

ARTICLE

How AI can reset healthcare's administrative cost structure

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Sustained financial pressures are driving health systems to continuously search for cost-reduction opportunities, and administrative functions are a natural place to start. Historically, health systems have faced difficult trade-offs between expense reduction and service levels. But new agentic artificial intelligence (AI) capabilities are creating opportunities to reset the administrative cost base *while preserving service levels*—or even enhancing them.

The challenge is that a narrow focus on reducing administrative expenses risks degrading service levels and weakening enterprise performance over the longer term.

New agentic AI capabilities create an opportunity to approach administrative cost differently.

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Instead of trade-offs, agentic AI enables holistic cost-service performance management

The trade-off between cost and service has long shaped health systems' decisions across administrative functions. For example:

- Cost-to-collect is an important revenue cycle metric to track. But simply reducing revenue cycle costs without re-platforming the work could have dire consequences for topline revenue capture.
- Running supply chain operations too tightly can compromise supply availability, clinical throughput, and patient outcomes.
- Reducing human resources support without redesigning how the health system manages workforce needs can weaken recruiting, retention, and ultimately the organization's ability to deliver care.

Now, agentic AI creates an opportunity to manage cost and service performance together, rather than treating them as competing priorities. Doing so requires operating model redesign, powered by AI and other technologies.

An example from outside healthcare shines light on principles that are directly relevant to healthcare's administrative functions: IBM's AI human resources support agent, AskHR, has contributed to a 40% reduction in human resources operational costs over 4 years, resolved 94% of common employee questions without requiring advisor support, reduced support tickets by 75%, and handled more than 11.5 million employee interactions. The model automates routine tasks, integrates with enterprise systems, and routes more complex needs to human advisors.

Rethinking the administrative operating model: From task automation to step-function improvement

For health systems, the full value of agentic AI comes not only from automating routine tasks but also from changing how work moves across the operating model. That shift is significant. But health systems do not need to redesign an entire administrative function at once to begin capturing value. They can start by identifying where AI can simplify the workflow and accelerate decisions. Then they can focus human review where it adds the most value.

AI-enabled automation applies AI to discrete tasks within an existing workflow, such as extracting invoice data (supply chain), drafting an appeal letter (revenue cycle), or answering a routine policy question (human resources).

AI-driven redesign goes further, changing how work moves across the operating system by coordinating inputs, triggering next steps, and routing decisions across teams and systems.

In AI-driven redesign, health systems use AI as a tool to drive operating model change that improves outcomes, rather than simply using AI to automate existing tasks.

Step-function improvement comes from redesigning the operating model with AI as a core tool. A future-state view helps leaders look beyond today's workflows, shifting from "How can AI automate this task?" to "What role can AI/technology play in making the workflow more efficient? What steps or tasks can we eliminate? Where is human review essential?"

For example, end-to-end revenue cycle processes today require multiple handoffs, from managed care to scheduling to coding to back-end revenue cycle follow-up to payment integrity. With agentic AI, health systems can fundamentally rethink how they accomplish this work.

For instance, AI can help with authorization submission, claims status checking, inpatient and outpatient coding, submitting appeals with appropriate supporting documentation, incorporating payer guidelines, and identifying improvement suggestions for clinical documentation. Staff can focus instead on high-risk authorizations and complex coding scenarios.

At Bronson Healthcare, early efforts at AI-driven redesign in the revenue cycle produced swift results, including: a 10-fold ROI, accelerated cashflows, and a better patient experience.

Within any given administrative function, the pace and magnitude of change will vary by process and sub-process, depending on readiness, magnitude of opportunity, operational complexity, and workforce adoption.

A longer-term vision can guide the health system's investment and operating model decisions, including how staff roles will evolve as AI changes the nature of administrative work. As the health system reduces routine burden, staff can shift toward higher-value activities that require judgment, problem-solving, stakeholder engagement, and exception management.

Examples from other industries demonstrate that the greatest productivity gains rarely come from making legacy processes incrementally faster but from redesigning for a better outcome with technology as a core component of the solution.

