

## CASE STUDY



**TM Floyd & Company**  
*Building Better Solutions*

### Case Summary

#### Client

The client is a major health insurer and part of a nationwide association of health plans.

#### Industry

Healthcare Insurance

#### Market Position

The client is the third largest health plan in its state, serving 3.3 million members and earning \$7.5 billion in annual revenue

#### Consulting Need

The client needed a strategic plan for the modernization of its legacy system

### Setting Direction

TM Floyd & Company was engaged by a major health insurance company to provide strategic planning for a legacy system modernization.

The client's major legacy systems were outdated and inflexible and did not support its strategic growth priorities. Some were installed several decades ago and were becoming increasingly more expensive and difficult to maintain. The client was looking for a replacement for these core systems and recognizes the need for detailed planning and analysis for such a critical and expensive undertaking.

#### The Problem

The core systems, membership and claims, were controlled by a third-party vendor, and the client recognized a need to document and understand the details of these systems before embarking on a plan to modernize these systems. The client attempted a modernization project in the past and failed.

To help ensure success this time, the client enlisted TMF to help in the planning of a new modernization project. Initially, the planning project's major deliverables were a prioritization plan, a roadmap, migration techniques, and an impact analysis.

Half-way through the planning project, the client decided that the final deliverable would be the selection of a vendor to replace the core systems. Replacement of the core systems has the potential to cost the client hundreds of millions of dollars over a five-year period.

#### Legacy Systems

A legacy system is a computer system that has continued to be used by an organization despite the development of newer technologies. In the health insurance industry, legacy systems are typically mainframe systems.

A legacy system is not necessarily a bad thing. In health insurance, some of the core characteristics of a mainframe system, including a centralized processing, centralized data control, and system longevity, are critical.

Centralized processing and data control enhances the mainframe system's security. If the mainframe programs can only be accessed through certain portals, then the mainframe operators can more easily control access. For a client/server system, the security perimeter is much broader. Due to the nature of the healthcare information stored on the systems and the regulations impacting the industry, security is paramount.

The longevity of a mainframe system, coupled with minimal amounts of system downtime, is equally critical to a health insurer's success. With the constant flow of electronic data interchanges among numerous providers and payers, system downtime is not acceptable.

Longevity, however, is also one of the aspects leading to rising maintenance costs. Mainframe systems are outlasting the programmers who coded the systems. As the programming skills disappear from the marketplace, costs rise. Similarly, if the legacy system runs on antiquated hardware, finding replacement hardware gets more expensive.

The client in this engagement had an additional problem. The client's legacy system was operated by a vendor. The client, therefore, was impacted by rising maintenance costs but was shielded from identifying and remedying maintenance issues.

#### TM Floyd & Company

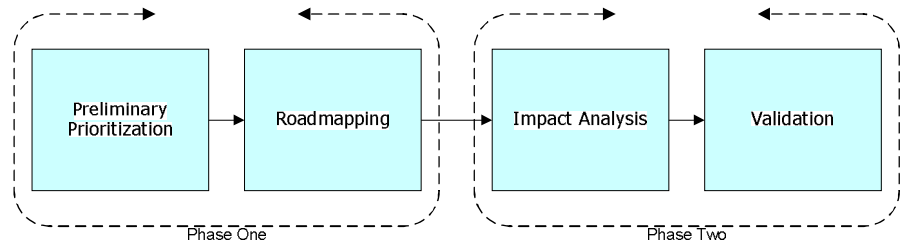
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## Setting Direction

### The Solution

Based on its analysis of the client's strategic goals and needs, TMF divided the planning project into two phases: preliminary prioritization/roadmapping and impact analysis/validation.



In the first phase, TMF conducted interviews with key client executives and developed a legacy and future needs assessment. TMF also provided the client with a preliminary roadmap, a prioritization of system components, and a set of preliminary business scenarios. TMF included an inventory of all applications to gain a better understanding of the systems in use and whether the system is controlled by the client or the third-party vendor.

In the second phase, TMF was tasked with the selection of a primary vendor along with the creation of a revised priority scheme based on four priority areas defined by the client's CEO. TMF redefined the second phase deliverables to meet the revised direction. As planned, the second phase brought more of the client's resources into the planning and analysis activities.

Each of the key activities included teams from the IT and business units whenever possible. Major deliverables from the second phase included a refinement of priorities, vendor preparation plans, criteria for vendor selection, migration estimation models, business scenarios, and a complete analysis and documentation of the client's processes. The ultimate result was the selection of a vendor to replace the client's core systems.

Initially, TMF encountered a common disconnect between the IT organization and the business units, a common problem in many organizations. TMF, with assistance from a few key client resources, was able to engage the business units in the required activities and bring quality deliverables to the project while keeping the project on schedule. Business and IT resources became fully engaged in the process and stayed on track.

In addition, most of the client's systems were created, maintained, and controlled by a third-party. The disconnect between the IT organization and the business units was exacerbated by the third-party vendor's control of the systems. As with the disconnect between the client's IT and business functions, TMF was able to mediate issues between the client and the vendor to advance the project.

TMF maintained an excellent working relationship with the third-party vendor and coordinated with them to obtain needed information to complete the modernization project.

With TMF guidance, the client developed the knowledge and tools to enable it to make an informed decision on the vendor selection and to perform the necessary next steps toward implementation.

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