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Operational Playbook: Health plans have no purpose in owning CAPS anymore; outsource for outcomes now

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This playbook is for health plan CIOs with one or more core administrative processing systems (CAPS). It embraces the key tenets of Services-as-Software™ (SaS) and leverages AI to reduce costs and operational risks.

This playbook's approach should yield a 5% to 10% savings in operational costs while maintaining compliance and risk posture, depending on the types of outcomes.

HFS Operational Playbooks are practical guides to solving key enterprise challenges that consume significant costs, time, and resources. The playbook provides enterprise leaders a realistic roadmap with specific "to-dos" to address their everyday challenges so they can clear mental and financial space to deliver next-level value.

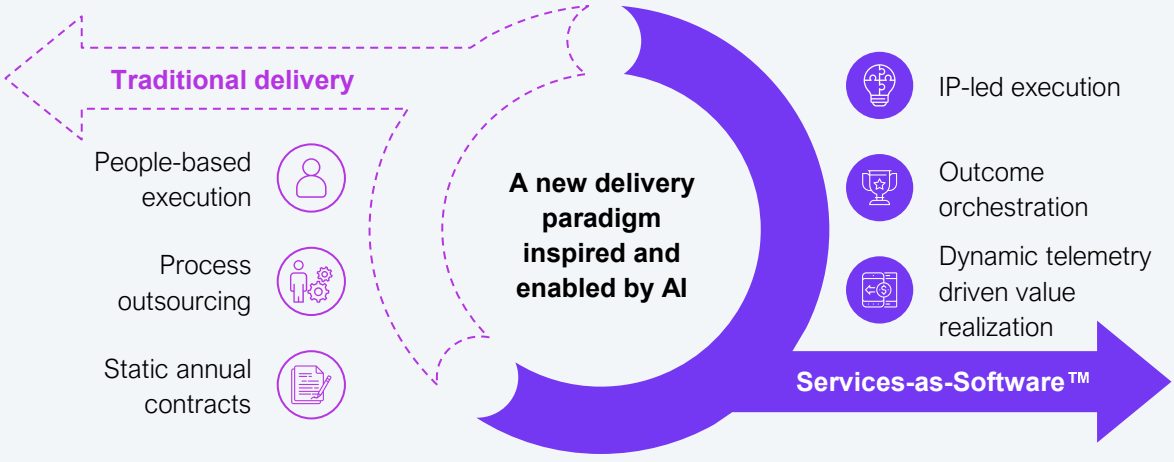
The problem: Margin pressure is rising while legacy CAPS complexity increases operational costs and risks

The Big Beautiful Bill Act of 2025, the expiry of Affordable Care Act (ACA) subsidies, and Medicare sequestration will reduce government healthcare funding by about 10% annually, yielding a material reduction in revenues for health plans serving Medicaid, Medicare, and the exchange markets. It will exacerbate declining margins, elevating the priority of cost management. Medical management will remain the largest cost component, but technology costs, at two to three percent of annual revenue, can be material for a business running at sub-one-percent operating margins.

This playbook is for health plan CIOs with one or more core administrative processing systems (CAPS). It embraces the key tenets of Services-as-Software™ (SaS) and leverages AI to reduce costs and operational risks.

SaS (see Exhibit 1) will enable the move away from people-based delivery to IP-led delivery (AI-enabled risk stratification model), from capability or process outsourcing to outcomes orchestration (low provider call volume), and, crucially, from static annual agreements to contract-based, telemetry-driven value realization (prior auth leakage reduction measured by fewer avoidable calls, faster approvals, lower abrasion). The operational approach in this playbook should yield 5% to 10% in operational cost savings while maintaining compliance and risk posture, depending on the types of outcomes.

Exhibit 1: Services-as-Software™ will evolve to become the default AI-enabled delivery paradigm for the next 25 to 50 years



Source: HFS Research, 2026

Playbook benefits: Addressing what really matters—cost reduction, risk mitigation, and value outcomes

For decades, technology operations leaders have attempted to migrate their legacy CAPS to modern systems with limited success. Often, they have ended up with more systems rather than fewer, as business complexity, customer obligations, and cost constraints limited complete systems migration. Now, in the age of AI, we not only have the benefit of technology but also that of a new delivery paradigm in Services-as-Software. It is a golden opportunity to overcome past challenges and be part of the solution with enterprise-wide impact.

