MENLO VENTURES

2026: The State of AI in Healthcare

November 16, 2026

Greg Yap, JP Sanday, Croom Beatty, Johnny Hu, Ph.D., Derek Xiao, and Sabrina Lu

Key Findings

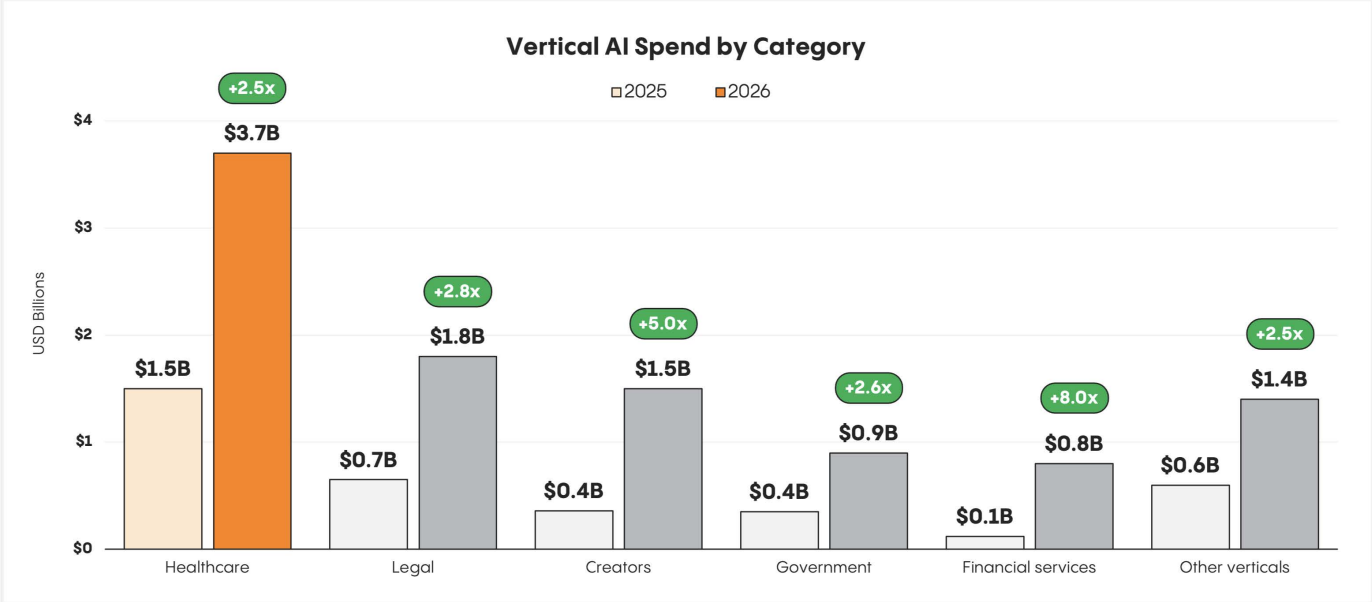
- Healthcare is AI's biggest vertical market; spend grew **2.5x** to **$3.7B**, more than double the next largest vertical (legal). This domain-specific spend is **50%** of healthcare organizations' AI spend, more than **2x** the average enterprise.
- AI for drug discovery is breaking out: Spend jumped from **$30M** to **$700M** (**23x**) as pharma deploys AI at scale.
- The provider market is evolving rapidly as incumbents strike back. Microsoft and Epic took **68%** of new scribing dollars, while early scribes are extending into new categories.
- AI innovation is moving closer to the patient. Clinical copilots grew **5.5x** to **$550M** and patient engagement **4.5x** to **$450M**, versus **1.3x** for coding and billing.
- Payers are paying for providers' AI, not their own. Payer AI spend lags (**19x** less vs. providers), while **43%** say provider AI coding has increased their costs.

Healthcare AI Moves from Back Office to Bench and Bedside

In 2026, healthcare AI accelerated in life sciences and moved closer to the patient. Overall spend grew **2.5x** to **$3.7 billion**, more than the entire vertical AI market a year ago (**$3.5 billion**, per our enterprise AI report) and more than legal and finance combined.

© 2026 Menlo Ventures

Healthcare Leads Vertical AI



© 2026 Menlo Ventures

Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

Healthcare is the largest vertical AI market. Spend grew 2.5x to $3.7B in 2026, more than double the next-largest vertical, legal ($1.8B, +2.8x YoY).

Last year, AI innovators found big early wins in slashing paperwork: scribing and billing products that wowed providers in a market with little competition from slower-moving incumbents. However, data from our 2025 report predicted "the empire would strike back," and it did; Microsoft and Epic captured **$2 of every $3** of new scribe spend in 2026.

Every major EHR now offers a built-in scribe, and pure note-taking—seen as transformational just a year ago—has largely commoditized. Early movers have quickly responded and continue to innovate by expanding into adjacent product areas to build out broader, more defensible platforms.

Growth in healthcare AI is now moving into more complex, "unbounded" workflows like clinical decision support, drug discovery and patient interactions. AI agents are now unlocking these jobs that traditionally had been dominated by human labor rather than software. Our data shows the shift:

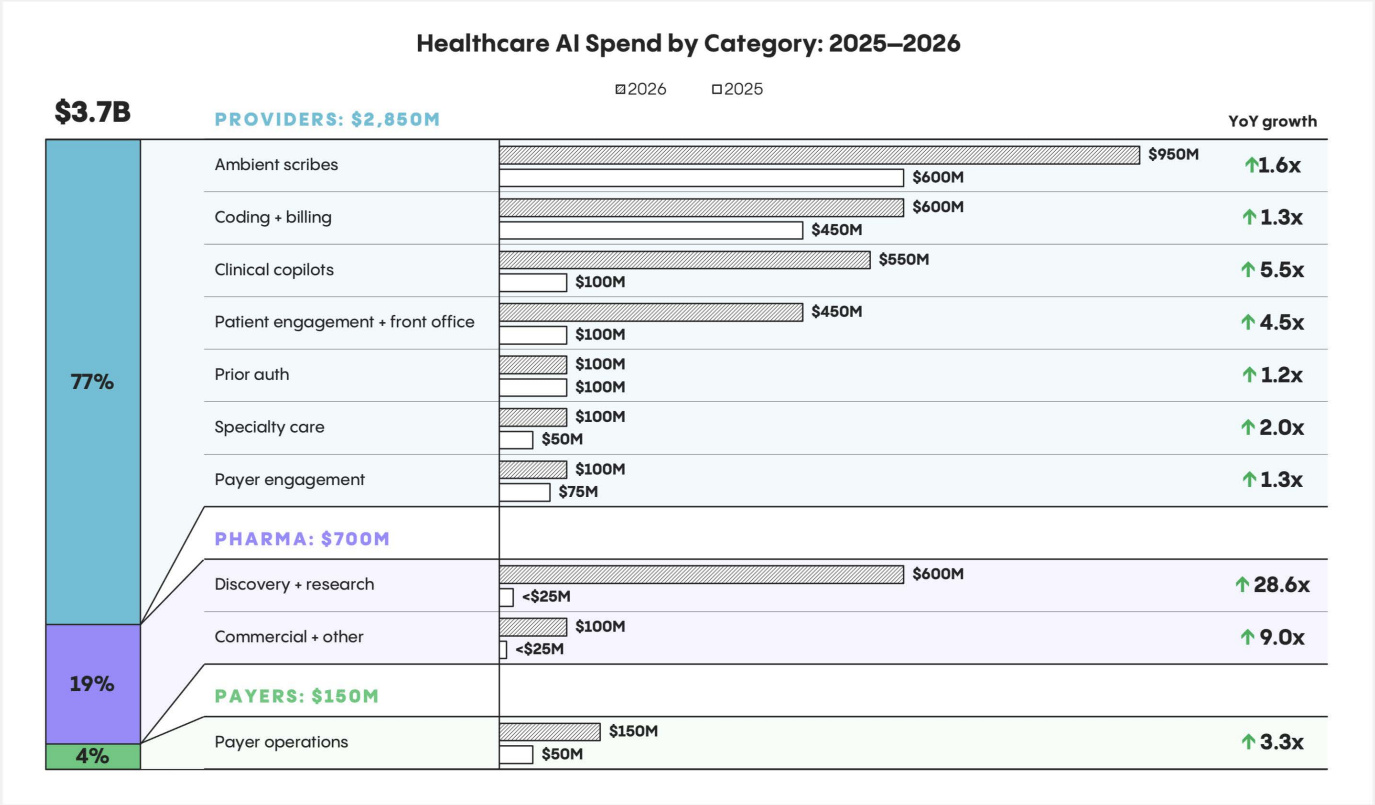
- **Pharma is deploying AI at scale.** Spending jumped from **$30 million** to **$700 million** this year, as pharma has moved from experimentation to implementation of AI. More than other industries, life science companies are adopting a mix of general-purpose language models and specialized models for drug design. Rapid adoption comes with high expectations of impact (**73%** expect AI to drive target selection) and time savings (**84%** expect a year or more reduction in development time) that will remain controversial until proven.
- **AI continues to take over provider workflows, but the market is evolving at a breakneck pace.** Intense competition with incumbents has replaced quick startup wins (procurement cycles now **10 to 11 months** vs. **five**

to seven months). Bounded functionality like scribing is starting to see signs of commoditization (scribing grew **1.6x** vs. the market at **2.5x**) as incumbents leverage distribution advantages.

- **AI agents are moving toward the patient.** The fastest-growing categories in provider AI now sit closer to patient care, where the product is more complex and incumbent systems of record are less influential. Clinical copilots grew **5.5x** to **$550 million** since last year, and patient engagement and front office AI grew **4.5x** to **$450 million**.

Where Does the Healthcare AI Budget Go?

