Insurers say they'll deploy more AI to combat 'aggressive' coding by hospitals

Payers blame providers' use of automated AI tools for some of their shrinking profits

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Health insurance companies are fighting fire with fire as they combat rising medical costs they say are being driven up, in part, by artificial intelligence.

Large private insurers have continued to call out purportedly overzealous coding and billing as a source of ballooning health care costs. In particular, some have blamed the use of AI tools for some of the surge in claims from health care providers that have cut into their profits.

"I've talked to a couple of my peers where it does seem like the hospitals have gotten better organized around the application of AI for coding than payers," said Centene chief financial officer Andrew Asher at the Deutsche Bank Healthcare Summit last month. "But we're going to catch up to that."

In third quarter earnings in October, top insurance executives echoed that message. UnitedHealthcare is "making more use of AI in our payment integrity programs, increasing some of our payment policy efforts, as well as our clinical affordability programs to address some of what we're seeing," said CEO Tim Noel, which includes "continued expansion of aggressive provider coding and billing practices."

Large insurers and their subsidiaries have long used AI to scrutinize medical claims, using the tech as a lever in payment disputes with providers and patients — and have been sued over allegedly wrongful denial of care using AI. But lately health systems have also eagerly taken up AI, especially in administrative areas like revenue cycle management.

Automated tools to help ensure a patient visit is billed at the correct level have long existed, but AI vendors promise to increase the efficiency and accuracy of those processes. Vendors selling popular ambient scribes for clinical documentation have also started rolling coding capabilities into their products, marketing their ability to capture the maximum reimbursement justified by a doctor's work.

In a recent survey sponsored by Solventum, 27% of 272 surveyed health care leaders said their organizations were implementing AI-driven solutions for coding, 23% to manage denials, and 22% for clinical documentation. Many more were considering the technology.

Mistrust and finger-pointing are brewing as both industries use AI to pursue their financial ends. Insurers, for their part, suggest some hospitals using AI tools are exaggerating patients' conditions.

"If you think about hospital revenue cycle management systems, there have been some of these pockets where folks coming into the emergency department with a fever, all of a sudden, all have sepsis," said Centene CEO Sarah London at the Deutsche Bank summit.

"An uptick in coding intensity is not necessarily driven by a more aggressive coding process, but by multiple other factors," said Aaron Wesolowski, vice president of research and policy communications for the American Hospital Association, as health insurance companies have also acknowledged. "Patient acuity has undeniably grown in recent years," he said, and where those sicker patients get care is changing.

But when insurers believe inappropriate upcoding is occurring, they have pledged to respond in kind. In July, London said Centene was integrating AI into its payment integrity systems to keep pace with hospitals' revenue cycle AI. "We are very aggressively addressing the higher coding intensity — and we've seen it in pockets — but have significant tools to advance that as well," said Elevance CEO Gail Boudreaux in last week's earnings call.

Boudreaux referred to those tools more explicitly in Elevance's July earnings call: "We're also using our data, and using AI, quite frankly, to get ahead of the cost curve," she said. Some "pockets" of increased coding she attributed to hospitals "using some AI-enabled coding tools that can increase documentation, acuity, and in turn, unit costs." Elevance's AI, she said, would help identify those patterns of billing abnormalities.

"The health plans right now, I think, feel caught betwixt and between," said Cheryl Damberg, who directs the RAND Center of Excellence on Health System Performance. Health insurers have been criticized for allegedly upcoding patients within their Medicare Advantage plans, in which the government pays more to cover sicker members. They establish a patient's risk level in part by using AI-enabled chart reviews. Then, when insurers are forced to pay more because of hospital upcoding, they use AI to fight it.

"They're under fire for upcoding risk, they are under fire for denials of care, they've got this utilization problem that's driving costs," said Damberg. "So they're looking for ways to try to tamp down in all places, and it's no surprise they're using AI tools."

At the same time, doctors have pushed back against what they say are aggressive algorithmic practices from health insurance companies to automatically downcode their work. A new program from Blue Cross Blue Shield of Massachusetts, for example, will

cut physician payments if a process aided by an algorithm from the company Cotiviti determines they have charged more than warranted.

“My concern about applying these AI tools without really understanding what’s going on underneath the hood is that they’re kind of blunt tools,” said Damberg. “They can potentially get rid of overuse or unnecessary or low value care. But they can also harm appropriate care. And I think that’s the devil in the details here.”

The Trump administration is taking cues from industry and, for the first time, using AI to decide whether to approve access to certain kinds of care sought by Medicare beneficiaries.

Both kinds of AI have the potential for error, said Rachele Hendricks-Sturrup, a researcher at the Duke Margolis Institute for Health Policy who has studied AI use in coverage decisions.

“Any AI model that is not overseen by a designated human, there is that real risk of the AI running off the rails,” said Hendricks-Sturrup. “You can’t just implement an AI tool to maximize whatever your goals are without ensuring that there’s strong governance.”

AI is a potentially powerful tool because it could identify signals that wouldn’t necessarily be visible to human auditors. “AI can identify complex trends across multiple health systems to determine, is this health system suddenly trending up as far as potential inappropriate billing?” said Hendricks-Sturrup.

But that ability to generate novel insights is also what could make it difficult to double-check.

Insurers aren’t only interested in using AI to fight back against coding intensity. Artificial intelligence could speed up the process of prior authorization — benefiting both health systems and payers — by aligning billing and medical records, or deal with denials faster when they happen. In Elevance’s third-quarter earnings, Boudreaux said the company’s AI-based data hub, Health OS, has reduced provider denials by more than 68%. Last week, UnitedHealth announced a product called Optum Real that uses AI to adjudicate claims in real time.

Insurers should be able to use AI “in ways that protect against upcoding and fraud, waste, and abuse,” said Hendricks-Sturrup. “But also use the tool in ways that allow you to learn more about what could be best for your beneficiaries based on the latest information that’s out there. Do the work.”