Banking provides a useful example. The industry did not improve productivity simply by digitizing teller transactions. Over time, it redesigned the operating model around customer access, transaction convenience, and lower-cost service delivery.

What banking teaches about future-state operating model redesign

When the banking industry sought to reduce the cost of client transactions, instead of simply asking how to make teller-mediated transactions faster, it rethought the entire transaction model.

Banks started with the outcomes customers were trying to achieve, such as depositing a check, withdrawing cash, transferring funds, paying a bill, or getting financial guidance. They then separated routine transactions that could be completed through automated or self-service channels from interactions that required human judgment or relationship support.

What emerged was a fundamentally different operating model that changed where work happened and how human staff were deployed. Routine transactions moved to lower-cost, more scalable channels such as ATMs, online banking, and mobile deposits. Human capacity shifted toward advisory support, relationship management, and human actions required under regulatory or policy requirements.

How AI is driving better outcomes in practice: Supply chain

We can look at supply chain to better understand how health systems can use AI to move beyond incremental task automation, even if a fully AI-driven function remains a longer-term vision.

The starting point is the outcome the function is designed to support. In this case, that's reliable access to the right supplies at the right cost.

An AI-driven model would not simply automate individual tasks. It would redesign supply chain operations around an agentic capability that can interpret demand, coordinate routine purchasing and substitutions, and escalate decisions that require clinical, operational, or financial judgment.

The value opportunity is to reduce the cost of the supply chain function itself while also improving contract compliance, rebate capture, supply availability, and overall spend performance.

For example, a medium-sized integrated delivery network may receive annual supply rebates worth \$10 million to \$20 million, but it can easily miss 5% to 10% of rebates. An AI agent that continuously audits rebate activity and prompts follow-up could recover an additional \$500,000 to \$2 million annually.

Even more significant, a typical health system with \$500 million in annual supply spend often has 10% or more in benchmarked pricing opportunity across vendors. If AI-driven analytics, research, and monitoring helped capture even half of that opportunity, the organization could reduce supply spend by approximately \$25 million (5% of supply spending).¹

As this example illustrates, the greatest value comes from improving the performance of the supply chain function while reducing enterprise-wide supply spend. By taking on more routine monitoring, reconciliation, and follow-up, AI can also help supply chain teams shift capacity from manual tasks and avoidable rework. Instead, they can focus on higher-value work, such as strategic sourcing, supplier management, clinical collaboration, and exception resolution.

Example: How to use AI to reduce costs and improve outcomes in the health system supply chain

Step	Supply chain application
1. Anchor on impact	Identify the outcomes that matter most (e.g., lower supply expense, stronger contract compliance, fewer stockouts, or improved inventory turns).
2. Test AI readiness	Prioritize supply chain processes with enough volume, structure, data quality, and verifiability for AI to coordinate the work safely (e.g., contract compliance, invoice exceptions, backorder monitoring, routine replenishment, or demand forecasting).
3. Redesign the work	Identify where contracts, item data, approvals, supplier updates, or inventory signals are fragmented. Then, eliminate unnecessary handoffs, simplify approval paths, and enable AI to coordinate routine purchasing, status checks, and exception routing.
4. Design for adoptability	

Identify supply chain, finance, operations, and clinical stakeholders. Define how they will review recommendations, approve substitutions, override AI-supported actions, and escalate trade-off decisions.

5. Build the infrastructure

Identify relevant enterprise resource planning (ERP), item master, contract, inventory, utilization, supplier, and invoice data. Connect it with the governance, controls, ownership, and sourcing model required for AI to act across workflows.

6. Sequence the roadmap

Start with high-readiness areas (e.g., invoice exceptions or contract compliance). Then, expand toward inventory risk, substitution management, and AI-coordinated purchasing as data, trust, and governance improve.

The supply chain example illustrates the broader opportunity across health system administrative functions. AI-driven redesign can improve the outcomes these functions exist to deliver—whether that means lower supply expense, faster cash, better workforce productivity, stronger compliance, or better patient and employee experiences.

Build, buy, or partner: How to source for the future-state supply chain

As supply chain leaders consider where to build, buy, or partner, the health system should treat the sourcing decision as part of the operating model strategy, not just a technology selection.

