KROLL

How Prior Authorization is Innovating to Address Challenges

Fall 2024

Prior Authorization: A Process that Requires Providers to get Approval from Payors Before Providing Care Continues to Burden all Stakeholders by Affecting Patient Care and Increasing Costs

Prior authorization challenges are proactively being addressed by The Centers for Medicare & Medicaid Services ("CMS"), which recently issued the Interoperability and Prior Authorization Final Rule, along with emerging technology initiatives are aimed at improving efficiency and transparency

Prior authorization was established by payors to try and ensure that only medically necessary patient care is covered in a cost-effective manner. In conjunction with fee-for-service reimbursement payment models, providers were potentially incentivized to bill for as many medical services as possible, irrespective of delivering better outcomes in a cost-efficient manner. In order to evaluate whether or not care is medically necessary and otherwise covered, payors developed prior authorization standards based on medical guidelines, costs and utilization.

Patient Care Issues: The prior authorization process varies by payor but involves the submission of administrative and clinical information by the provider. In 2023, the American Medical Association surveyed over 1,000 practicing physicians, 94% of which reported that prior authorization delayed care at least "Sometimes" to "Always" and nearly one in four physicians (24%) reported that prior authorization led to a serious adverse event for a patient in their care(1).

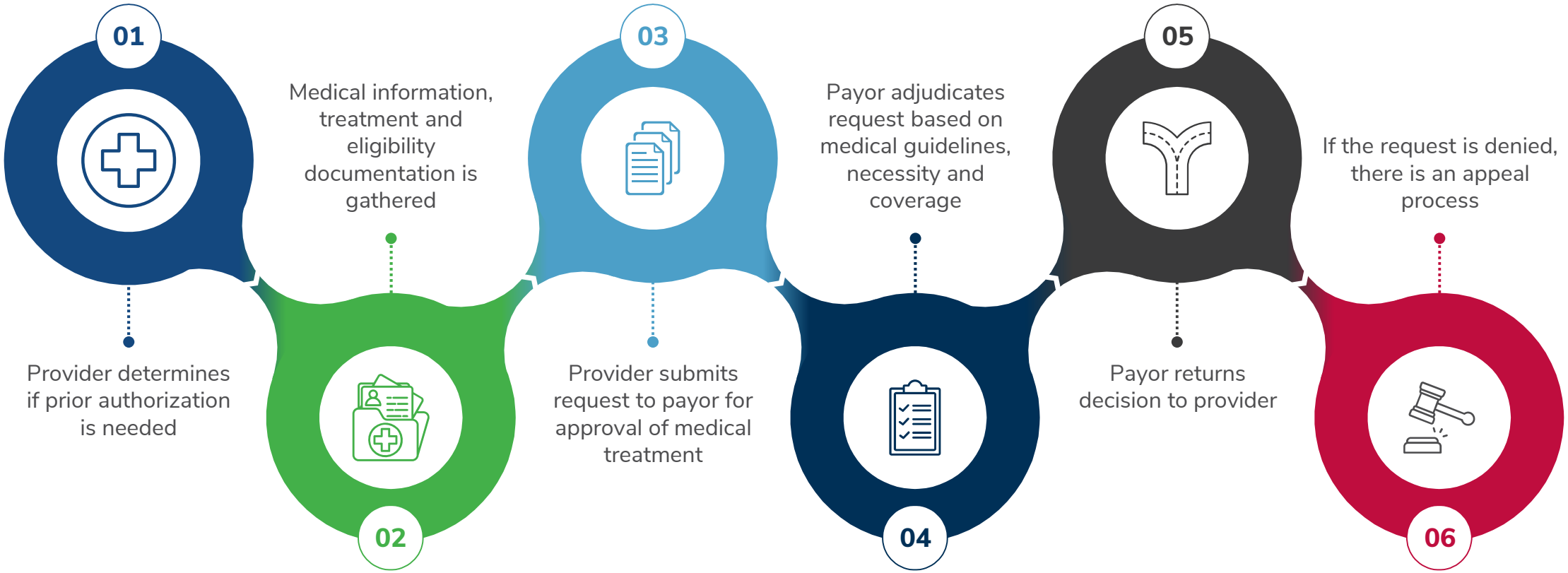
Increased Costs: Prior authorization often leads to a significant administrative burden that has resulted in high amounts of physician burnout. In general, each payor has unique requirements for prior authorization submission and documentation. 30% of medical groups report having to interface with 11 or more health plan proprietary web portals, with 76% of medical groups interfacing with five or more proprietary portals(2). The administrative strain takes providers away from patient care, while increasing costs to practices.

