can later be leveraged to secure the extranets required for e-collaboration.
But, Do HCOs Have an E-Business Strategy In Place?

- Yes 22%
- No 23%
- Currently Working On 35%
- Planning to do in the future 14%
- Don't Know 6%

Source: Gartner HIPAA Panel Survey, 4Q 2000

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However, payers are well ahead of providers on this front, with 32 percent reporting having completed e-business strategies, versus only 13 percent of providers. Also, in an encouraging sign, 94 percent of responding HCOs report at least some overlap of staff working on both e-business and HIPAA projects, and the figure rises to 100 percent in payers.

Although it is disappointing how few HCOs have completed HIPAA ROI analyses or formal e-business strategies, it is encouraging that the vast majority see at least some relationship between HIPAA and e-business.

*Action Item: Treat HIPAA AS as the catalyst to bring your organization and its people the skills needed to capitalize on e-business opportunities -- lower costs, increased revenues, improved customer service and better market agility.*
Strategic Planning Assumption: Much like the year 2000 crisis, demand for HIPAA consultants will exceed supply by early 2002, allowing those consulting firms with demonstrated EDI, privacy and security skills to increase hourly rates from 25 to 50 percent (0.8 probability).

To What Extent Do HCOs Need Help?

Source: Gartner HIPAA Panel Survey, 4Q 2000

Consultants and systems integrators will see a rapidly rising demand for their HIPAA services in 2001. Nearly three-quarters of organizations will approach assessment through a combination of in-house resources and contractors.

Fortunately, the HIPAA consulting eco-system is robust, with over 70 firms having developed strategic HIPAA practices.

Based on anecdotal evidence from those HCOs that have been relatively progressive around HIPAA, an HCO can expect an initial assessment project to take eight to 12 weeks using outside assistance, and 12 to 24 weeks if done internally, depending on its size.

At least in the short term (through 2003), consultants stand to be the largest beneficiaries of HIPAA, for three main reasons:

• Already, almost three-fourths of HCOs acknowledge that they need outside assistance just to complete the initial assessment work.

• Based on the small sampling of HCOs that have actually forecasted their HIPAA budgets, the cost and scope of work is very likely to exceed that of the year 2000 crisis in healthcare.

• As the demand for IT skills far exceeds the supply, HCOs will be forced to rely on consulting firms, who will continue increasing their rate premiums as the industry nears the first compliance deadlines.
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Decision Framework: The more difficult the challenge (as with these top 5s), the more appropriate it likely is to require outside assistance. On the other hand, HCOs ranked policy development and employee education tasks as relatively easy, making them good candidates for internal completion.

What are the Toughest Regulation Challenges?

Perceived Difficulty with HIPAA Compliance

Top 5 Provider Challenges
- Patients Examining Data
- Limiting User Access
- NW Security w/ Trading Prts.
- Level of Trust Agreements
- Remediating Data Errors

Top 5 Payer Challenges
- Patients Examining Data
- Converting to National IDs
- Limiting User Access
- Capturing Consent
- Digital Signature

Scale 1:5 (5 = most difficult)

Source: Gartner HIPAA Panel Survey, 4Q 2000

A survey question with a mean rating of 3.00 is seen as “moderately difficult” on average by respondents. Mean ratings should be seen as a comparative tool for assessing the perceived difficulty of achieving one HIPAA challenge against all others.

Notable differences do exist in the perceived challenges associated with achieving HIPAA compliance:

The top 2 provider challenges associated with HIPAA are each associated with privacy - patient’s right to examine and change data (3.49), and user functions that limit access to only those who ‘need to know’ (3.36). Significant differences between providers (2.99) and payers (3.42) are observed for converting to nationally standardized identifiers.

The task of complying with the EDI regulations will likely be significantly easier for providers. While providers will be replacing dozens of different transactions formats with a single standard, payers must revise back-end processing to accept a single standard transaction rather than the proprietary transactions that the payer designed to meet their specific needs. Payers shoulder a larger burden because they cannot fully rely on clearinghouses or transaction mapping products for compliance. Payers must revise their adjudication programs to eliminate local codes and use standard identifiers. However, that effort could require a substantial investment that could necessitate special remediation tools and skilled outside assistance.
Will Industry (and Government) Meet the HIPAA Deadlines?