Point solutions can create meaningful near-term value, particularly when they address high-volume pain points such as invoice exceptions, contract compliance, demand forecasting, or substitution management. But health systems should also evaluate sourcing decisions against the future-state operating model and whether these solutions help the organization move toward a more coordinated, AI-supported supply chain model.

For example, a health system evaluating a contract compliance tool should consider whether that tool can eventually connect to item master, purchasing, inventory, utilization, supplier, and finance data to support more proactive decision-making. Similarly, the health system should assess a substitution management tool for its recommendation logic as well as for how it fits into clinical approval workflows, supply chain governance, and site-level operations.

The best sourcing decisions don't add another layer of fragmented tools. Rather, they create value today while strengthening the foundation for a more coordinated supply chain model over time.

Health system considerations for whether to build, buy, or partner on a supply chain AI capability

Sourcing consideration
Supply chain question
Strategic importance Is the capability central to supply chain performance, cost management, standardization, or stakeholder experience?
Market maturity Are credible vendor solutions available and proven for the targeted workflow?
Internal scalability Does the organization have the data infrastructure, integration capacity, analytics talent, and governance to build and sustain the capability internally?
Operating model fit Does the solution advance the desired future-state supply chain model, or does it only automate a narrow task?
Speed to value

Can the solution improve measurable outcomes quickly (e.g., supply expense, contract compliance, stockouts, inventory turns, or staff productivity)?

Enterprise scalability

Can the capability scale across sites, service lines, suppliers, contracts, and related finance or operations workflows without adding fragmentation or disproportionate cost?

How AI is driving better outcomes in practice: Revenue cycle

Revenue cycle provides a clear example of how different the operating model can become when leaders redesign around the desired outcome rather than the current workflow.

Today, most revenue cycle functions already use some form of rules-based automation. But many still depend on manual review, payer-specific knowledge, and staff intervention to manage exceptions, denials, and follow-up. An AI-native revenue cycle would move closer to a real-time autonomous (or “touchless”) operating model, in which AI continuously evaluates what needs to happen next and coordinates action across the revenue cycle.

In this model, the revenue cycle begins before the patient arrives. AI can identify payer requirements, authorization risk, benefit implications, documentation needs, and patient financial responsibility earlier in the process.

During the encounter, AI can prompt clinicians at the point of care with questions that drive a cleaner, faster billing process and help improve clinical care and financial counseling as the patient interacts with the provider.

Before claim submission, AI can evaluate documentation, coding, medical necessity, authorization alignment, contract terms, payer rules, and denial risk as part of a single claim-readiness process. After submission, AI can monitor claim status, identify underpayment risk, initiate routine follow-up, and feed payer and denial intelligence back into upstream workflows.

The revenue cycle becomes a seamless part of care delivery, efficiently and effectively supporting appropriate payment while enhancing clinical quality and patient experience. The work shifts from retrospective correction to proactive prevention.

Example: How to use AI to improve costs and outcomes in the revenue cycle

AI-native revenue cycle capability

How the operating model changes

Intelligent financial clearance

Scheduling, registration, eligibility, benefits, authorization risk, and patient estimates become more integrated before the visit.

AI coordinates pre-service requirements, identifies missing information, and triggers next steps before issues become denials, billing delays, or patient confusion.

Real-time documentation and revenue integrity

Documentation, medical necessity, coding, charge capture, and payer-specific requirements are evaluated closer to the point of care.

AI identifies gaps while the health system can still correct them, reducing retrospective queries, audits, denials, and rework.

Proactive payer and denial management

Payer follow-up, claim status, underpayment detection, denial prevention, and appeal workflows become more predictive and risk based.

AI identifies stalled claims, reimbursement variance, and denial patterns, initiates routine action, and routes complex or high-value issues to staff.

Personalized patient financial engagement

Patient estimates, billing communications, payment options, financial assistance routing, and balance inquiries become easier to understand and navigate.

AI resolves routine questions and escalates sensitive, complex, or experience-critical issues to human teams.

