

Improving Payment Reconciliation and Reducing Friction in Healthcare Payments



A Frost & Sullivan Executive Brief

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Introduction

COVID-19 pandemic conditions resulted in rapid systemic changes, and the hospital industry faces a new era of financial challenges. The costs of providing healthcare have increased rapidly in supplies and labor, while reimbursement time has remained the same or slowed. Financial stability has become a delicate balance for hospitals, with the median net margin that Kaufman Hall reported for May 2022 sitting at -0.33%. More than 33% of hospitals operate with negative margins.¹ Fiscal strain and reduced liquidity require hospitals to optimize their revenue cycle and facilitate near real-time reimbursement. Technology solutions, such as electronic automated clearing house (ACH) payments, streamline the revenue cycle by reducing human error, providing earlier payments, and improving the precision of cash flow projections.²



- 1 National Hospital Flash Report: June 2022 | Kaufman Hall. (2022). Retrieved 12 September 2022, from <https://www.kaufmanhall.com/insights/research-report/national-hospital-flash-report-june-2022>
- 2 Kommadi, B. (2022). Council Post: How Tech Is Revolutionizing Payment Collections in Healthcare. Retrieved 12 September 2022, from <https://www.forbes.com/sites/forbestechcouncil/2021/09/21/how-tech-is-revolutionizing-payment-collections-in-healthcare/?sh=5117ea16526b>

Industry Economic Conditions

Hospitals must maintain working capital and meet complex financial obligations in a rapidly changing healthcare ecosystem. Converging economic issues stemming from the COVID-19 pandemic recovery have introduced hardships, increasing pressure to optimize revenue cycle execution with new efficiencies.

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Because of the pandemic's acute stage, the healthcare market received temporary stimulus funding under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 2020.³ As this funding ends, many healthcare providers face reduced liquidity because they must repay short- and long-term Medicare debt and deferred taxes.⁴ Providers struggle to increase revenue flow and decrease the time between service and payment.

The pandemic had ripple effects in many unexpected areas. The 2 most disruptive for healthcare have been labor shortages and supply chain disruption. Some healthcare sectors, such as nursing and physician specialties, have long experienced a labor shortage. However, the US job market is experiencing a widespread scarcity, including general and entry-level jobs. Because of competition for workers, labor costs have increased for all positions, from unskilled to professional. This elevated labor cost will decrease operating cash flow between 2% and 9% throughout 2022.⁵ Supply chain disruptions have increased the scarcity of crucial medical supplies, boosted drug costs, and amplified nearly all cost categories. For example, supply expenses have increased an average of 19.1%, while drug costs have risen by 36.9%.⁶

3 Text - S.3548 - 116th Congress (2019–2020): CARES Act. (2020, June 3). <http://www.congress.gov/>

4 LaPointe, Jacqueline. (2021). "CMS Starts Recouping Accelerated, Advance Medicare Payments." RevCycleIntelligence. Retrieved 13 September 2022, from <https://revcycleintelligence.com/news/cms-starts-recouping-accelerated-advance-medicare-payments>

5 Labor expenses contribute to negative credit outlook for healthcare, Moody's finds. (2022). Retrieved 13 September 2022, from <https://www.healthcarefinancenews.com/news/labor-expenses-contribute-negative-credit-outlook-healthcare-moodys-finds>

6 Massive Growth in Expenses & Rising Inflation Fuel Financial Challenges for America's Hospitals & Health Systems | AHA. (2022). Retrieved 13 September 2022, from <https://www.aha.org/guidesreports/2022-04-22-massive-growth-expenses-and-rising-inflation-fuel-continued-financial>

Because of unfavorable consumer economic conditions, healthcare consumers may select insurance plans with higher deductibles, incurring a higher percentage of fiscal responsibility for medical expenses.⁷ Unfortunately, most marketplace plans have a higher denial rate because of stringent prior authorization requirements.⁸ Claim denials add an average of 16 days to payment wait time, placing more cash flow pressure on providers. This higher patient responsibility exacerbates problems that providers have in achieving a net 30-day accounts receivable revenue cycle for patient debt.⁹

Harsh economic conditions tend to increase crime, including cybercrimes. Healthcare has become the prime target for ransomware attacks because of the high black-market demand for personal data. Hasty implementations of new technology and integrations, such as telehealth platforms during the pandemic, have introduced more vulnerabilities to electronic medical records that contain a wealth of patient data. Health systems face a mounting need for ramped-up cybersecurity, necessitating increased spending.

While the economic picture may appear challenging, the healthcare industry has always been adaptive, rapidly adopting innovative technology solutions. Among the most sought-after solutions are those that are intelligent and intuitive, solving multiple problems and introducing system efficiencies to reap future rewards.