CMS Response: CMS recognized the adverse consequences related to prior authorization and is addressing it through its newly introduced Interoperability and Prior Authorization Final Rule ("Final Rule") which was issued on January 17, 2024. The Final Rule is a requirement affecting a broad spectrum of payers and providers to simplify and streamline the prior authorization process, enabling providers to submit requests and receive prompt notifications about the status of these requests more efficiently. Impacted payors are required to implement the non-technical provisions by January 1, 2026 and application programming interfaces ("APIs") by January 1, 2027. CMS' implementation of the Final Rule may also result quicker and wider adoption among commercial payors.

Emerging Technology: A McKinsey & Company study estimated that 50% - 70% of manual prior authorization tasks can be automated. This presents a significant opportunity for technology, specifically artificial intelligence, to increase administrative efficiency through automating basic tasks and prior authorization decisions to accelerate care delivery to improve patient outcomes. In this regard, there are currently a number technology initiatives being developed and implemented.

(1) "2023 AMA prior authorization physician survey" American Medical Association, 2024
(2) "Spotlight: Prior Authorization in Medicare Advantage" MGMA, May 2023

Typical Prior Authorization Process Involves Multiple Administrative Tasks, Long Delays and Lack of Transparency



Current Challenges with Prior Authorization are Affecting Patients, Physicians and Adding Costs to the Healthcare System

PATIENT IMPACT

- **94%** — Prior authorization delayed care at least “Sometimes” to “Always”
- **78%** — Prior authorization leads to treatment abandonment “Sometimes” to “Often”
- **93%** — “Somewhat” or “Significant” negative perceived impact on patient clinical outcomes
- **24%** — Report prior authorization has led to a serious adverse event for a patient

PHYSICIAN IMPACT

- **43** per physician, per week — Average numbers of prior authorizations completed by practices
- **12** hours per week — Time spent by physicians and staff on prior authorizations
- **35%** — Percent of physicians have staff dedicated exclusively on prior authorization
- **95%** — Percent of physicians who report that prior authorization somewhat or significantly increases physician burnout

COST IMPACT

- **87%** — Percent of prior authorization requests that lead to higher overall utilization of healthcare resources “Sometimes” to “Always”
- **69%** — Percent of physicians who report ineffective initial treatment (e.g., due to step therapy requirements)
- **68%** — Percent of physicians who report additional office visits due to prior authorization process
- **79%** — Percent of physicians who report prior authorization leads patients to pay out of pocket expenses at least “Sometimes” to “Always”

Source: “2023 AMA prior authorization physician survey” American Medical Association, 2024

Interoperability and Prior Authorization Final Rule Overview

CMS issued The Final Rule to address challenges with prior authorization which impact patient, physician and overall healthcare costs

Payor / Provider Scope

The Final Rule covers both health plans and providers

Health Plans Covered

- Medicaid Children's Health Insurance Program
- Medicare Advantage
- Qualified Health Plans ("QHP") on Federally Facilitated Exchanges ("FFE")

Providers Covered

- Merit-based Incentive Payment System eligible clinicians under the Promoting Interoperability performance category
- Hospitals and critical access hospitals under the Medicare Promoting Interoperability Program

Note: Prescription drugs are not covered at this time

Data Standardization and APIs

Payors will implement Health Level 7 ("HL7") and Fast Healthcare Interoperability Resources ("FHIR") APIs that will standardize and improve electronic exchange of healthcare data

- Patient Access API: Allows patients to access claims and clinical data through health application
- Provider Access API: Allows providers access encounter data, medical services, adjudicated claims and prior authorizations
- Payor-to-Payor API: Allows exchange of data between payors
- Prior Authorization API: Automate prior authorization process (determination, if required, through submission and status tracking)

Prior Authorization Decisions

Timing

CMS has shortened the timeline for prior authorization decisions (except for QHPs & FFEs)

- Standard Decisions: 7 days
- Expedited Decisions: 3 days

Denials

Payors must provide detailed and specific reasons for prior authorization denials