Continuous performance intelligence

Revenue cycle analytics shift from retrospective reporting to real-time performance management.

AI identifies root causes, predicts emerging risk, recommends interventions, and feeds insights back into access, documentation, coding, billing, contracting, staffing, and payer strategy.

The future state is not simply an AI-enabled version of today's revenue cycle. In an AI-enabled model, AI may assist individual tasks, such as drafting an appeal, suggesting a code, or summarizing a payer response. In an AI-native model, AI helps orchestrate the revenue cycle around the outcomes it exists to deliver. This results in cleaner claims, faster cash, fewer denials, lower administrative cost, improved patient financial clarity, and stronger enterprise performance.

The case for an administrative cost reset

Bringing this same mindset to other administrative functions will be the work ahead for healthcare organizations. The aim is a more fundamental reset of the administrative cost structure, not through blunt cuts but by redesigning work in ways that improve both costs and outcomes.

That ambition may sound audacious, but it should not feel unrealistic. Like health systems, airlines, hotels, and utilities companies also operate in regulated, labor-intensive, 24/7, asset-heavy environments. Yet their administrative and support cost structures are often much lower—in many cases, roughly half that of healthcare.

Healthcare administrative costs are much higher than other complex regulated industries²

Industry

Estimated admin/support cost as % of total cost base
US hospital/ health system 25%-30%*
Airline 10%–17%
Hospitality/hotels 10%–15%
Utilities/energy infrastructure 8%–14%

***Chartis definition of health system administrative functions (inclusive of labor, systems, vendors, and overhead costs):**

- IT/digital, revenue cycle
- Human resources
- Finance/accounting/treasury/FP&A
- Supply chain/procurement admin
- Legal/compliance/risk/audit
- Executive/governance/corporate admin
- Managed care/payer contracting

- Strategy/business development/transformation/PMO
- Marketing/communications/community relations
- Other admin/shared services

Healthcare is different from these other industries in important ways, but the comparison highlights the magnitude of the structural gap. For a typical mid-size integrated health system with a \$2 billion annual cost base, administrative activities may represent 25% to 30% of total costs, creating a \$500 million to \$600 million cost pool.³

If the health system reduced administrative and support costs from 25% to 30% of the cost base toward levels typical of other operationally complex industries, the potential annual savings would be roughly \$160 million to \$440 million.

That gap should prompt bigger questions: What would it take to reduce the administrative cost base by 20%, 30%, or even 50% over time? Which work could health systems eliminate? Which activities truly require human judgment, and which could shift to more scalable AI-supported models?

Transformation of this scale is difficult and will not happen overnight. It will require disciplined prioritization and sequencing across functions. But keeping a step-function goal in view can help leaders move beyond incremental improvements and focus on structural change that can unlock meaningful improvement in cost, performance, and enterprise outcomes.

For a health system operating near break-even, reducing administrative costs by roughly 10% to 16% would be enough to increase operating margin by approximately 3% to 4%—a material improvement in enterprise performance.

Use AI as a catalyst to improve administrative costs and outcomes

Health systems have an opportunity to use AI as a catalyst for a more fundamental redesign of administrative work. Done well, this transformation can reduce operating expense, increase revenue yield, improve workforce productivity, enhance patient and employee experience, and create a more scalable operating model.

Organizations that move first with clear ambition, disciplined prioritization, and thoughtful governance will be better positioned to turn administrative transformation into a source of financial resilience and operational advantage.

Where to focus first: Administrative processes to prioritize for AI-driven transformation

Not every process is equally well positioned for AI-driven transformation and creating value. We identify where the strongest opportunities lie.

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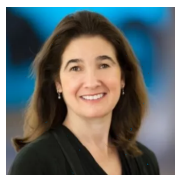
Sources

¹ Chartis experience

² Non-healthcare industry estimates are directional and based on public company/industry financial statement proxies, including SG&A, G&A, administrative and general expense, customer support, sales/distribution, and other support-function costs. Because accounting categories vary by industry, comparisons should be interpreted as directional rather than like-for-like cost accounting benchmarks.

³ Chartis analysis based on Syntellis benchmark data and proprietary information.

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