Administrative AI still commands the largest budgets, but clinical care and drug discovery are growing fastest



© 2026 Menlo Ventures

Values are rounded to the nearest $25M. Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

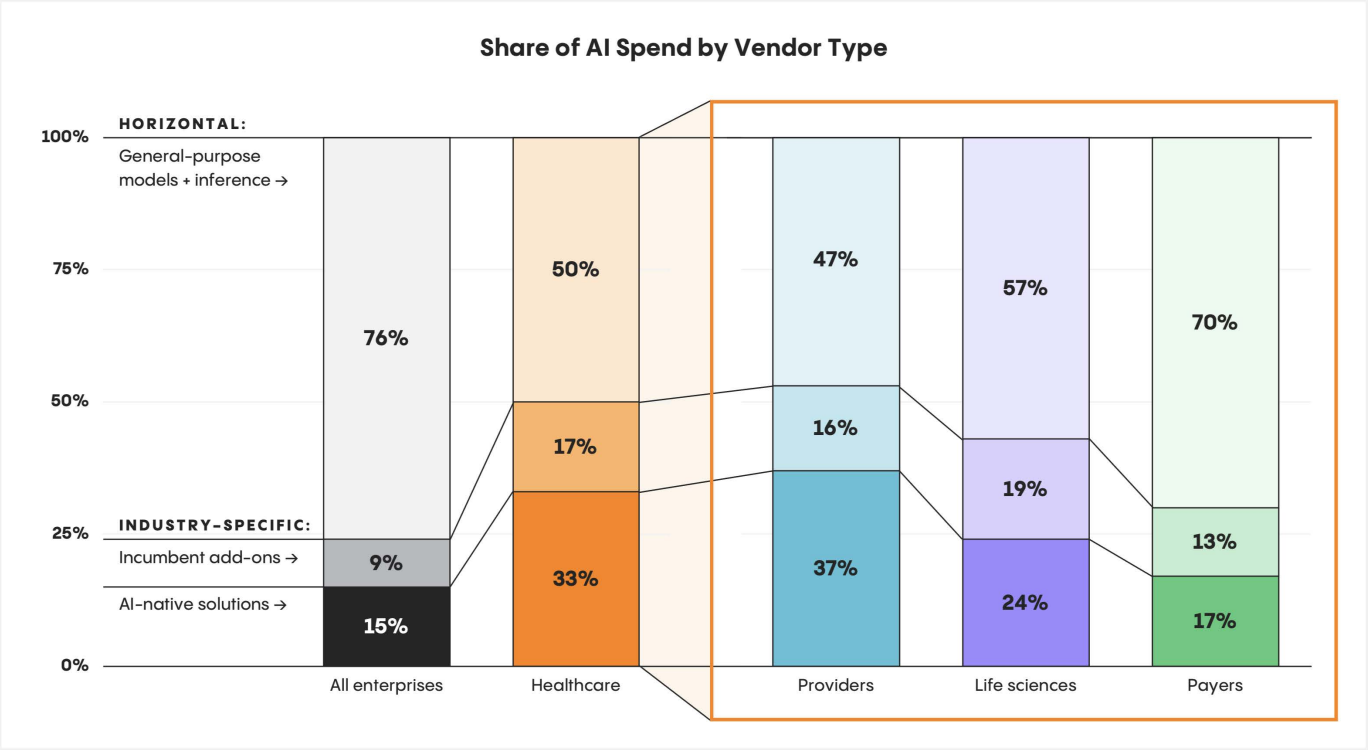
Administrative AI still commands the biggest budgets, but clinical care and drug discovery are gaining ground. Last year's winners in ambient scribes ($950M) and coding and billing ($600M) still lead healthcare AI spending, but the most significant growth is coming from drug discovery (28.6x), clinical copilots (5.5x), and patient engagement (4.5x). Payer spend is growing, but the gap to providers is widening.

Healthcare Buys AI Built for Healthcare

Healthcare today doesn't buy AI the way other enterprises do. **Fifty percent** of healthcare AI spend goes to industry-specific applications versus general-purpose models—about **twice** the share across all enterprises.

AI-native companies like Abridge, Ambience, OpenEvidence*, and Chai Discovery* capture **33%** of spend, and AI offerings from incumbents such as Epic, Microsoft, and Veeva add **17%**. Across all enterprises, these same splits are just **15%** and **9%**. General-purpose models and inference providers like Anthropic*, OpenAI, and Google consume **50%** of spend in healthcare versus **76%** in all enterprises.

Who Captures Healthcare AI Spend?



© 2026 Menlo Ventures

Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

Healthcare is buying specialized AI. Industry-specific vendors capture 50% of all healthcare AI spending, more than double their 24% share across all enterprises. Providers lead at (53%), followed by life sciences (43%), while payers (30%) look more like the broader enterprise market.

Why Is This, and Will It Persist?

Healthcare is certainly its own beast, with heavy regulations and data silos. Integration with existing systems can be highly complex, requiring significant implementation and support. Many potential training data sets are not public and intentionally siloed. Specialized models can outperform in tasks like novel molecule generation, but general-purpose models like Anthropic are investing heavily into healthcare and life sciences, given the size of the opportunity, and this should be a metric to watch.

Bio Breakout: AI Gets a Seat at the Bench

Pharma has moved from experimentation to deployment in AI, increasing spend on specialized AI from **$30 million** to **$700 million** (**23x**), the fastest increase of any segment in healthcare AI.

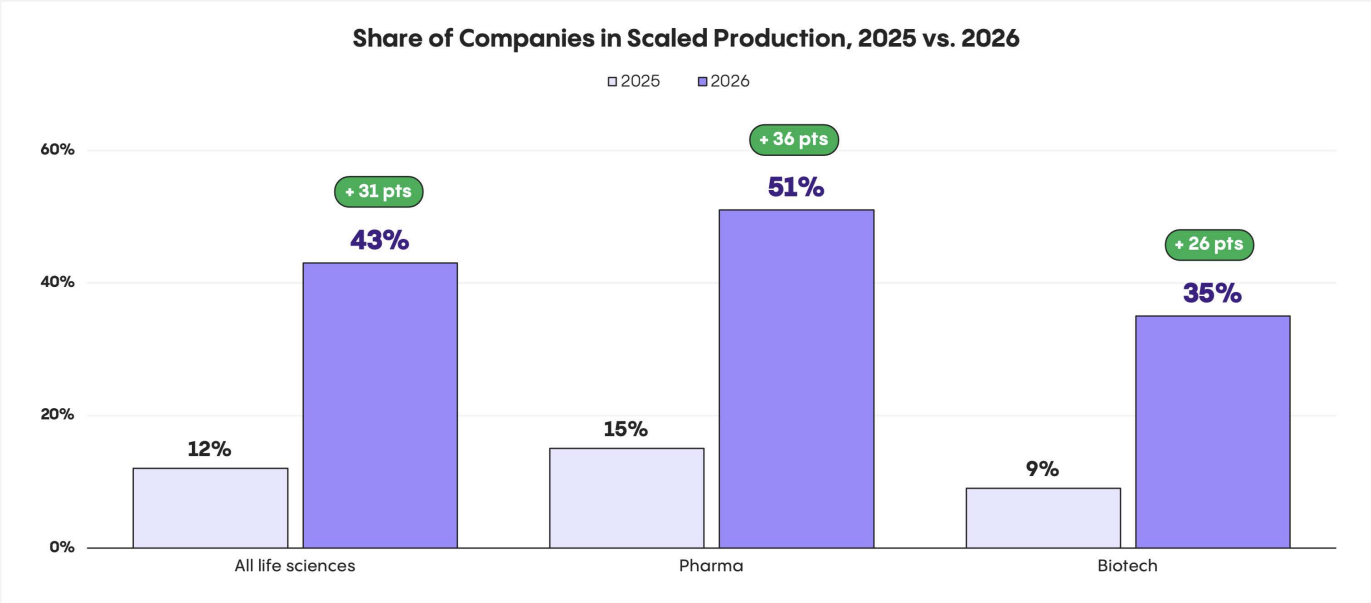
In 2025, our report showed pharma experimenting across every stage of their business, with high interest and many active projects but insignificant revenues. In 2026, we now see meaningful life science AI revenue, especially in drug discovery models and platforms, harnesses, and data. General-purpose models like Anthropic and OpenAI are also making big pushes in life sciences. Pharma execs expect AI investments to continue to grow and to improve productivity and success rates, leading to faster and more cures.

AI in Discovery Goes Mainstream

In 2026, pharma external spend on AI in drug discovery, including models, platforms, harnesses, and data (but excluding assets) totaled **$600 million**. Pharma and biotech are now scaling production and embedding AI in core workflows: **51%** of pharma and **35%** of biotech are running AI at scale versus **9–15%** a year ago.

Life Sciences: From Pilots to Scaled Production in a Year

43% of life sciences companies run AI at scale or embedded in core workflows, up from **12%** a year ago



© 2026 Menlo Ventures

Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

In 2026, pharma and biotech moved from pilots to production. 43% of life sciences companies now run AI at scale, up from 12% in 2025, led by pharma at 51% (from 15%) and biotech at 35% (from 9%).