- 7 Hest, R. (2022). *State-level Trends in Employer-Sponsored Health Insurance, 2019–2021*. State Health Access Data Assistance Center (SHADAC). <https://www.shadac.org/publications/2019-2021-state-trends-ESI>
- 8 Addressing Commercial Health Plan Abuses to Ensure Fair Coverage for Patients and Providers | AHA. (2022). Retrieved 13 September 2022, from <https://www.aha.org/white-papers/2020-12-01-addressing-commercial-health-plan-abuses-ensure-fair-coverage-patients-and>
- 9 Xtelligent Healthcare Media. (2016). “Key Ways to Boost Collection of Patient Financial Responsibility.” RevCycleIntelligence. Retrieved 13 Sept 2022 from: <https://revcycleintelligence.com/features/key-ways-to-boost-collection-of-patient-financial-responsibility>

Improving Processes for Small and Medium Provider Groups (<50 providers)

Because small and medium provider groups tend to have the most in-house processes, it is helpful to discuss their operations separately from larger integrated organizations. Smaller organizations can address many pain points that block increased efficiency and cash liquidity by adopting electronic ACH payment systems that reconcile payment delivery and remittance data.

Submitting claims to multiple payers is a complex, cumbersome process for providers, who must rely on coding and billing accuracy. Upon receiving check payments from these payers, staff must reconcile these payments—often consolidated for multiple claims—with remittance advice for each patient. When ACH receives payments from a system specializing in claim payment delivery, it automates the reconciliation process, with each ACH matched with the corresponding electronic remittance advice, eliminating manual reconciliation and reducing labor costs.

Regardless of the method, all received payments have a cost. Paper checks are among the slowest, most expensive payment methods for providers and one of the costliest for payers to generate.¹⁰ Electronic payments are superior from a sustainability perspective, as simple cost savings and a faster way to receive payments—boosting cash flow.

To simplify processes, providers can use a single dashboard from ACH payment systems for all claims from multiple payers, easily tracking key performance indicators and cash flow. Reporting functionality enables customized reports for financial management, and the search functions enable rapid auditing and reconciliation without exhaustive manual information searches.

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Accelerating the reconciliation of the insurance claim payment enables providers to generate a final patient responsibility statement sooner, resulting in a higher percentage of patient responsibility collections. Data shows that patient receivables account for at least 30% of provider revenue, yet providers collect less than 60% (net-30). However, the sooner providers generate the bill, the higher the collection probability. Improved billing and electronic payment processing from health savings and flexible spending accounts accelerate the payments credited to patient accounts, boosting patient satisfaction and alleviating frustration with billing processes.

¹⁰ Association for Financial Professionals. (2015). "Payments Cost Benchmarking Survey: Report of Survey Results". Retrieved 13 Sept 2022 from: <https://www.afponline.org/docs/default-source/default-document-library/pub/2015-payments-cost-benchmarking-report>

Improving Processes for Hospitals, Health Systems, and Large Provider Groups (>50 providers)

ACH payments can benefit larger healthcare systems similarly but on a broader scale. Dashboard and reporting solutions can achieve more by using application programming interfaces (APIs), securely connecting other hospital applications and reducing redundancy and the need to train users on a new system.¹¹ Users can bundle data easily and export it to the system's financial analysis software. An enhanced dashboard and advanced analytics capability allow for data segmentation by payer, procedure, time period, and many other metrics. Users can make sophisticated analyses and projections based on specific data sets.

Large systems are particularly aware of the vulnerability each add-on software introduces to their cybersecurity program. Whether accessing payment and remittance data from an ACH payment system's online dashboard or via API, the latest fraud prevention techniques can protect this sensitive information, including two-factor authentication, keystroke logging, and controlled user access. System users can limit employees' access to specific information for their work location or responsibility area.

When financial management involves a large, integrated system with multiple locations, the high-level dashboard view and the ability to drill down to detailed information are crucial. The claims processing speed and ability to analyze data to develop action plans are significant advantages of ACH payment systems



11 Why Are Healthcare APIs Important? | Akana by Perforce. (2022). Retrieved 13 September 2022, from [https://www.akana.com/blog/healthcare-apis#:~:text=Application%20programming%20interfaces%20\(APIs\)%20connect,truth%20with%20a%20healthcare%20API](https://www.akana.com/blog/healthcare-apis#:~:text=Application%20programming%20interfaces%20(APIs)%20connect,truth%20with%20a%20healthcare%20API)

Simplifying the Payer/Provider Relationship

Payers and providers can become frustrated over cash-flow challenges and accounts receivable collection extensions in a complex detailed payment system. Introducing simplified processes and collaboration can provide value for both payers and providers. This improved relationship results in patient-centered interactions and an overall improvement of the healthcare ecosystem.¹²

ACH payment is cheaper, easier to generate, and the preferred payment method for payers. For providers, faster payment and lower collection costs create value and reduce administrative work. As providers see the benefits materialize, their improved provider satisfaction results in increased payer net promoter scores.



12 Optum (2021). Modernizing Payment Systems Together: Aligning around shared pain points to tackle cost of care.

Conclusion

As users employ the ACH payment system, seamless data exchange between payers and providers will create a steady history of payments, improving this relationship. Historical data and predictable cash flow will become the foundation for innovative financial products that ACH payment systems offer, such as scheduled ACH deposits advanced 10 to 15 days sooner by collateralizing recurring claims payments from multiple insurers to the provider. Improved data and financial management will continue to see rewards, as better cash flow funds organizational growth and healthcare advancement.

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