Benefit 1: Rapid cost takeout

- Eliminate development and maintenance costs by moving service-line functions to SaS.
- Eliminate all capital expenditure.
- Enable faster reductions in run costs (licenses, infrastructure, and specialist support) by archiving legacy.
- Eliminate technical debt.

Benefit 2: Reduced operational risk

- Accelerate outcome delivery by the right SaS enabler, avoiding the legacy challenges of separate software development, systems integration, and business process outsourcing (BPO) handoffs.
- Separate old books from new books easily, reducing data and operational commingling and making cutover governance straightforward with SaS.
- Eliminate technical or operational drag to improve operational efficiency.

Benefit 3: Outcomes that matter

- Align incentives, reduce shared blame across internal teams and vendors, and focus measurement on business-relevant key performance indicators (KPIs) with outcome-based contracting.
- Enable adaptation to new outcomes as required with built-in telemetry-based reporting, without investing in new capabilities.

The solution: Outsource for outcomes enabled by Services–as–Software, not capabilities

The bulk (50%–75%) of a CIO's operating budget at an average-sized health plan (encompassing one to five million lives) is consumed by managing and maintaining multiple CAPS. The typical CAPS landscape includes mainframes, on-premises legacy systems, and some cloud-enabled modules. Adding to semi-integrated systems' complexity is business complexity, with multiple service lines (employer, administrative services organization, Medicare, and Medicaid) and evolving business rules spread across CAPS. This complexity will continue to increase costs unless health plans embrace a radical new path, Services-as-Software.

The Services-as-Software delivery paradigm maximizes AI's potential while laser-focusing on outcomes. Health plans, facing a rapidly shifting value proposition, must begin targeting what matters most: materially improved operational outcomes at lower cost, with warp speed.

Health plans are traditional outsourcing veterans, but traditional outsourcing won't deliver exigent results. Health plan CIOs must collaborate with procurement leaders to embrace SaS-enabled sourcing.

The plan to outsource CAPS: Line–item capabilities must not constrain better outcomes

Contrary to popular narratives, CAPS are neither differentiators nor strategic assets, and they have not been for a long time. It is time to shift the approach to sourcing outcomes rather than traditional capabilities sourcing. However, given that CAPS capabilities are key to delivering services to members, supporting enterprise financials, and remaining compliant with regulations, sourcing execution must be strategic and practical.

Exhibit 2 provides a high-level roadmap and approach for transitioning from traditional delivery to AI-enabled Services-as-Software.

Details matter when migrating operations to a new delivery paradigm. The summary in Exhibit 2 illustrates the journey ahead, but the playbook provides the execution details you'll need for success.

Exhibit 2: Five-step playbook for CAPS rationalization via SaS

This playbook's approach should yield a 5% to 10% savings in operational costs while maintaining compliance and risk posture, depending on the types of outcomes.

01 Identify service lines	02 Select a SaS enabler	03 Contract for outcomes	04 Cutover to SaS-enabled operations	05 Archive legacy
Select the first service lines to migrate by prioritizing lower-complexity lines of business with manageable customization and clear membership boundaries	Choose a SaS enabler based on proven outcome delivery, security, and compliance fitness and the ability to run the service end to end	Structure the contract around a small set of business-critical KPIs with clear accountability, data rights, audit rights, remedies, and exit terms	Execute the migration using a controlled cutover sequence anchored to operational boundaries to minimize data commingling and stabilize day-one operations	Move migrated service lines to a read-only archive and retire legacy platforms through a tracked decommission plan with strict access controls
Outcomes: You have a scoped first wave with lower cutover risk	**Outcomes:** You have a credible partner and an agreed path to SaS	**Outcomes:** Incentives align and governance becomes measurable	**Outcomes:** The new run-state starts cleanly and predictably	**Outcomes:** Run costs drop and legacy risk shrinks

Benefits

Rapid cost takeout | Reduced operational risk | Outcomes that matter

Source: HFS Research, 2026

The playbook: Operationalize for outcomes

Health plan CIOs cannot continue to maintain the status quo landscape of CAPS. There is no purpose to it anymore. The faster they exit CAPS, the greater the value they add to the health plan operations. This playbook provides a clear-eyed path to doing it by leveraging AI and a new delivery paradigm.