Several types of AI-native startups make up the emerging drug discovery AI ecosystem. Novel model builders include Chai Discovery, Isomorphic, Xaira*, Boltz, Noetik, Insilico, Genesis Molecular AI*, Recursion*, and Vilya*,

© 2026 Menlo Ventures

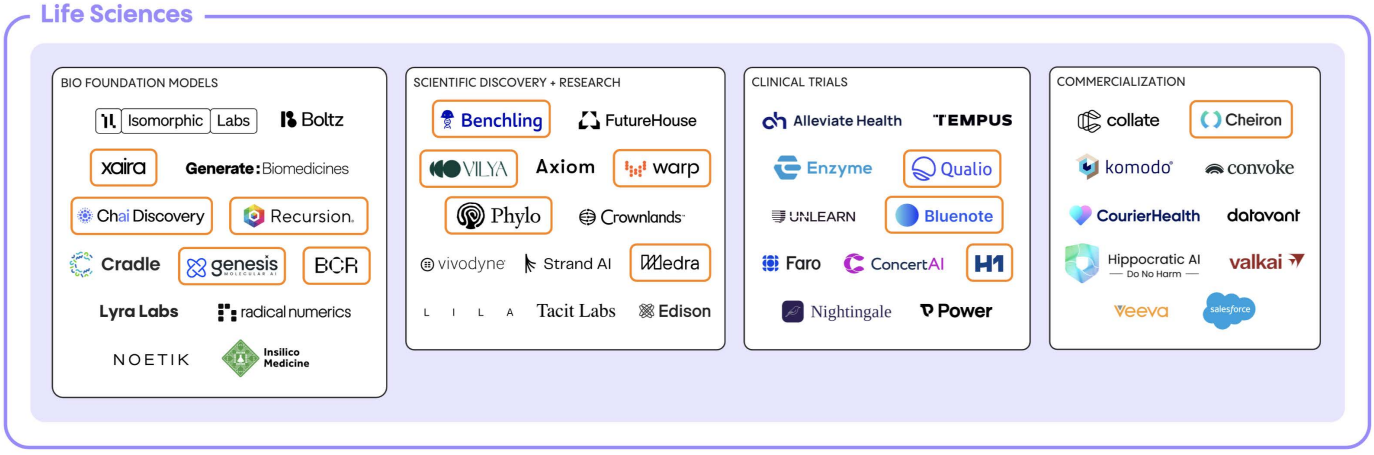
although many of these primarily use their models to discover new assets rather than directly commercializing the models. Other companies build AI harnesses for data analysis and scientific reasoning, such as Benchling*, Edison, and Phylo*. And others build datasets for AI training with lab-in-the-loop automation, like Lila, Medra*, Axiom, and Crownlands.

- **Chai Discovery signed seven top drugmakers in 2026:** Lilly, Pfizer, Novartis, Bristol Myers Squibb, GSK, Roche, and argenx. Lilly is using a custom Chai model trained on its own data, and GSK signed after its own lab tests found binders for every target it tried.
- **Isomorphic added Johnson & Johnson to its Lilly and Novartis partnerships this year**, a first multi-modality deal working across small molecules, biologics, peptides, and molecular glues.

Anthropic and OpenAI are investing heavily in drug discovery, including specific life science offerings (e.g., Claude Science and GPT-Rosalind) that can either accelerate and/or compete with offerings from other startups.

- **Anthropic named life sciences as one of its largest investment areas after software coding.** In the past year, it launched Claude Science, opened a lab in San Francisco, acquired two AI biotechs, and is beginning to develop early drug programs in neglected diseases as well as work with biotech partners on preclinical programs. Anthropic's S-1 shows nine of the top 10 pharma companies are current customers.
- **OpenAI recently launched GPT-Rosalind**, a life sciences-specific model. In October, it acquired Orchestra Bio, whose platform coordinates drug programs across scientists and AI agents. Major customers include Novo Nordisk and Amgen.

Healthcare AI Market Map: Life Sciences



© 2026 Menlo Ventures

□ Menlo Ventures portfolio company. Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

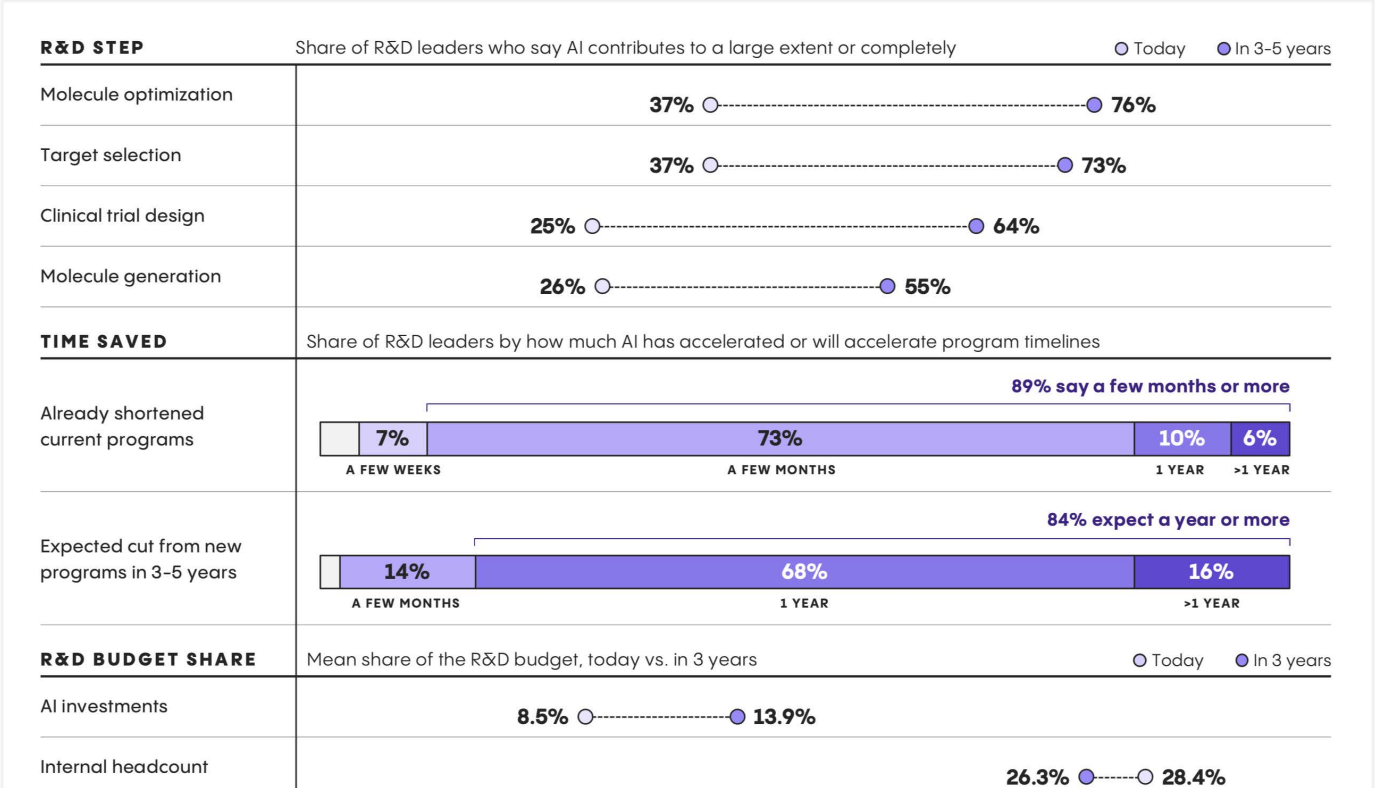
Pharma Expects AI to Save a Year in Drug Development, but Not Everyone Is Convinced

As the *Wall Street Journal* reports, some pharma leaders are pushing back on bold predictions of better and faster medicines from the use of AI. Inside pharma R&D, the outlook is generally bullish.

Drugmakers expect AI to take one year or more out of early development. Among the R&D leaders we surveyed, **84%** expect it to cut **at least a year** from new programs over the next **three to five years**, and **89%** say it has already shortened current programs by a few months or more. Pharma is planning for success: AI's share of R&D budgets is expected to climb from **8.5%** today to **13.9%** within three years, replacing headcount, external services, and lab equipment.

R&D leaders expect AI to take on an increasing role in drug development. Today, **37%** say AI contributes materially or completely to target selection and molecule optimization; in three to five years, **73–76%** expect this. AI should increase productivity: **95%** expect to advance more programs because of it. However, ultimate proof will not come immediately: **93%** expect first approval of AI-discovered drugs within five years but only **28%** within two years. Be prepared for the arguments to continue at least until then!

AI's Role in Drug R&D Expected to Expand Significantly



© 2026 Menlo Ventures

Pharma AI Priorities Shift Downstream Over the Next Three Years

AI spending downstream of drug discovery is growing, although more slowly, but is expected to continue to rise over the next three years. In three years, **clinical development** is projected to be the top AI priority (**61%** selected it as a top-five priority), and AI-native startups include Tempus and H1*. Regulatory affairs, real-world evidence, drug safety, and commercial are other AI markets that are small today but expected to grow in priority over the next few years.

So What:

Pharma began deploying AI at scale in 2026, growing **23x** to **$700 million**, the fastest growing segment in healthcare, the fastest growing vertical. AI is being used extensively in drug discovery, supported by an ecosystem that includes companies developing models, harnesses, and data, as well as the general-purpose models who are investing heavily in life sciences. AI has fueled high expectations (reducing drug development by a year or more) but these expectations remain controversial, and arguments won't be settled until early drugs complete trials in a few years. In the meantime, AI adoption and revenue in pharma is expected to continue to grow rapidly and expand downstream in drug development.

Provider AI Moves from Paperwork to Patients

Providers account for **77%** of healthcare AI spend (**$2.9 billion**), up nearly **2x** from **$1.5 billion** last year, but market and competitive dynamics have been highly volatile.

AI first gained traction in provider administrative and revenue cycle markets, replacing some human labor but also extending capabilities of overstretched clinicians and back office staff. Early winners like Abridge in scribing and SmarterDx (now Smarter Technologies) in coding and billing were easy customer decisions: clear ROI, minimal workflow change, and fast implementation. Our 2025 survey showed fast-moving AI-native startups winning **85%** of overall AI spend.