- Can we remediate applications separately for transactions, identifiers, security and privacy?
- When will errors be corrected and questions answered?
- When will code sets be revised?
- In what sequence will the transactions be implemented?
- How many upgrades can vendors install in parallel?
- How will more than 13 million pairs of a payer and a provider implement an average of 2.2 transactions each?
- Must implementation testing be repeated if identifiers and code changes are introduced asynchronously?

Now that the transaction rule is final, industry and governmental healthcare organizations are proceeding with an in-depth analysis of the requirements versus the capabilities of their existing information systems. This process is identifying questions, probable errors in the regulations and implementation guides, and potentially unintended and costly consequences of a few of the required features. The processes for resolving these issues, and particularly the timing, are not clear.

Little attention has been paid to implementation, as distinct from system testing. The preamble to the final transaction regulation includes estimates that identify 22 different categories of CDOs and assigned a "percent EDI" to each ranging from zero to 96. We used industry experience to estimate the average number of payers with which CDOs in each category would use EDI. The sum of the estimates for the categories was 13,300,000 pairs of providers and payers. We further estimated to the number of distinct transactions that the CDOs in each category would perform electronically. For example, we estimated that large CDOs would, on the average, use 3.5 different kinds of transactions while the smallest CDOs that use EDI would only transmit bills electronically. The sum of these estimates was 28,800,000 transaction-trading partner combinations. Because the smaller CDOs predominate numerically, the average number of transactions per CDO was 2.2. (Direct data entry (e.g., having providers check eligibility on a payer's Web site) was excluded from the estimates because the implementation process is much simpler.)
The Department of Health and Human Services (DHHS) has not yet published final rules on identifiers, claims attachments and report of first injury. As the healthcare industry fully analyzes the implementation guide and standards, questions have arisen that must be answered prior to full implementation, and these answers have not yet been provided. Industry is just now understanding the remediation effort required to prepare for the standards. There is no guidance from the government with respect to the processes necessary for a full national implementation, and yet this requires a degree of coordination among independent entities that is unprecedented for government regulations. These issues together lead to the inescapable conclusion that the healthcare industry cannot meet the mandatory deadlines. There is precedent for an action by the government to delay the deadlines or delay enforcement. DHHS officials have already hinted that early enforcement may be directed at HCOs that have blatantly ignored the regulations, rather than at those that are diligently working to comply but have not fully completed the tasks. Even if such delays are not forthcoming, large HCOs may consider unilateral delays for programs that are not paid with federal funds, regarding the maximum penalty of $25,000 per year per standard as a cost of doing business. Ultimately, competitive pressures and the requirement for the cost savings will drive compliance, but HCOs have options to consider that delays of up to a year will not have devastating consequences.
It is essential to regard HIPAA as an opportunity. A sure path to loss of competitive standing is to find the least-cost methods of compliance with the opportunistic HIPAA requirements without finding a way to capture the cost savings. At the same time, it is not critical to address all requirements maximally. An HCO can defer one-time compliance costs by gauging its response to security and privacy standards to find the threshold of measures that represents responsible, real-world compliance at a level comparable to other HCOs in the industry.

Gartner projects a three- to six-month timeframe for a typical payer or provider organization to complete all of the major tasks entailed in COMPARE Levels 1 and 2. At this point, far fewer than half of HCOs have even begun all of these milestones. Unless the DHHS or Congress extends the deadline for standardized transactions, many HCOs are facing a time and resource crisis beyond the scope of Y2K. If an HCO has not mobilized its HIPAA coordination efforts and launched detailed assessment and planning efforts as of March 2000, it should seek consulting assistance immediately.

Recommendations

- Embrace HIPAA EDI and standardization mandates as the change agent to bring your organization (and its people) the skills it needs to support e-business.
- E-business is the key for providers and payers to increase revenues, improve customer service, gain better market agility and take advantage of new business opportunities. If you don’t believe this, your competition will.
- If you haven’t begun detailed assessment efforts, get busy NOW. Get help too, from consultants, peers, trade organizations and Web resources.
- Consider accelerated approaches to implementation testing: increased clearinghouse responsibility and certification services.

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