



WHITE PAPER

THE CASE FOR ELECTRONIC MEDICAL PAYMENTS

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Executive Summary

Claims processing has seen limited innovation over the years. Certainly, there have been advances in technology that capture, analyze, and store claim information, but the workflows and support functions have remained relatively the same. Claim payments processing account for significant portions of a claim departments oversight and expenditures and are areas ripe for disruption. Payment processing can achieve dramatic transformation with the use of a modern electronic strategy, reducing costs, the risk of fraud while improving customer experiences and reducing friction on topics such as payment timeliness.

As claims processing departments evolve their best practices, moving paper checks to digital payments and outsourcing to a trusted electronic payment partner is the practical strategy for the new decade.

In 2020, the insurance industry was severely impacted by a series of unprecedented challenges: tornados, hurricanes, wildfires, socio-political turbulence, and a once-in-a-century pandemic. Now more than ever businesses recognize the necessity of adapting to a new era in which unforeseeable threats have become commonplace.

Such precarious times present strong incentive for change, calling for insurance claims leaders to find more innovative, secure, and efficient ways of managing medical and non-medical claims payments.

The case for going paperless has never been more compelling.



Traditional Healthcare Payment Processing

Inefficiencies surrounding legacy paper-based payment processing methods and the mounting time and costs involved in manual processes cause serious customer experience issues for both claims staff and payees and inherently come with many shortcomings and friction points.

With so many individuals and businesses supporting new methods of payments using solutions like eCheck and Real-time-Payments, you may wonder why so many payers are still focused on paper checks or best case, checks and ACH payments.

The truth is that many payer organizations do not want to invest in electronic payment technology, do not have updated information to rationalize a modernization, or have the mindset that the switch is not worthwhile, at this time. The workforce now comprises an

Even though more than half of today's medical providers and other payees prefer to receive medical payments electronically, over 60% of healthcare payers still print & mail checks.

increasing number of people who have grown up in the digital age, in close contact with computers, the Internet, tablets, and smart phones. They represent a generational shift away from slow, manual processes to digital solutions with immediate results. A natural part of this evolution is the obsolescence of paper-based checks in favor of streamlined digital payments, especially those that do not require users to share their banking information.

While CAQH/InstaMed/Nacha stated during a presentation in June 2021 that 85% of providers stated they prefer ACH from the payers, the reality is only 26% of the payments are ACH transactions. Many providers are reluctant or unwilling to give up their banking information to Payers. They might have concerns about data breaches, and some providers find the enrollment process too cumbersome.

Multiple Pain Points

Payers and providers experience multiple pain points in the current Property & Casualty and Commercial & Governments Insurance payments process which digital solutions can effectively resolve.

PAYERS

- The biggest pain point is the amount of resources spent supporting providers on payment status inquiries and related issues
- The cost of printing and mailing paper checks.
- Difficulties with supporting ACH enrollment
- The challenges of dealing with delivery issues of ERAs and EOBs
- Operational cost associated with the processing and printing of 1099 forms
- Payers believing they are not getting the expected utilization of electronic transactions with their current strategy

PROVIDERS

- Slow payment cycles with paper checks with ranges from 30-45 days
- Challenges with consolidating ERAs and EOBs for reconciliation
- Lack of payment options, including newer capabilities like push to card. These are typically payees forced into a single payment option, paper checks and EOBs



Increased Administration Costs



Property & Casualty and Commercial & Government Insurance administration costs are extremely high, forcing payers to adopt digital solutions. An example of the rising costs is in Workers' Compensation which has gone from 11.6% of total administrative cost in 2010 to 14.4% in 2020.

Partially driven by increased costs and specific state and national mandates, Property & Casualty and Commercial & Government Insurance payers are increasingly shifting to digital payment solutions to offer choice, increase transparency, improve payment speed and reduce costs through innovative payment modality integration. Further to this, many payers are all seeking to address the needs of millennials who prefer push to card solutions given their familiarity with these solutions and the overall convenience.