Step 1: Identify service lines

Elements of success

Start here — **Align your contract to outcomes and value instead of capabilities**

Why it matters

- Responsibility and accountability for outcomes reside with the health plan, not the service provider
- An outcome focus incents the SaS enabler to innovate and deliver contracted outcomes

Expected outcomes

- You'll track only metrics that matter
- Internal resources will be rationalized
- Resources will be available to higher value and emerging needs

Do it right

- Use a 5–8 KPI scorecard across operational, experience, financial, and risk categories instead of a large SLA catalog
- Key categories of outcomes to consider must include:
  - **Operational:** Turnaround time, accuracy, or first-pass yield, and call resolution
  - **Experience:** NPS or CSAT, provider abrasion metrics, and member retention
  - **Financial:** Unit cost trend, automation rate, leakage, or rework reduction
  - **Risk:** KPIs that ensure the health plan can operate through security or incident SLAs and meet compliance timeliness requirements, such as breach (ransomware) protection

Watch out for…

- Lock in data rights, audit rights, change control, and exit clauses, ensuring the health plan has appropriate insight, control, and ownership

To-do list and what "complete" looks like

Selection criteria	You have a clearly defined, exclusive service-line dataset (e.g., ASO) that unambiguously determines in-scope members, providers, and outcomes
Validation of selection	There is no material spillover or overlap across service lines, and the selected service line has hard boundaries that support a clean cutover
Baseline KPIs	Cost per claim, cycle time, error rates, and complaint volumes are baselined so you can measure and compare post-SaS performance

Step 2: Select a SaS enabler

Elements of success

Start here	Select an outcome-driven SaS enabler with the technology and service capabilities to deliver against SaS attributes
Why it matters	• You'll reduce internal operational tech and services footprint, operations costs, and technology and services risk while leveraging best-in-class external operations.
Expected outcomes	• The total cost of operations (technology, compliance, services) will be reduced. • You'll have access to advanced tech and exceptional operations. • The speed to outcomes will improve.
Do it right	• SaS vendor selection criteria must include run cost (operations, licenses), accuracy (claims, membership), turnaround (processing speeds), speed to market (compliance, customer requests), experience (billing, prior auth), and adherence to regulations (compliance). • Require evidence that these metrics are better than those of the health plans over an acceptable time horizon of two to three years. Non-functional requirements, such as security model or resilience, are critical to selection.
Watch out for…	• Defy bias and ignore intellectual curiosity by not letting "capabilities" dominate the process. Require outcome proof and customer references, including the ability to speak with other health plans that can support the vendor's evidence.

To-do list and what "complete" looks like

SaS enabler	You have high confidence you selected a vendor that can enable SaS.
Evidence	You have collected satisfactory and tangible evidence the enabler can deliver comparable outcomes sustained for two to three years.
References	You have spoken with up to five similar health plans validating vendor's claims.

Step 3: Contract for outcomes

Elements of success

Start here	Align your contract to outcomes and value instead of capabilities
Why it matters	• Responsibility and accountability for outcomes reside with the health plan, not the service provider • An outcome focus incents the SaS enabler to innovate and delver contracted outcomes
Expected outcomes	• You'll track only metrics that matter • Internal resources will be rationalized • Resources will be available to higher value and emerging needs
Do it right	• Use a 5–8 KPI scorecard across operational, experience, financial, and risk categories instead of a large SLA catalog • Key categories of outcomes to consider must include: – **Operational:** Turnaround time, accuracy, or first-pass yield, and call resolution – **Experience:** NPS or CSAT, provider abrasion metrics, and member retention – **Financial:** Unit cost trend, automation rate, leakage, or rework reduction – **Risk:** KPIs that ensure the health plan can operate through security or incident SLAs and meet compliance timeliness requirements, such as breach (ransomware) protection
Watch out for…	• Lock in data rights, audit rights, change control, and exit clauses, ensuring the health plan has appropriate insight, control, and ownership

To-do list and what "complete" looks like

Value definition	Leadership has clarity and alignment the value SaS must deliver
Outcome choices	You have a leadership approved list of outcomes that allows the business to function optimally, with no compromises
Remediation	You have specified remediation steps and penalties for KPI underperformance
Clarity of ownership	Ownership boundaries are clearly defined; for example, physical hardware vs. data

