Assessing the Hidden Risks of **Payment Processing**

The complications that stem from having multiple parties involved in the insurance payment process call for a solution that is more flexible, efficient, and secure.

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Introduction

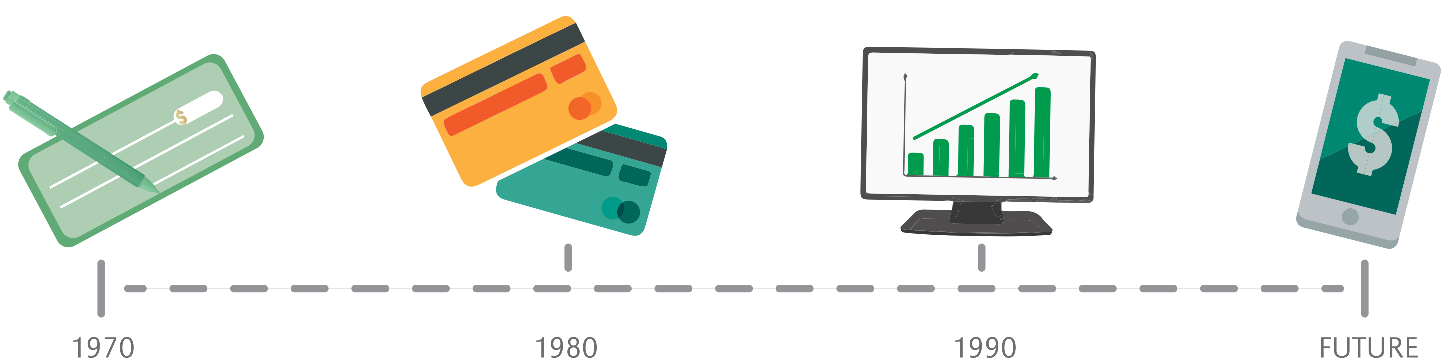
The process of issuing payment from an insurer to a provider is fraught with complications and delays. Insurers commonly enlist the services of a third-party administrator (TPA) to manage the supporting documentation and distribute the funds accordingly. TPAs then outsource the financial portion of the equation to a payment solutions company, who is typically nothing more than a program manager that hires a card processor to execute the payments. This series of corporate handshakes makes the payment process cumbersome, opaque, and vulnerable to breakdowns in the system that are difficult to identify and remediate. Contracting a payment solution company that can oversee the process from end-to-end offers support, flexibility, and enhanced security.

History

When reduced to its most basic level, there are only three players in the insurance payment transaction: the insurer, the insured, and the provider. The insurer pays the provider for covered services rendered to the insured. Other entities act as intermediaries in the exchange process.

Past Payment Methods. Once payment eligibility is established, the insurer releases funds from a bank to remunerate the provider. Prior to the 1970s, payments were distributed via paper checks. The early 1970s brought the advent of automated clearing house (ACH) payments, which process financial transactions electronically between banks. In recent years, credit and debit cards were adopted as means of payment and issued to the insured for eligible medical expenses; providers ran the card at the point of sale, which streamlined the payment process significantly.

The Future of Payments. As with most industries, the trend in insurance payments is ever-toward faster service with increased value. Insurers and providers are seeking a more efficient payment cycle workflow because check payments are costly and can require up to three weeks for processing. While the medical industry is typically slow to adapt, the rise of mobile payments and digital wallets (i.e. Apple pay, Android pay) within the consumer industry indicates a pending shift toward virtual payment methods. However, the adoption of such technology is complicated by the need for HIPAA compliance.



Key Marketplace Issues

As the insurance industry has grown in recent decades, so have the issues plaguing it. For example, many specialized companies have formed in order to handle the volume and complexity of sensitive transactions. Each of these companies is party to the larger transaction and brings with it logistical complications and budgetary considerations.

Multiple Party Participation. Insurers, employers, banks, providers, TPAs, program managers, and card processors – all of whom have a stake in the process. Over the course of the payment transaction from insurer to provider, both data and dollars change hands multiple times. Moreover, many of the parties involved aren't visible to or aligned with the others, creating a set of logistical complications.

Inefficient Processes. Each entity has its own workflow, guidelines, and institutional processes, which is kept private and generally not subject to outside influence. This makes communication and accountability difficult, and impacts the quality and timeliness of payments to the provider. In addition, each company generates and provides its own reporting, in its own format, making it cumbersome to produce quality analytics for decision-making purposes.