But we also found a majority of customers would prefer to buy AI from incumbents and are seeing that play out in 2026: Incumbents, while slow to move initially, are fighting back against new entrants by emphasizing long-term platform and distribution relationships over short-term point solution benefits. Rapid advances in AI coding have made product advantages less durable, increasing competitive pressure.

Advances in frontier models and availability of agents have also improved performance on more complex and iterative tasks. AI-native startups are pushing hard into adjacent markets closer to the patient, such as patient engagement and clinical decision support. These applications are more complex and unbounded (requiring more advanced models and more diverse workflows) and are further from incumbents' expertise, which may offer better defensibility both from incumbents and the frontier models themselves.

Scribing: The Empire Struck Back

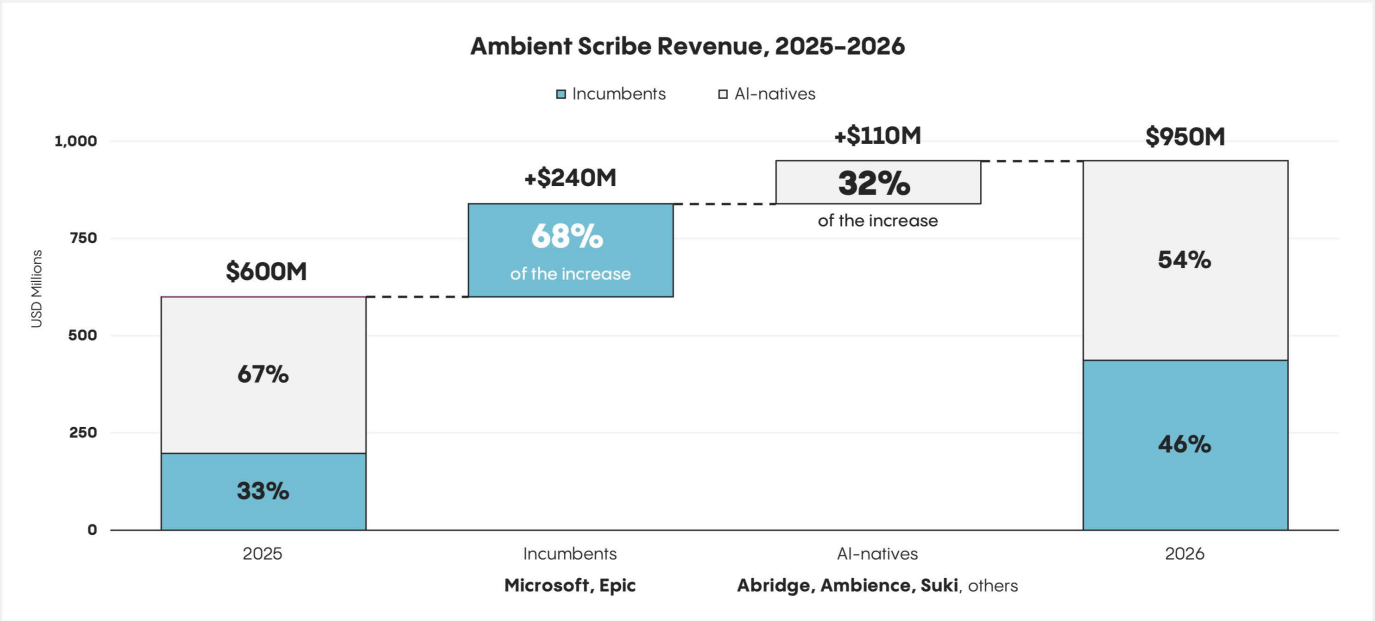
Last year, the scribing market was led by startups (**67%** of a **$600 million** market in 2025). The market has continued to grow, but momentum has shifted to the EHR incumbents (**46%** of **$950 million** in 2026).

© 2026 Menlo Ventures

Transcription technology is starting to commoditize as every major EHR (including Epic, Oracle, athenahealth, and Meditech) now has its own scribe built in. Led by Microsoft Dragon Copilot and Epic's Art, incumbent add-ons won **68%** of new scribe dollars this year and grew **120%**, while AI-native scribes grew **28%** but lost **13%** market share.

Incumbents Took 68% of New Scribe Dollars

Microsoft and Epic grew from **33% to 46%** of ambient scribe revenue as the market grew from **$600M to $950M**



© 2026 Menlo Ventures

Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

Incumbents took 68% of new ambient scribe dollars in 2026.

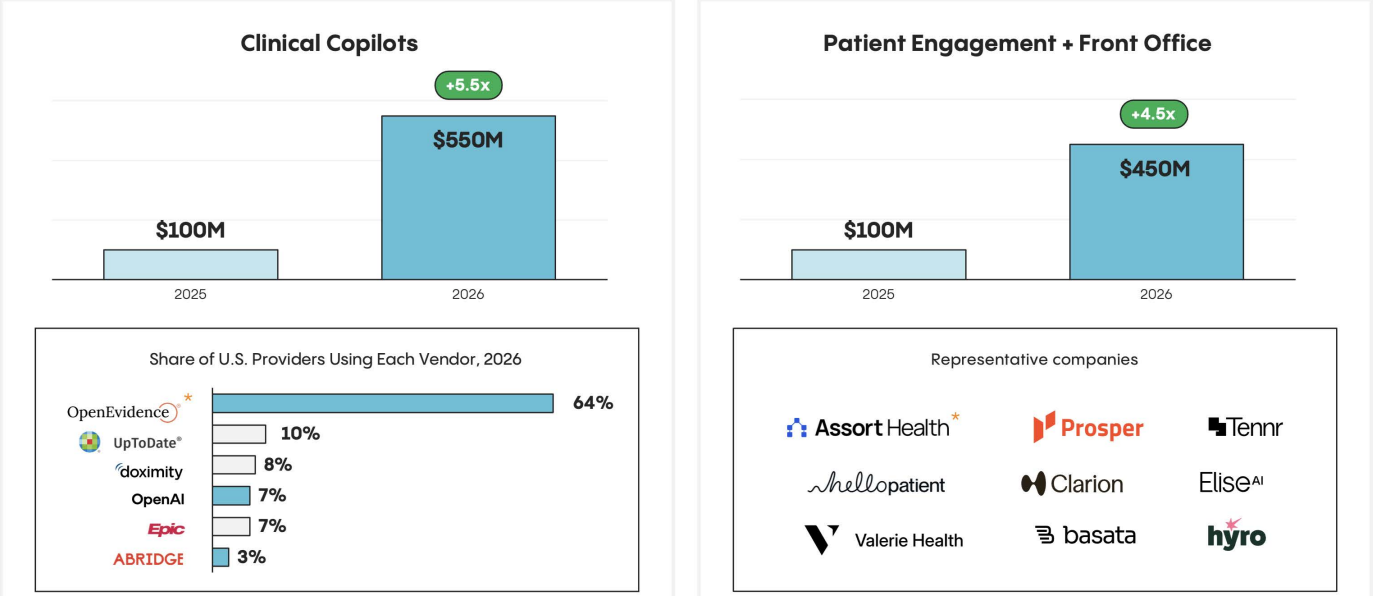
In response, AI-native entrants have continued to innovate, and most no longer call themselves scribes. In January, Abridge partnered with Availity to develop real-time prior authorization using information captured during the clinical conversation. In March, Heidi* partnered with R1 to bring payer policies and authorization requirements into the visit and improve documentation for coding and billing.

AI doesn't change the data gravity of incumbent systems of record. As basic capabilities converge, new entrants need to consider whether their product advantages are sufficient and durable, and what is required to become an integrated AI platform that is more difficult to replace than a point solution.

AI Innovations Are Approaching Clinical Care

The fastest-growing categories for provider AI are approaching the patient. Clinical copilots grew **5.5x** to **$550 million**, and patient engagement and front office grew **4.5x** to **$450 million**—versus **1.6x** for scribes and **1.3x** for coding and billing. These workflows were never well addressed by previous generations of software, given their relatively higher complexity requiring heavy human labor, but frontier AI models and agents are now making them accessible.

Copilots and Patient Engagement: Fastest-Growing Use Cases



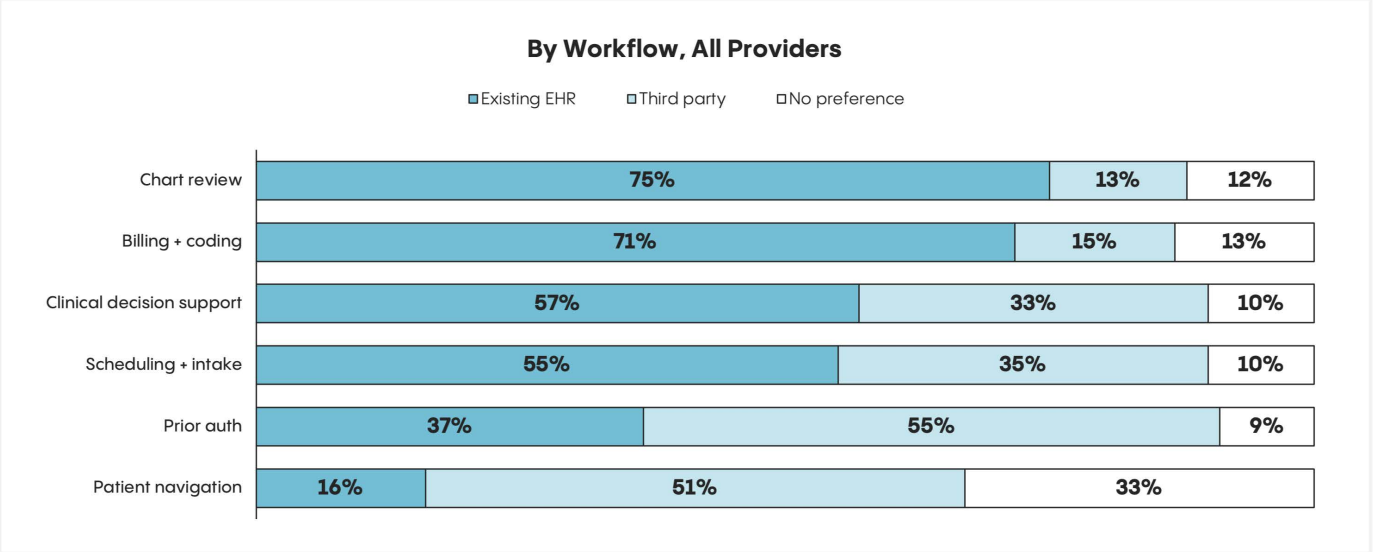
© 2026 Menlo Ventures

Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/. *Menlo Ventures portfolio company

Copilots and patient engagement are the fastest growing use cases, with OpenEvidence making up 64% of the clinical copilot share.

