



## A N A L Y S T C O N N E C T I O N



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### **Medical Banking: The Role of Banks in Reducing Costs and Increasing Efficiency for Healthcare Providers**

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*Banks have an opportunity with commercial banking services to move beyond standard services and truly add value to their customers in the healthcare industry. In a time when new revenue sources are scarce, there is also an opportunity to tap new fee income. For healthcare providers, managing their cash inflows is a complex and time-consuming task. Using enhanced medical banking services, rather than traditional collections products, banks can improve financial results for their healthcare provider clients and provide a more differentiated service.*

The following questions were posed by Systemware to Jeanne Capachin, research vice president for IDC Financial Insights, on behalf of Systemware's clients and prospects.

**Q. What are the current challenges facing healthcare providers regarding conversion from paper to electronic payments, especially related to posting and systems integration?**

A. Across the United States, conversion from paper to electronic payments is presenting challenges; for healthcare providers, converting checks and remittances to electronic form is even more complicated. Most businesses assume (and rightly so) that when they provide a service, they will be compensated a specific amount. These businesses also assume that when they present a bill to customers, it will be paid as expected. But in healthcare, where third-party payers and negotiated payment terms are the norm, providers are not sure how much they will be paid for their services, and payer disputes are common.

Consequently, it is critical to ensure that conversions from paper to electronic form are done correctly to ensure that financial flows aren't jeopardized. When providers submit claims (either paper or electronic) to payers, they must ensure that they are compliant with each payer's set of Byzantine and ever-changing rules. If claims are submitted incorrectly (i.e., if the service codes are wrong, a patient is ineligible for certain services, or other documentation is faulty), payment is not made and claims must be resubmitted within set time frames. Paper claims and explanations of benefits (EOBs) must be converted from paper to EDI, and although there are standards and codes, the paper process often has better and more complete information than can be accommodated in the EDI standards. Compounding the problem, each payer applies the standards a little differently, so a set of policies and processes must be developed for each payer to accommodate idiosyncrasies in its processes. As payments are received, they must be reconciled with claims submitted on a patient and procedure basis so that rejected procedures can be resubmitted for payment. There is also the complexity of reconciling both direct payments from patients that are

received when services are delivered (cash, check, card, and so forth) and indirect payments (usually check or ACH) received weeks or months later.

So for healthcare providers, it is not just the complexity of adapting practices from paper to electronic that is at issue. In this industry, the whole payment process is inefficient and complex — and the paper to electronic transformation that is happening now simply exacerbates an already broken process.

**Q. Where are the opportunities for providers to reduce costs and improve efficiencies?**

A. There are myriad opportunities to improve current processes, but I'll focus on those opportunities where banks are well positioned to offer services and lend their expertise. The billing departments of most providers are spending too much time on manual processing. First, they must convert the doctor's or other practitioner's treatment records into paper or electronic claims and in the process make sure they are using the right payer codes to describe the services so they will be paid correctly. They must also post any initial copays or other payments received at the time of treatment to the patient's billing record. Once payments are received (or claims are rejected), they must reconcile the payer EOB with the initial claim and post payments to the patient's record.

Most providers would agree that they introduce problems themselves because of the manual nature of their processes and the complex rules that each payer defines. One of the most basic services that banks can offer is automated posting of paper and electronic EOBs from payers. In addition to basic collection services such as lockbox processing or check clearing, banks can process the accompanying EOB data in whatever form it is received from the payer. Banks will accept the paper or EDI EOB data, post all payments, and give their provider clients a single, consolidated posting file they can use to automatically update their billing systems. Banks can also offer their providers a consolidated portal to view all payments, claims, EOBs, and secondary claims. With a portal, providers have one source they can use to track all patient care financial activities and follow up on rejected claims and exceptions. Automation reduces errors and streamlines the process, freeing up billing staff to focus on repairing claims so they can be resubmitted for payment. By introducing this kind of automation, providers get rid of messy manual processing and have one source to turn to for payment, claim, and EOB data. But this isn't just about efficiency; providers can also improve visibility into their payment stream and improve financial results by resubmitting rejected claims and securing payment more quickly.

**Q. What makes banks uniquely positioned to offer electronic financial services to providers?**

A. Banks are embedded in all financial transactions and have a strong legacy of providing remittance processing and collections services to their commercial clients. They are experts in building out solutions to solve financial problems and have expertise already in remittance and payment processing. Medical banking is a specialized accounts payable/accounts receivable offering that leverages products and services banks already offer to many other industries.

There are specialists, and more every day, that are competing with banks to offer financial services to healthcare providers. These new entrants are replacing traditional lockbox services with their own more complete offerings that are optimized to serve the medical profession. Examples include revenue cycle management solution providers and medical billing clearinghouses. Even with these solutions, banks must remain in the mix to provide payment processing, credit, investment, and deposit account services. It just makes more sense for healthcare providers to leverage a bank more heavily than to bring in a specialist that can provide only a partial solution.

**Q. Why should banks consider offering medical banking services?**

A. Just as healthcare providers are already working with their banks, banks are likewise already serving the financial needs of the medical industry. By offering a more complete suite of fee-based medical banking services, banks can strengthen existing relationships with hospitals, physician groups, and other healthcare providers that are already clients. With medical banking and the benefits that providers can gain with faster payment of claims and more successful secondary claims, the practices also become more profitable and in turn become better clients for the banks. A side benefit for banks is that they can also gain transparency into outstanding claims and financial flows of their healthcare provider clients — improving their ability to make the right credit decisions on this customer base. Medical banking is also a differentiated offering that can attract new clients from the healthcare industry — one of the few industries that have not been severely hampered by the financial crisis.

**Q. What benefits can healthcare providers realize when using a bank as a central reporting point rather than just for financial information?**

A. Having one provider that can meet all their financial needs simplifies the process for healthcare providers. And like the medical profession, banking services are highly regulated. Banks are well equipped to understand and adapt to changing regulations. Banks know that there is no use arguing with regulators or postponing compliance-related investments — they have become experts at regulatory compliance to protect their own businesses as well as their clients. HIPAA is not a new term to any banks that serve healthcare providers, and they understand what they need to do to comply.

Bankers succeed by building long-lasting relationships, not by focusing on transaction processing. One aspect of building strong relationships is to make sure that services provided are appropriate to the client and enhancing those services over time as needs change. Medical banking is a great example of how banks can enhance their offerings to healthcare providers and strengthen these relationships. For healthcare providers, financial management is complex and getting more so. Banks are in a position to serve all of a healthcare provider's financial needs — payment processing, credit, liquidity, and financial information.

**ABOUT THIS ANALYST**

*Jeanne Capachin is research vice president with IDC Financial Insights. She is responsible for the Corporate Treasury practice and the Worldwide Spending Guide programs. Ms. Capachin has more than two decades of experience working in and consulting to the banking industry.*

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