Step 4: Cutover to SaS–enabled operations

Elements of success

Start here	Time adoption of new SaS with open enrollment for a seamless start of operations with a new delivery model
Why it matters	• Correct timing minimizes commingling, reduces cutover risk, and clarifies run-cost accountability
Expected outcomes	• The clean plan-year start will have measurable outcomes, clear cost attribution, and a lower cost of operations contained for the forward-looking plan year
Do it right	• Use a wave sequence starting with new members first, then renewals, then multi-year contracts. • Begin all new operations through SaS, starting on January 1. Switch all legacy-system operations to read-only for a period defined by service-line owner. Store legacy data offline for 10 years, followed by an option for destruction
Watch out for…	• Treat this like a high-stakes cutover. Require and apply a cutover checklist and a rollback criterion for emergencies only

To-do list and what “complete” looks like

Day 1–Day 30 operations	You have a clean start with zero downtime and a stable run-state
Sequence of activation	You activated member types in your planned order, starting with new
Rollback	You have a vendor-tested rollback plan for emergencies
Outcomes	30-, 60-, and 90-day KPIs trending toward targets

Step 5: Archive legacy

Elements of success

Start here — **Move the migrated service line to a read-only archive to reduce operational risk and develop a path to a need-only data footprint.**

Why it matters	• You prioritize active member and current plan management while shifting non-essential analytics, including lifetime limits on non-essential benefits, to offline stores
Expected outcomes	• Simpler, more efficient compute will lower the cost of tech ops and improve member and provider experience
Do it right	• Change the service-line legacy to read-only mode, with defined retention and access policies • For commercial service lines, base data retention on individual contractual obligations rather than regulations. Separate “active archive” (e.g., two years) from “offline archive” (e.g., 10 years), based on contractual obligations
Watch out for…	• Restrict access to predefined reasons (audit, appeals, analytics) and time-box the access

To-do list and what “complete” looks like

Access controls	You have implemented CISO-certified access controls for archived data
Decommission plan	You have published dated shutdown milestones and tracked cost takeout (licenses, infra, support, SMEs)

Execution timeline: It must be a one-year cycle; otherwise, bring in the experts

Health plan CIOs must avoid analysis paralysis by adopting the least-resistant path from start to finish (see Exhibit 3) to be ready for open enrollment and the beginning of the plan year.

Exhibit 3: Accelerated service-line migration is practical and possible

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Identify service lines	1. Select a service line. 2. Complete analysis on member count, contract obligations, and connectivity to other programs. 3. Finalize the data set.												
Select a Sas enabler			1. Develop a service line migration vision document including expectations of what good looks like. 2. Engage the procurement organization and other industry advisors to identify up to five SaS enablers. 3. Begin interviews, demos, and reference checks to down select.										
Contract for outcomes					1. Leverage HFS AI-First Deal Lab framework to create a contract for the future.								
Cutover to SaS-enabled operations							1. Begin pilot with synthetic data. 2. Validate and improve outcomes.			1. Support open enrollment. 2. Validate with sub-milestone KPIs.			1. Begin SaS ops.
Archive legacy										1. Cease use of select service line in legacy on 12/31.			

Source: HFS Research, 2026

The risks: Don't get too comfortable with the potential of a new delivery paradigm

1

Entrenched thinking and execution

Across industries, technology and operational leaders have leaned into what they know. While this approach may appear to mitigate the risks of the unknown, it would have missed the opportunity to adopt new ways to deliver higher value at lower cost.

2

Risk, compliance, and controls should be attached to outcomes

A health plan is responsible to regulators and customers. Consequently, contract outcomes must include a control set for audit rights, data ownership, incident SLAs, regulatory reporting responsibilities, and service credits tied to measurable KPIs.

3

Continuous improvement and outcomes validation

Complacency is often a by-product of outcome-based contracts, given that there are no operational or capability roles for the health plan. Drive continuous improvement of associated KPIs while validating the achieved outcomes. To ensure both tenets are completed, the contract must include financial and operational remediation and penalties.

Our perspective

The following list includes relevant HFS perspectives on health plan operations in a shifting market; watch for our series on executing Services-as-Software within a health plan and on selecting the right partner for success.

- Health plans must anchor value in health to survive and thrive in the BBB era
- Services-as-Software and psychology biases break services pricing
- CAPS must adapt to the shifting market, with UST laying out the path
- Healthcare coverage will continue to shift away from traditional payers
- $1.5 trillion Services-as-Software market takes off—three swimlanes emerge
- Stop waiting for certainty—it's time to rewrite the enterprise IT playbook

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