Buyer loyalty to the EHR also fades the further away you get from core EHR and RCM expectations. We found **71%** of providers would ideally prefer coding and billing from their EHR, and **75%** for chart review. But as you move towards the patient with clinical decision support, patient communications, and prior authorization, preferences shift toward third-party solutions.

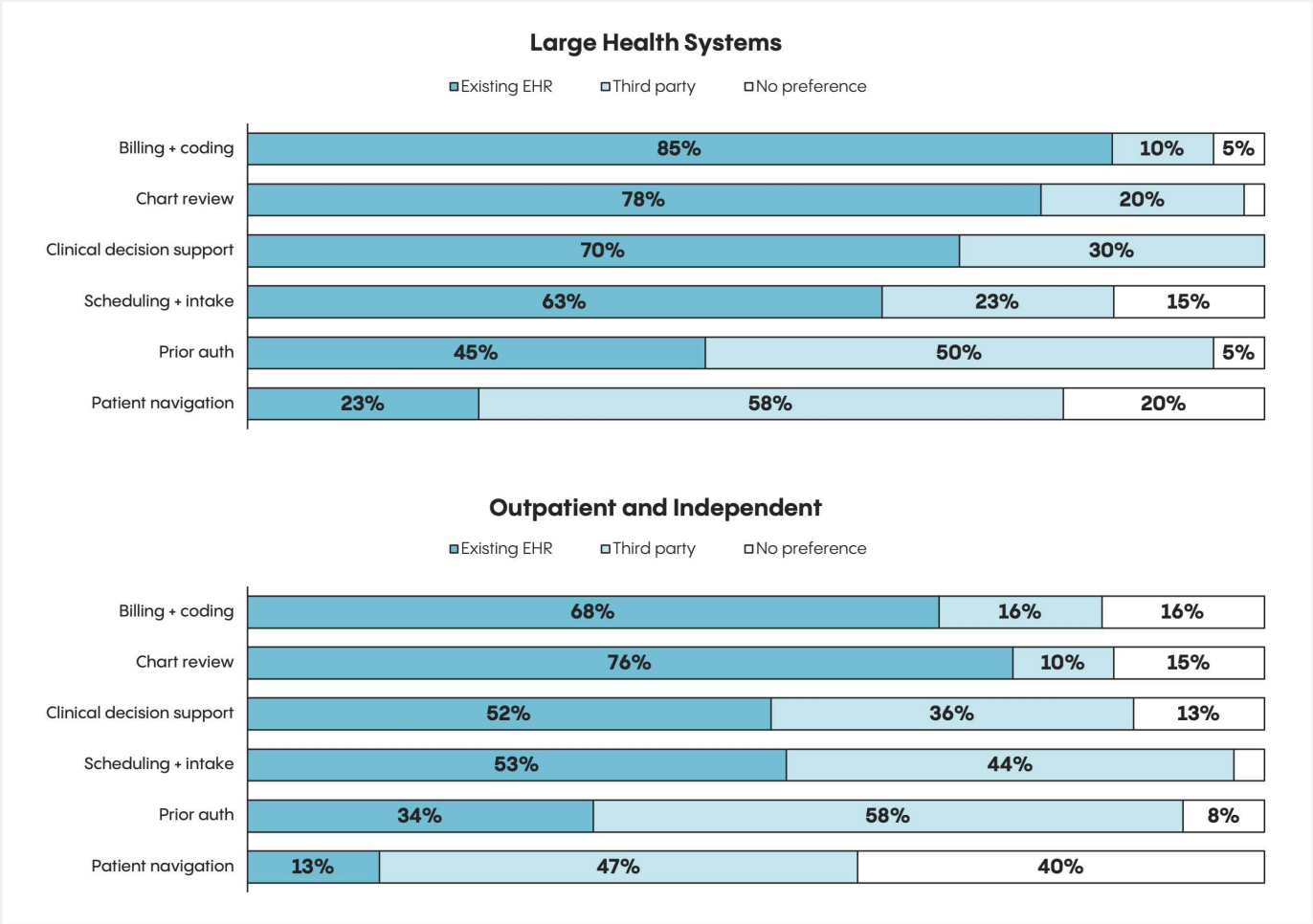
Providers' Buying Preferences Change Closer to the Patient



© 2026 Menlo Ventures

The calculus also changes between large health systems and smaller outpatient providers, who seem to prefer purchasing from third parties over their EHRs. With outpatient, modules like patient scheduling and intake, as well as clinical decision support, become more of a toss-up.

Outpatient Providers Have Less Preference for EHR



© 2026 Menlo Ventures

Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

A number of startups are going after these workflows. Scheduling and care navigation solutions like Assort Health*, Prosper, Valerie Health, and Tennr now serve a variety of segments, including small provider practices, primary care, various specialties, and small and large hospital systems. Due to the near-infinite combinations of conversational flows and edge cases, out-of-the-box models do not saturate in performance; for example, best-in-class scheduling call resolution rates can top out at **60%** to **80%**, depending on complexity.

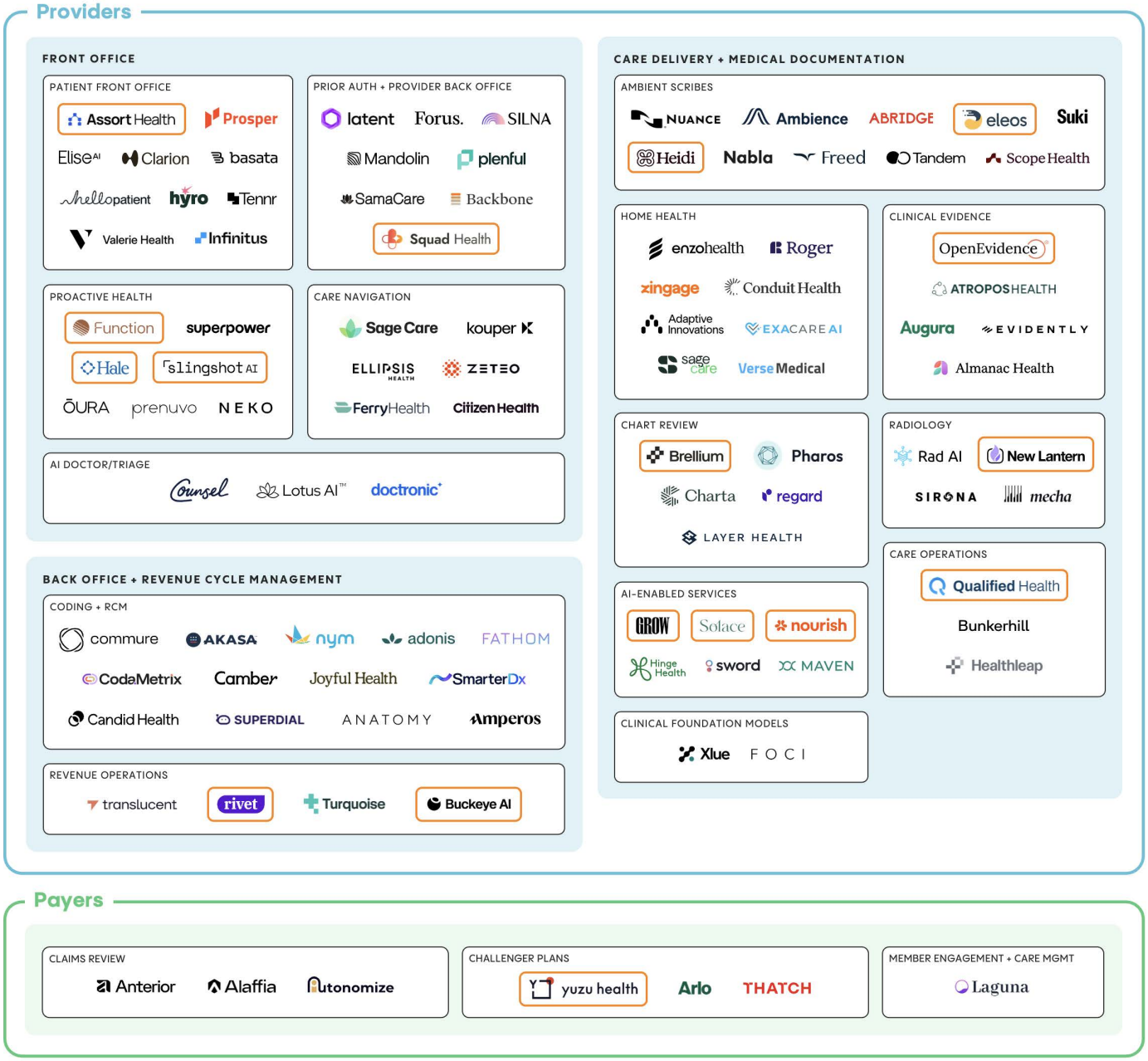
In clinical copilots, OpenEvidence is the early market leader, commanding an estimated **64%** of revenue, more than **6x** the next vendor—in contrast to scribing, where incumbents have **46%** share and are gaining rapidly. In many ways, OpenEvidence has become the incumbent, given its dominance of distribution despite much later revenue

activation (a la Google). This market could become more competitive soon as frontier labs, scribes, and EHRs all vie for physician attention and pharma revenue.