Security Issues. The amount of times money and sensitive information – like medical records and Social Security numbers - changes hands is concerning. Add to this the financial protection required in issuing payments via credit card, and the need for security in storing and transmitting data is readily apparent; each transfer drastically increases the risk of breach which could result in fraud and monetary loss. According to the *2015 AFP Payments Fraud and Control Survey*, 62% of financial professionals reported being targeted with payment fraud in 2014 . Furthermore, with multiple parties involved, identifying a breakdown or problem source becomes that much more complicated. Add in the possibility of mergers and acquisitions, and the security risks multiply.

Budgetary Concerns. Each party involved in the insurance payment has its own operational and overhead costs, which add to the cumulative cost of the transaction. This results in eroding profitability for each associated healthcare organization, bank, administrator, and provider.

Overcoming Challenges to Create Solutions

The various challenges associated with having many players involved in insurance payment transactions need a streamlined, secure process that improves security, accountability, and reporting, and lowers overall costs. The remedy is an end-to-end card processor, run by a single company. Here's how:

Increased support and accountability.
With a single point of contact—from EOB to issuing payment—TPAs have full visibility into the workflow and status of any payment. That means one number for a TPA or provider to call, instead of many, if a payment isn't issued or received.

Enhanced security.
An end-to-end payment processor maintains a relationship with the insurer (or TPA) and the bank, which means complying with each of the associated regulatory stipulations, HIPAA, and PCI DSS . Also, simplifying the transaction chain means protected information is far less vulnerable to breach. Processing claims and payments through a secure web portal further reduces fraud since each EOB is electronically matched with the payment and the single-use virtual card numbers are issued for only the precise, authorized amount. Conducting payment by virtual card is a growing trend in corporate America, accounting for 39% of spending in 18% of companies, as reported in the *2014 Purchasing Card Benchmark Survey Results*.

Facilitates a strong banking relationship.
Since an end-to-end payer owns the entire payment process, it must be certified by the banking industry to hold and disburse funds. The close relationship of an end-to-end processor to the bank increases security, flexibility, and speed of processing.

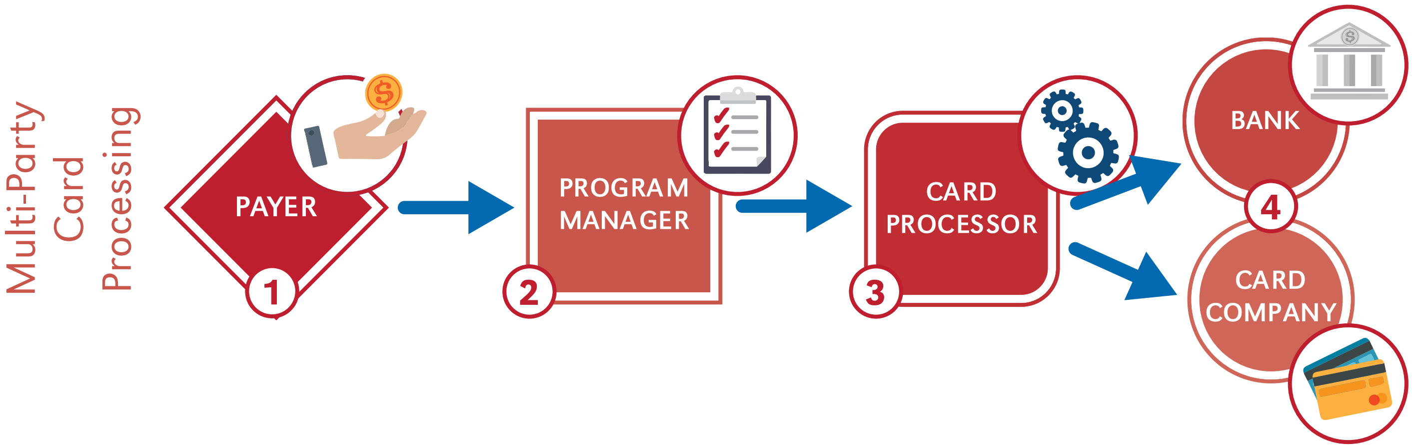
Offers flexibility.
As a single entity with only one set of corporate protocols, an end-to-end processor can customize the process for each TPA and provider. Plus, any changes in product offerings can be integrated seamlessly and immediately.