Payment modality solutions include electronic funds transfer (ACH), virtual card, eCheck, and paper checks, plus newer options like Venmo and Zelle for consumer or small business payments.

The result is increased visibility that facilitates the ability to process and track payments through integration with existing payer and provider platforms and processes. This streamlines reconciliation and reporting processes by enabling providers to view, manage, and download EOBs and EORs as part of the payment process. The result is a reduction in status inquiry calls and reduction of the administration of 1099 tax reporting.

Another critical trend is providers desiring payment options by Payer other than paper checks including ACH, virtual card, eCheck and push to card.

An Industry At A Crossroads

Today, multiple factors are converging that place the future of digital payments in a broader context. For example, the introduction of new payment modalities and the ever-changing reimbursement landscape. Priming for success necessitates payers asking the right questions to design near-term and long-term payment strategies.

The U.S. healthcare system racks up higher administrative costs than other healthcare systems. Private health plans alone spend \$158 billion on administrative costs each year, with average administrative costs per payer hovering around 17.8%.

While many payers have implemented ACH as a form of electronic payments, many initial implementations were launched to meet compliance requirements as a response to market pressures. While ACH payments are processed within days, the reconciliation process is frequently a challenge for payees. In the end, few organizations have fully considered the long-term viability or the ability to support advances in electronic payment solutions.

The use of peer-to-peer payments and digital wallets have grown in popularity, especially among younger generations. While this is not directly applicable to the healthcare industry just yet, such payment systems are becoming the norm and with that come certain consumer and thereafter business expectations.

Venmo, one of the first applications to become mainstream, offers businesses and consumers a way to directly transfer money to another person. It takes a couple of days to get funds from Venmo to a consumer's bank account, but other applications are pushing that dynamic more rapidly.

So What Is The Problem?

So, what is the problem? The evolution of these technologies run in stark contrast to Automated Clearing House (ACH) processes, where a payment is posted, but a provider may not be able to access the funds for several days.

That is why it is vital to prepare for short-term and long-term needs. Payer executives can and should establish goals and strategies that align with the digital payment movements to ensure they're able to support the needs of their business partners.

It's time to retire the 1980s-era healthcare payments, and look at healthcare's transformation as an opportunity, rather than a forced change, is key.

The effort of combining healthcare with digital payments and data is central to treating healthcare as a business. This is a mindset adjustment that organizations urgently need to make, as the ability to receive bills quickly and digitally, and pay them in the same manner, has become critical in today's digitally driven world.



Is Automation The Answer?

Without question automation is the answer. Here are the primary reasons why:

Paper is Expensive

Healthcare is one of the last industries where most of the information is primarily transmitted via paper, including EORs, EOBs, mailed paper statements, paper check payments, medical attachments, etc. This heavy reliance on paper costs plus postage, impacts the healthcare industry an estimated \$300 billion dollars a year.

Aside from that, the ability to support these paper-based transactions requires manual processes that cost the industry significant resources – consider that 16% of total healthcare related spending by the industry is on administrative costs. These excess costs include money spent on collecting, processing, posting and reconciling payments.

Paper is Slow

The cost of paper, which is also rapidly rising in today's inflationary period, is not just monetary either. An estimated 21 percent of physicians' time is spent on non-clinical paperwork. Further, the average time spent by an insurance claims staff on processing a manual paper-based transaction is eight minutes but can be as much as 30 minutes and costs three dollars more when compared to electronic transactions.

Today's consumers have everything at the touch of a button and expect fast, Amazon-like payment experiences in every aspect of their life, including healthcare. Slow, paper-based healthcare payment transactions are not living up to the expectations that consumers have when it comes to making a payment. In addition, the U.S. Postal Service announced in April of 2022 that they will be implementing their plans to slow the delivery of approximately one-third of small and lightweight packages as it advances forward with its plans to cut costs and reverse long-standing financial losses.

Simply put, businesses and consumers now expect near-immediate access to funds when they have been notified of the transfer. Fortunately, that era of real-time payments is not too far off for workers' compensation or health plans.