From Copilot to Pilot: Will AI Transform Care Delivery?

Beyond human clinical decision support, the even larger, although immature, opportunity is for AI to integrate human providers and AI agents to transform the patient experience and how, when, and where clinical care is delivered.

Healthcare AI Market Map: Providers + Payers



© 2026 Menlo Ventures

□ Menlo Ventures portfolio company. Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

© 2026 Menlo Ventures

AI is already enabling providers to offer patients on-demand services between visits. Grow Therapy* provides an AI coach between therapy sessions, used by nearly **80,000** patients in its first five months. Nourish's* 24/7 AI agent offers scheduling, lab results, and meal plans between dietitian visits.

AI is also taking on larger roles in delivering care. Counsel Health, which Oura just agreed to acquire for **$625 million**, and Lotus Health combine AI consultations with on-demand physicians for diagnoses, prescriptions, and referrals.

Companies are also working with various state regulators to test if current AI can go even further. Utah's regulatory sandbox has authorized Doctronic to process renewals for **191 medications** and Nolla Health to issue initial prescriptions for certain acne treatments, both under tightly defined protocols and physician oversight. Meanwhile, ARPA-H has committed up to **$62.7 million** to develop FDA-approvable 24/7 AI agents to monitor heart failure patients between visits and help manage treatment.

These efforts are early and reimbursement models remain an open question, but the direction is clear: AI is moving beyond helping clinicians make decisions and towards helping deliver care itself.

So What:

As predicted last year, incumbents struck back in scribing, capturing **68%** of new dollars and growing to **46%** market share. Customer preference and market position as system of record suggests incumbent share in EHR-adjacent applications may continue to grow. AI-native entrants could focus on new applications closer to patient care, like patient engagement and clinical copilots (growing **4.5–5.5x**), with greater opportunity for product/technical differentiation and less incumbency advantage. AI is gradually moving into the clinical arena, from copilot to pilot role in exploratory care delivery applications.

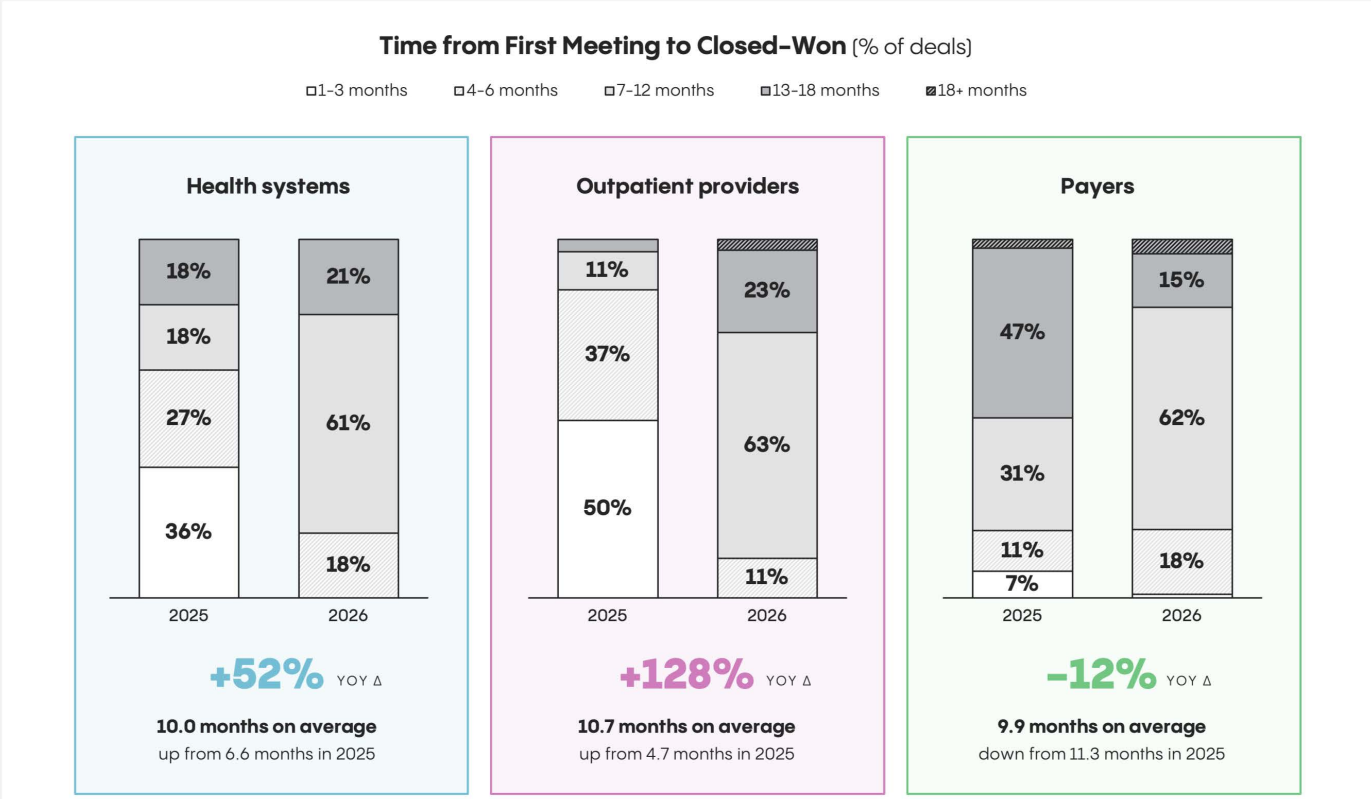
AI Procurement Cycles Revert to Prior Norms

Our 2025 report showed the level of buyer enthusiasm: Providers were buying AI faster than traditional enterprise software. In 2026, providers are reverting to traditional procurement cycles: more vendor comparisons, rigorous evaluations, and closer scrutiny. From 2025 to 2026, average time from first meeting to closed deal rose from **seven to 10 months** for health systems and from **five to 11 months** for outpatient providers.

© 2026 Menlo Ventures

Healthcare AI Procurement Cycles Now Take About 10 Months

AI procurement now takes 10–11 months for health systems and outpatient providers, 3–6 months longer than in 2025, while payer timelines shortened to just under 10 months



© 2026 Menlo Ventures

Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

Healthcare AI buying cycles have slowed. From 2025 to 2026, average procurement time rose 52% for health systems and 128% for outpatient providers as buyers moved beyond pilots to a smaller set of trusted platform partners. Payer procurement time decreased 12%.

Stories like Kaiser Permanente's 2024 six-month rollout of Abridge across **40 hospitals** and **600+ medical offices**—which one executive called the "fastest implementation of a technology" in his **20 years** at the health system—are now rarer. Instead, recent deals place more of an emphasis on competitive bakeoffs, extensive pilots, and plans to expand across multiple use cases:

- The U.S. Department of Veterans Affairs evaluated **150+** vendors and ran an **11-month** pilot at **10** medical centers before selecting Knowtex and Abridge as the two awardees for its **$776 million** ambient scribe contract.
- The University of Texas System deployed Qualified Health* to create a shared platform spanning clinical registries, chart abstraction, and administrative workflows after successful pilots at UTMB and UT Health San Antonio demonstrated measurable financial and clinical impact.

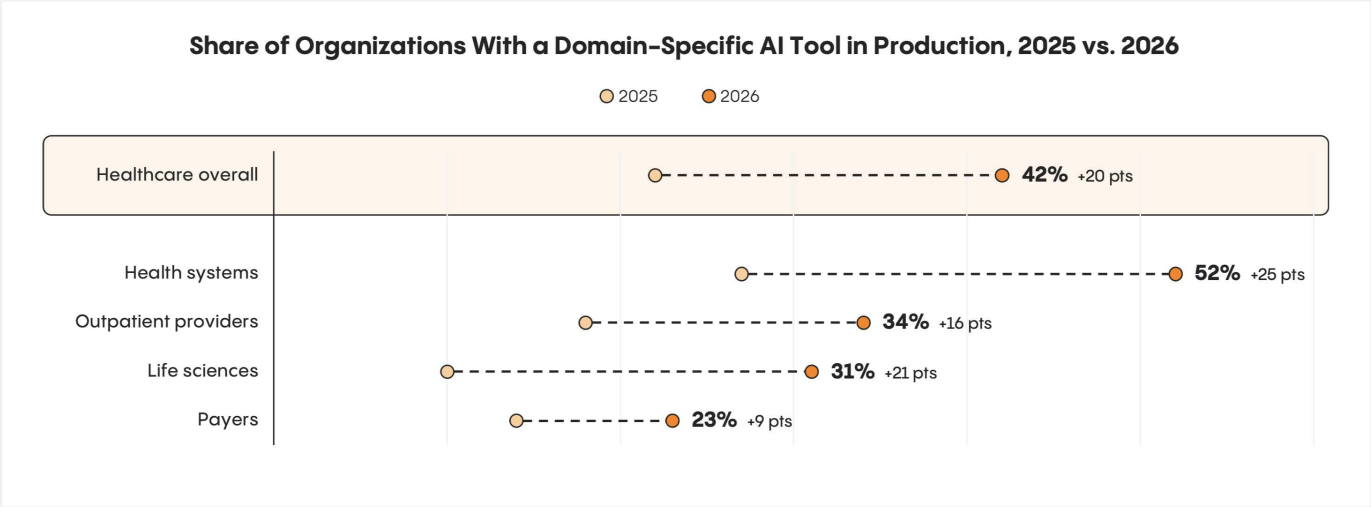
© 2026 Menlo Ventures

- UTMB also works with Bunkerhill, where they went from **one agent** in production to **more than 20**, spanning clinical care, operations, and administration.