- Providers will be able to take necessary actions to treat patients (e.g. appeal the denial or recommendation of alternative treatment)

Public Report of Metrics

Payors must report certain metrics on the prior authorization determinations on their public website on an annual basis

~$15 Billion
CMS estimated savings for hospitals and doctor's offices over 10 years

"Together, these new requirements to prior authorization process will reduce administrative burden on the healthcare workforce, empower clinicians to spend more time providing direct care to their patients and prevent avoidable delays in care for patients" - CMS

Sources: Godavarthi, R. (2024, May 24). Key changes in the CMS Final Rule on Prior Authorization. MCG. https://www.mcg.com/blog/2024/05/29/cms-final-rule-prior-authorization interoperability/?utm_medium=webinar&utm_source=on24&utm_campaign=wbr-in-2024-interop-series-2
Pestaina, K., Lo, J., Pollitz, K., & Wallace, R. (2024, July 30). Final prior authorization rules look to streamline the process, but issues remain. KFF. https://www.kff.org/private-insurance/issue-brief/final-prior-authorization-rules-look-to-streamline-the-process-but-issues-remain/

Emerging Technology in Prior Authorization

Technology is being developed and implemented to automate the prior authorization process

01 Current State of Prior Authorization

50-70%
Of manual tasks can be automated

High rate of manual decision making can lead to **inconsistent clinical determinations**

Rules are **continuously changing and requirements among payors are inconsistent, while lacking transparency** (different portals, submission requirements etc.)

Traditional prior authorization methods can **obstruct patient access and treatment**

02 Benefits of Technology

Streamline Processes
Automating tasks such as submission, tracking and communication which save time and reduce errors

Real-Time Guidance
Integration with clinician decision support tools can provide guidance to providers on eligibility and documentation requirements

Improved Communication
Portals and APIs can facilitate communication between providers, payors and patients, increasing transparency and encouraging collaboration

Actionable Insights
Data analytics can identify trends in prior authorization denials and inform strategies to reduce denials

03 Emerging Technology

Electronic Prior Authorization
Fully electronic transmission of prior authorization information between provider and payor can expedite the time from submission to decision making

Artificial Intelligence ("AI")

Machine Learning ("ML")
ML assesses data and identifies patterns based on historical outcomes to continuously learn from past decisions, improving accuracy and efficiency over time

Natural Language Processing ("NLP")
NLP can transform unstructured text (patient records, handwritten clinical documents etc.) to data formats that payors can use to facilitate quicker decisions

Optical Character Recognition ("OCR")
OCR is the process of digitizing into machine readable formats (e.g. faxes, pdfs) at intake to speed up and consolidate the prior authorization process

Key Considerations when Adopting Technology

Healthcare Venerable to Cyber Attacks
In Feb 2024, Change Healthcare suffered a cyber attack causing a backlog of prior authorization requests leading to disruptions in patient care and cash flow issues for providers

AI Can Lead to Inappropriate Denials
Complex decision making will still require human intervention. AI models can inherit biases based on historical data, potentially leading to erroneous denials

Integration into Current IT Ecosystem
Introducing new technology into current Healthcare IT infrastructure (workflow tools, EMRs etc.) can be complex and require significant resources

Sources: Al-Haque, S., Khanna, V., Mandal, S., Rayasam, M., & Singh, P. (2022, April 19). Ai ushers in next-gen prior authorization in Healthcare. McKinsey & Company. https://www.mckinsey.com/industries/healthcare/our-insights/ai-ushers-in-next-gen-prior-authorization-in-healthcare
Namasivayam, S. (2023, September 29). Ai is already transforming prior authorization: Employing more mature technologies as AI continues its evolution. Future Healthcare Today. https://futurehealthcaretoday.com/ai-is-already-transforming-prior-authorization-employing-more-mature-technologies-as-ai-continues-its-evolution/