In addition to cutting cycle times by two thirds, payers stand to see significant reductions

in payment status inquiries made by telephone and email as well as duplicate claim submissions, thus reducing the costs on payers to support call centers and processing duplicate claims/redundant claim processing.

Paper is Wasteful

U.S. healthcare facilities generate nearly two billion pounds of paper and cardboard waste each year. If you're still using paper in any aspect of the payments process, you're a part of the U.S. healthcare system's expensive paper problem. Many insurance companies have established objectives to reduce their carbon footprint by moving toward 100% renewables at all of their facilities, reducing paper by 70-80%.

ACH Alone Has Drawbacks

While ACH payments are valued by payers and providers, many providers are concerned about the security and risk associated with sharing bank account information. Despite the establishment of the Electronic Fund Transfers Act, which allows for a period of 60 days to recover funds lost to ACH fraud or error, many providers still have concerns with sharing their bank account information with third parties. According to Identity Theft Resource Center (ITRC), there were 1603 cyberattack-related data compromises in 2021.

Further, many providers are concerned about the Payers ability to submit ACH reversals. While a Payer can only reverse for very specific situations within a 5 day period relating

Paper poses a higher risk for fraud

Electronic payments can be reliably transmitted and tracked And they also circumvent issues relating to mail fraud and delivery delays.

Most significantly, modern electronic modalities avoid fraud expenses associated with paper checks, which has been on the rise.



to wrong payment amounts, incorrect account numbers, payment date mistakes, or duplicates, it creates additional administrative controls and processes for providers.

While it is generally considered safe and secure, surveys and utilization metrics confirm that ACH payments are not preferred by all recipients of payments.

The Benefits of Digital Healthcare Payments

Digital payment services do not have paper-based costs, including data entry, printing, and postage for the delivery of checks and EOBs. When productivity improves in workflow practices by using the electronic payment methods, it benefits both the healthcare provider or facility and the insurance payer industry. When payments are processed through a simplified electronic method, it can deliver payments accurately, securely, and instantaneously.

Real-time Data Verification

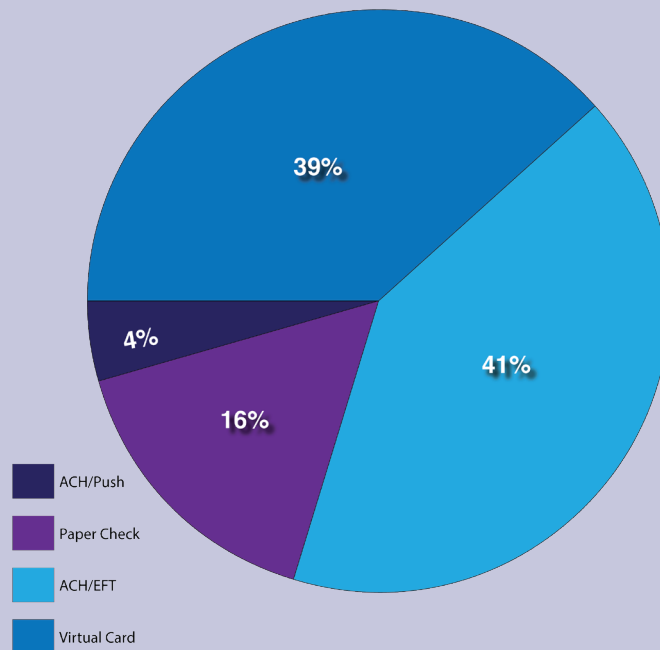
Electronic payment systems offer a flexible, full spectrum of payment options that work in concert with a payer's existing processes and systems, allowing medical providers and other payees to choose the payment modality that best suits their organizational needs. Plus, depending upon the situation, the recipients can adjust their preference dynamically, and manage their preferences by Payer. Intelligent, choice-based disbursement tiers result in increased payee satisfaction.