Slower buying hasn't materially slowed adoption: **42%** of healthcare organizations have now implemented healthcare-specific AI, up from **22%** last year. Health systems lead at **52%**, followed by outpatient providers at **34%**, life sciences at **31%**, and payers at **23%**. As buyers gain experience, they are looking beyond what AI can do today to what a partner can help them do next.

Healthcare Is Adopting Domain-Specific AI Fast

The number of healthcare organizations implementing a domain-specific AI tool nearly doubled in a year



© 2026 Menlo Ventures

"In production" means live at the organization. Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

In 2026, 42% of healthcare organizations said they have implemented domain-specific AI tools, up from 22% in 2025. Health systems lead at 52%, followed by outpatient providers at 34%, life sciences at 31% (3x from 10% in 2025) and payers at 23%.

Buying cycles are also getting longer because products are changing. Scribes and billing tools are relatively bounded and easier to evaluate, but as AI moves into more complex and patient-facing work, issues of liability, regulation, and clinical governance can add time and complexity to the buying process. Clinical copilots can change how patients are treated and by whom. Patient engagement agents have to handle unpredictable patients and various edge cases. As AI replaces more complex human work, evaluation of performance may continue to become more qualitative and challenging.

So What:

Healthcare AI adoption continues to accelerate, but increased competition and more complex products are leading to longer sales cycles and tougher evaluations, especially as AI moves closer to patient care. As buyers become more sophisticated, well-designed and executed evals could differentiate entrants and accelerate uptake.

Payers Lag in AI Adoption, But a Tsunami Is Coming

Payers remain healthcare AI's laggard. Payers' external spend on healthcare AI was just **$150 million** this year, about **4%** of the market. Our survey clearly shows that payers are paying close attention to AI: **71%** of payers have an AI strategy (vs. **61%** of providers), and they lead all other healthcare groups in having a **Head of AI**, **AI ethics board**, **AI steering committee**, and/or **AI change management team**. UnitedHealth Group says it will invest nearly **$1.5 billion** in AI this year. But adoption, as measured by external spending, greatly lags other groups, and payer AI use cases appear to mostly be delayed reactions to provider AI adoption or regulatory requirements. The gap between payer and provider spending on AI continues to grow, with significant implications.

Payers and AI: Paying Attention, but Not Paying Up?

Have in place:	Payers	Providers
Head of AI	31%	14%
AI steering committee	89%	82%
AI ethics board	38%	19%
AI change management team	39%	31%
AI implementation team	93%	84%
Total 2026 AI spend →	**$150M**	**$2.85B**

© 2026 Menlo Ventures

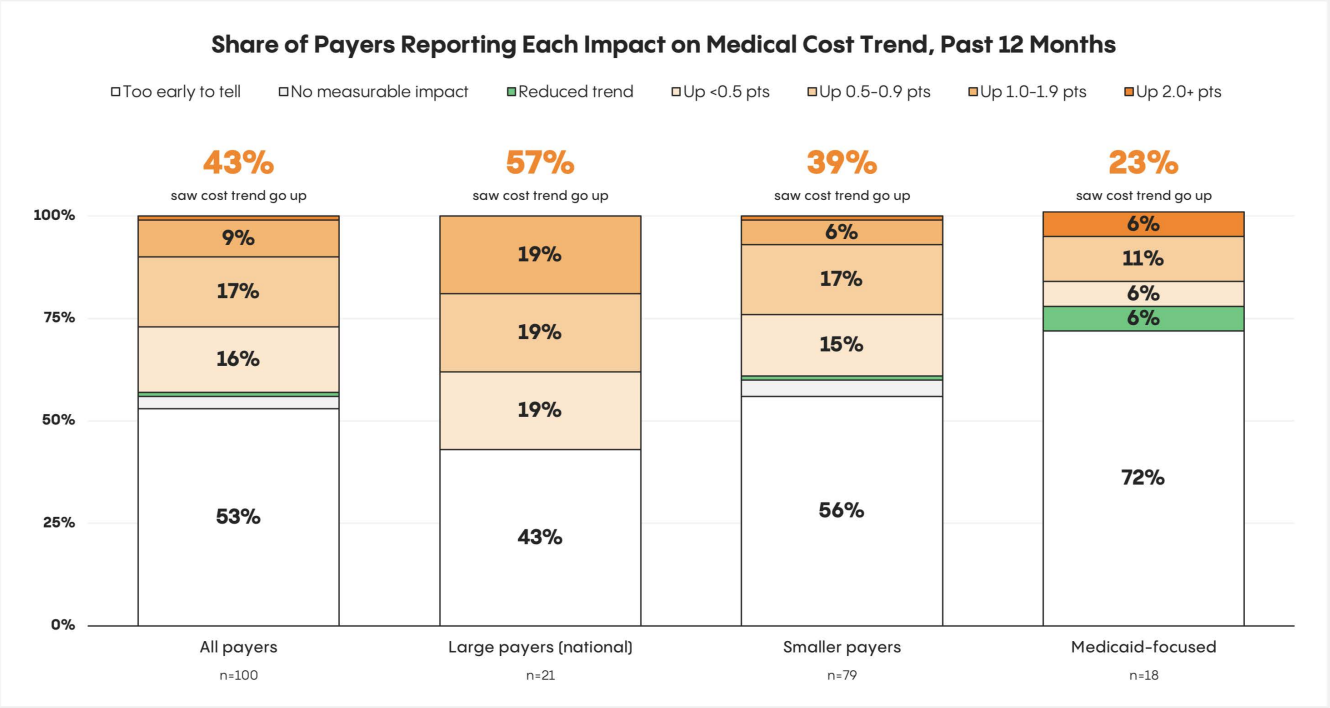
Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

Payers are putting more internal and process attention on AI than providers, yet are spending 19x less.

Provider AI Sends Payers the Bill

Payers' top AI use cases appear, in many ways, to be a reaction to provider AI adoption. As providers use AI to improve visit documentation, coding, and revenue cycle management, payers receive more and better-documented claims and prior authorization requests. In our survey, **43%** of payers (**57%** of large payers) say provider documentation and coding AI has raised their medical cost trend in 2026, up from **23%** in 2025 and ahead of their **35%** prediction in 2025 for 2026.

43% of Payers Say Providers' AI Coding Tools Raised Their Cost Trend



© 2026 Menlo Ventures

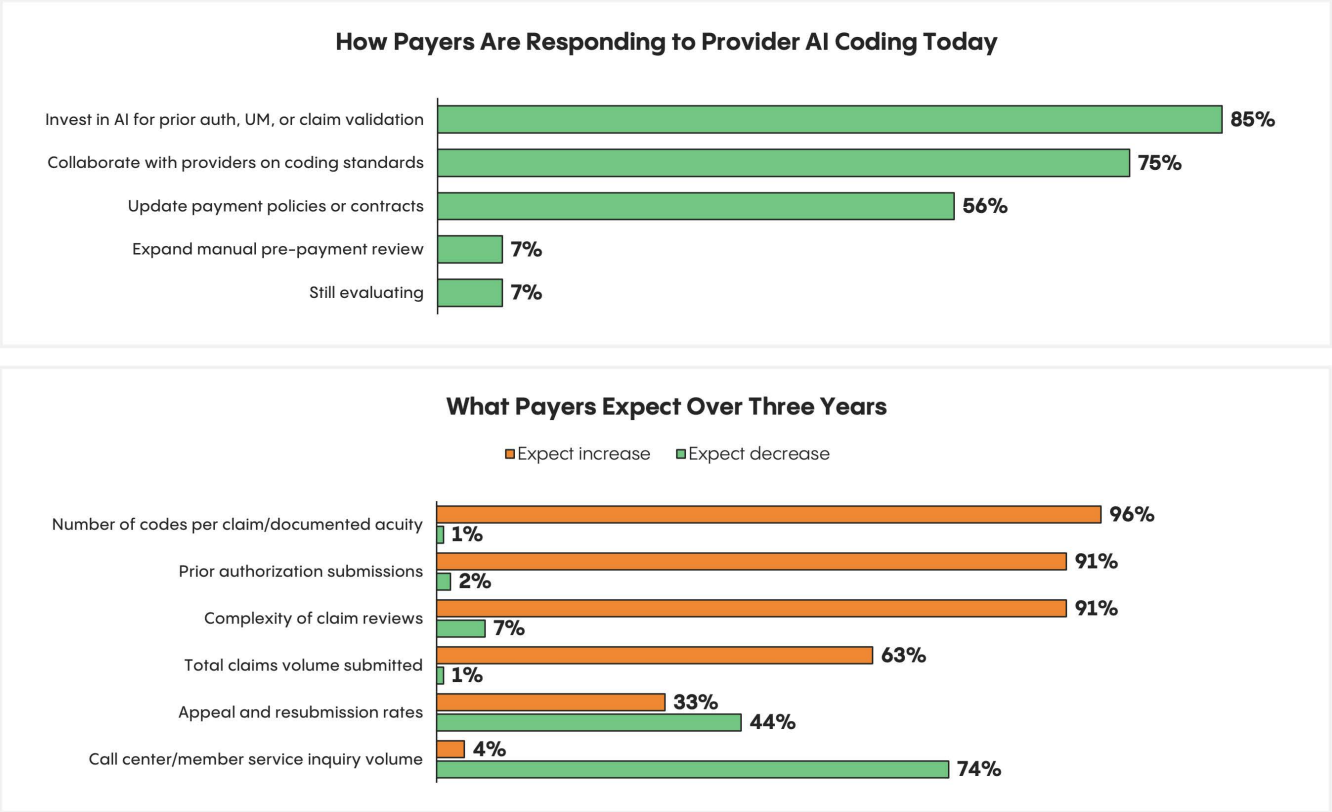
Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

Provider AI is raising payer costs: 43% of payers and 57% of large payers say provider AI coding tools increased medical costs in 2026.