Notable Prior Authorization Companies Leveraging Technology

	AKASA	cohere HEALTH	myndshft	Rhyme	samacare	Valer
Technology Overview	Uses generative AI ("GenAI") and large language models ("LLMs") to develop healthcare specific models by training them on clinical and financial data	Ingests and digitizes all prior authorization requests, then applies rules to automatically approve majority of requests based on medical guidelines and payor rules	SaaS-based platform automates (using GenAI and ML) patient access tasks associated with prior authorization, eligibility and benefits for both medical and pharmacy	The platform integrates with any EMR to connect directly with all insurance carriers to submit, monitor and complete prior authorization	Leverages AI to offer practices a cloud-based tool to submit, track and manage prior authorization	Speeds and simplifies prior authorization by automating submissions, status checking, verification, reporting, and EMR synchronization from one platform and portal
Founded	2018	2019	2015	2014	2018	2011
HQ	San Francisco, CA	Boston, MA	Mesa, AZ	Columbus, OH	San Francisco, CA	Huntington Beach, CA
Financing / Investor(s)	Series B: $60M (Mar-21) Lead Investor: BOND Series A: $20M (Nov-19) Lead Investor: andreessen. horowitz	Series B2: $50M (Feb-24) Lead Investor: None Series B: $36.1M (Apr-21) Lead Investor: polarispartners Series A: $10M (Jul-20) Lead Investors: DEFINE VENTURES, flare capital partners	Acquired by DrFirst in Apr-24	$25M funding round (Feb-22) for a total over $57M of total funding Lead Investor: INSIGHT PARTNERS	Series B: $17M (May-24) Lead Investor: QUESTA CAPITAL Series A: $12M (Jun-22) Lead Investor: VIVE COLLECTIVE, CLEARLAKE	Received capital investment from Hughes & Company (Apr-23) HUGHES & COMPANY

Select Kroll Healthcare Transaction Experience

SELL-SIDE ADVISOR
Cables and Sensors
has been acquired by
PartsSource
a portfolio company of
BainCapital Private Equity

SELL-SIDE ADVISOR
AQREVA / DRS
have been acquired by
unislink
a portfolio company of
Riverside Partners

SELL-SIDE ADVISOR
TRI-AD
has been acquired by
navia benefit solutions
a portfolio company of
TA Associates / Shore Capital Partners

SELL-SIDE ADVISOR
LSL
has been acquired by
Fifth Century Partners

SELL-SIDE ADVISOR
MEDI WEIGHTLOSS The one that works!
has been acquired by
Audax Private Equity

SELL-SIDE ADVISOR
RSA
has been acquired by
Sheridan Capital Partners

SELL-SIDE ADVISOR
NXC Imaging
has been acquired by
Canon

SELL-SIDE ADVISOR
cCARE
has been acquired by
Integrated Oncology Network
a portfolio company of
Silver Oak Services Partners

SELL-SIDE ADVISOR
Allentown
has been acquired by
Aterian Investment Partners

SELL-SIDE ADVISOR
TheraOffice
has been acquired by
Netsmart
a portfolio company of
TA Associates / GI Partners

SELL-SIDE ADVISOR
AS Software
has been acquired by
AEA Growth

SELL-SIDE ADVISOR
Universal Spine & Joint Specialists
has been acquired by
Surgery Partners

SELL-SIDE ADVISOR
Insignia Health
has been acquired by
Phreesia

SELL-SIDE ADVISOR
lab products / harford systems inc
Subsidiaries of ShoreView Industries' Portfolio Company
AVIDITY SCIENCE
has been acquired by
GenCap America

SELL-SIDE ADVISOR
SCR Medical Transportation
has been acquired by
Beacon Mobility
a portfolio company of
Audax Private Equity

SELL-SIDE ADVISOR
STRIVE Dental Management
has been acquired by
APEX
a portfolio company of
Endeavour

SELL-SIDE ADVISOR
The Wellness Network
a portfolio company of
Granite Bridge Partners
has been acquired by
WebMD

SELL-SIDE ADVISOR
The Difference Card
a portfolio company of
Pharos
has been acquired by
NCP Northlane Capital Partners

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For more information, please contact:

Eric Coburn
Managing Director
Head of Healthcare Investment Banking
+1 917 692 6283
eric.coburn@kroll.com

Nick Konstantinou
Managing Director
Chicago
+1 216 543 7885
nickkonstantinou@kroll.com

Michael Weber
Managing Director
Chicago
+1 804 543 1438
michael.weber@kroll.com

Peter Machmeier
Director
Chicago
+1 612 849 3792
peter.machmeier@kroll.com

Cray Yoo
Vice President
Los Angeles
+1 310 498 2500
cray.yoo@kroll.com

Eric Barker
Vice President
Los Angeles
+1 408 375 0612
eric.barker@kroll.com

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