A Suite of Multi-tiered Payment Options

- **ACH - Transfers funds from the payer's bank to the recipient's bank in days (requires recipient to be authenticated and securely enrolled and requires sharing the payee's bank account information)**
- **Virtual Card - received via secure fax or mail and includes an electronic 16-digit credit card number that the payee enters it into their merchant terminal along with the payment amount; immediately transfers the funds to the recipient's account. Does not require recipient to share banking information**
- **Push to Card – allows funds to be transferred immediately to a bank account of beneficiaries or claimants through their debit card**
- **eCheck/Digital Check - an electronic image of a check that is delivered securely via a secure portal**
- **Paper Check - a traditional paper check mailed to the recipient**

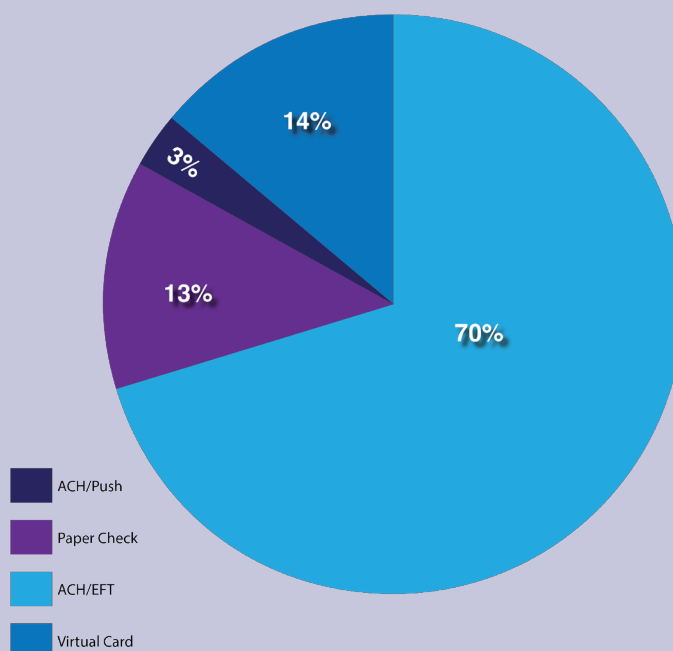
Typical utilization of Payment Modalities by a national healthcare payer looks very similar to the below, where 80+% of payments and dollars are sent electronically confirming that payees want options that support their business practices

% By Transaction Count



Using the same data from a national healthcare payer, below is a summary of the payment modalities by dollars paid:

% By Issued Amount



Note: the above data does not yet include push to card payment details

What To Look For In A Digital Payment Solution

- A trusted partner with expertise and a proven track record in your line of business
- Multi-tiered and flexible payment capabilities that are configured to optimize choice
- High percentage of electronic payments from day one
- Full visibility & control of funding, disbursements, and reconciliation via user friendly portals
- A solution that has both transparent pricing and does not burden payees with additional fees to receive or access their payment information
- Opportunities to significantly improve, reduce operating costs, improve client service and satisfaction, plus compliance metrics
- Reduced client calls and email support volumes
- Client Support Service that supports all program-related inquiries
- Opportunity to realize alternative reoccurring revenue streams
- 1099 processing that is included in the program



Conclusions

Change is always a challenge, especially when it comes to planning and executing a solid strategy while creating an action plan for converting from a paper-based payment process to a digital workflow.

When claims processing departments refine and remodel their best practices to facilitate a digital workflow, including outsourcing payments to a trusted electronic payment partner, they will significantly benefit from all the gained efficiencies, time savings and cost reductions resulting from a dynamic paperless system.

As we navigate a post pandemic world the opportunity exists for businesses to recognize the need for adapting to a new era. There is no better time to leave the world of paper-based claims and payment systems behind and commit to digital processes for a more productive and profitable workflow.

As stated in the Executive Summary, the case for going paperless has never been more compelling!



The Facts

We Have Over

1,800,000

PROVIDERS

We Have Over

26,000

PAYERS

We Facilitate Over

\$300,000,000

IN MONTHLY PAYMENTS



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