Fifty-two percent of payers now rank AI-enabled provider coding among their top three cost drivers, behind only specialty drugs and provider rate increases. This is only expected to get worse. Over the next three years, **96%** of payers expect more codes per claim and **91%** expect more prior authorization requests from providers (up from **80–83%** expecting increases in 2025).

Payers Plan to Fight AI With AI as Claims and Codes Climb

Share of payers by response (up to three) and by expected three-year change, 2026



© 2026 Menlo Ventures

Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

Payers are gearing up to answer AI with AI: 85% plan to invest in AI for prior auth, utilization management, or claim validation; 96% expect more codes per claim within three years.

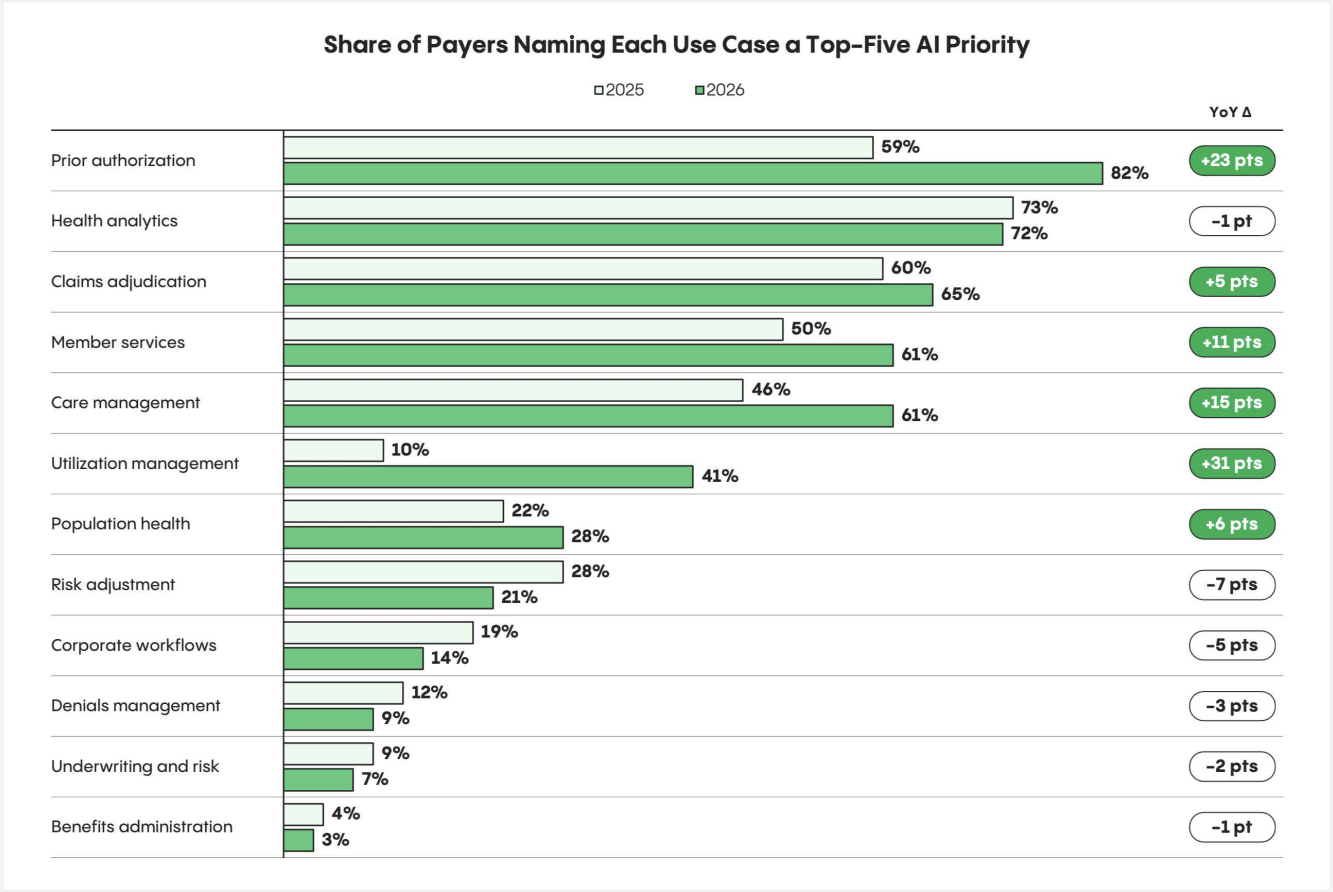
In response, payers plan to increase AI investment across prior authorization, utilization management, and claim validation, and startups such as Anterior, Autonomize, and Alaffia are helping build the tools to help them keep pace.

Regulatory Requirements Driving Prior Authorization

Prior authorization is now payers' #1 AI priority (**82%**, up from **59%**), in reaction to CMS's new Interoperability and Prior Authorization Rule, which sets 72-hour and seven-day decision deadlines this year and requires electronic submission through standardized APIs by January 2027.

Among AI Use Cases, Prior Auth Is Payers' #1 Priority

Prior authorization, at **82%** (**+23 pts** YoY), is payers' top use case for AI adoption; utilization management also gained **31 pts** YoY



© 2026 Menlo Ventures

Source: https://menlovc.com/perspective/2026-the-state-of-ai-in-healthcare/

Utilization management jumped most in priority (**41%**, up from **10%**), as rising medical costs are pushing payers to apply AI across the full review lifecycle. Care management also grew in priority (**61%** up from **46%**), largely driven by recent utilization issues in Medicare and Medicaid and the need to lower costs without adding provider friction.

AI Opens the Door for Challenger Plans

Payers spend about **$130 billion** a year on administration and another **$60 billion** on healthcare IT, of which **~30%** is attributed to software. Yet industry-specific AI makes up less than **1%** of that software spend, compared with roughly **6%** for providers.

A new wave of AI-native challenger plans and platforms are trying to rebuild payer operations using AI. Yuzu Health* runs claims and plan administration as a technology-native TPA, Arlo quotes small-group plans in minutes rather than days, and Thatch automates enrollment for individual coverage (ICHRA) plans. It's still very early, and existing national payers have vast distribution advantages, but these startups are testing whether AI-native payer operations can help challenger plans to grow more efficiently.

So What:

Payers have lagged in AI adoption, focusing on governance and internal experimentation. Deployments have largely been in reaction to provider AI adoption and regulation. But provider AI adoption is rapidly increasing the volume of work and costs, and payers expect the tide to continue to rise. Growth areas include prior authorization care management, utilization management, and care management. However, payers still seem much more reactive than proactive, despite clear opportunities to save on overall costs and improve patient experience, which may limit this market segment in the near term.

Final Thoughts

Healthcare remains AI's largest vertical market, larger than legal and finance combined, and the market is evolving extraordinarily rapidly. The first wave of healthcare AI was administrative, reducing paperwork for clinicians and providers. As those markets become increasingly competitive with incumbents, the current wave of healthcare AI, fueled by advances in models and availability of agents, is tackling more complex, less bounded problems: drug discovery, patient engagement, and clinical decision support.

- **In life sciences:** Pharma has moved from experimentation into rapid deployment, fueled by both general-purpose and healthcare-specific models. Breakout companies are emerging with high and controversial expectations, given long drug development timelines and low prior probabilities of success.
- **Among providers:** Incumbents are surging in existing administrative categories like scribing and revenue cycle management, and startups are responding in fast-growing, more complex categories like clinical copilots and patient engagement. Overall growth continues, but distribution advantages currently seem to weigh heavier than product advantages.
- **Among payers:** AI deployment significantly lags other segments, especially providers. Provider AI and regulation are forcing payers to react in revenue cycle, prior authorization, and utilization management, but the gap in external spending continues to widen, creating both risks and opportunities.

At Menlo Ventures, we're fortunate to partner with many companies at the forefront of AI in healthcare, including Anthropic, Chai Discovery, OpenEvidence, Benchling, Assort Health, Solace, Nourish, and Grow Therapy. If you're a founder building the next wave of healthcare AI, we'd love to partner with you.

Data Sources and Methodology

Menlo Ventures partnered with Morning Consult to conduct a study examining AI adoption and impact across the U.S. healthcare system. In September 2026, Morning Consult surveyed 550 executives at the director level and above (C-suite, SVP/VP, and Director) who have participated in procuring an AI solution for their organization, across three sectors: 150 technology decision-makers at provider organizations, 100 senior executives at health plans and benefits

© 2026 Menlo Ventures

administrators, and 300 executives at pharmaceutical and biotech companies developing their own therapeutics.

The survey benchmarked current AI adoption and budgets, identified leading use cases and vendor types, tracked year-over-year shifts in priorities, and explored the sourcing, build-versus-buy, and implementation decisions facing healthcare organizations. Respondents were sampled to reflect the U.S. healthcare system across organization size and segment, including large and small health systems, independent primary and specialty practices, outpatient networks, and long-term and post-acute care providers; national and regional insurers serving commercial, Medicare, and Medicaid populations; and pharma and biotech organizations spanning discovery, clinical development, commercial, manufacturing, and central IT and data functions.

---

*Menlo Ventures portfolio company

© 2026 Menlo Ventures