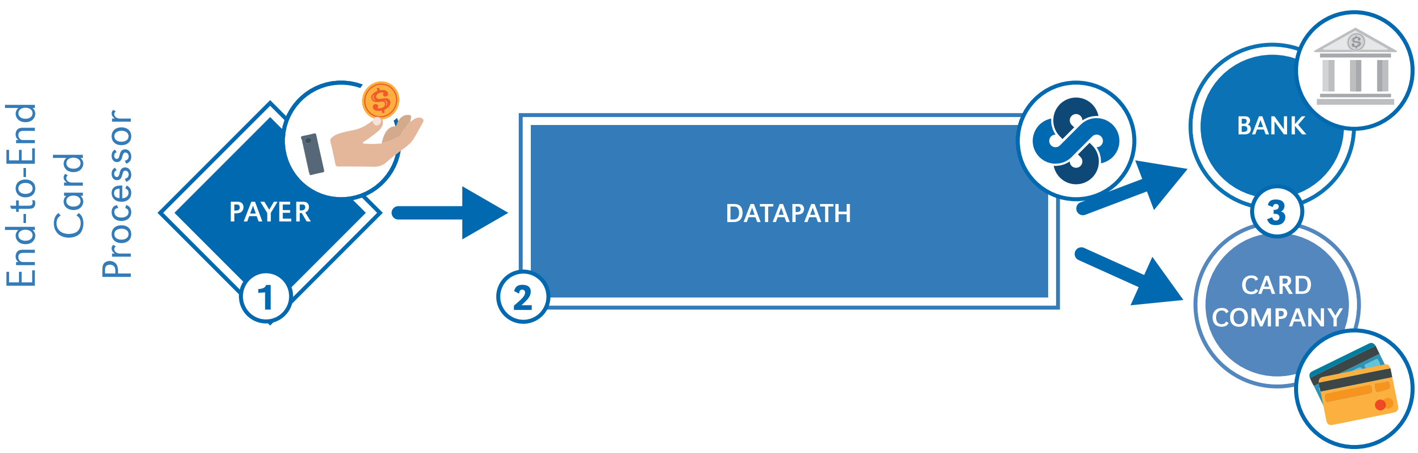
Improved reporting.
A single point of contact with an end-to-end processor produces one report that's useful immediately, whereas a multiple party relationship means multiple reports that must be assimilated into a single coherent, comprehensive report.

Generates operational efficiency.
With an end-to-end processor, payments can be issued as quickly as the next business day, payroll expenses decrease, overhead postage and printing costs decline, and payment errors and escheatment are minimized through virtual payments.

An end-to-end card processor is capable of handling all facets of the payment process, from receiving the data file to disbursing the funds. This solution remediates the challenges common to insurance payments while also reducing the cycle time.

The Difference in Working with the Program Manager vs. the Card Processor





Selecting an End-to-End Card Processor

To evaluate whether hiring an end-to-end card processor might be worthwhile, consider the following questions:

1. **Who is the current card processor? How does the company process provider payments—manually or electronically?**
2. **What are the company's security and compliance standards, and what measures do they employ to ensure them?**
3. **What is the relationship between the program manager, card processor, bank and TPA?**
4. **How flexible is the current processor? Can the company adapt to any unforeseen changes?**
5. **What analytics does the current processor report on? How in-depth and useful are those reports? Additional key subset questions include: How many payments have been issued? Of what type? Which providers are collecting their payments? Which are not?**
6. **What are the existing internal overhead costs associated with the provider payment solution (i.e. software systems, salary and postage)?**
7. **What costs are associated with the current contract? How significantly are those expenses affected by the administrative fees of the parties in the transaction chain?**

In today's business climate, a secure, efficient payment process is vital to operating as an insurer, third-party administrator, or provider. It's imperative to know the true cost of the transaction partnerships, as measured in administrative fees, processing time, and salary and infrastructure. Protecting sensitive information without compromising the quality of reports—and therefore the related strategic decisions—can be accomplished when the right process is in place.

The Future of End-to-End Card Processing

In an industry fragmented by a multitude of vendors funneling millions of dollars through an elaborate system, transparency and simplicity are rare. While most insurers outsource their payment process to third-party administrators, many of those TPAs hire out the financial portion of the payment process to program managers, who then contract a card-processor to transmit the funds. The result is a protracted system with myriad vulnerabilities. By contrast, end-to-end card processing for third-party payments is a more holistic approach that meets the needs of the insurer and the provider in an effective, efficient way.

About the Author and Company:

Bryce Teater is the Product Marketing Manager for Insurance Payment Solutions at Little Rock-based DataPath. He holds a Bachelor's degree in Business Marketing from the University of Missouri and has more than ten years of experience in product marketing. DataPath's insurance payment solutions offer secure, card-based indemnity payment processing. DataPath strives to improve healthcare with innovative technology and has been creating flexible financial and administrative solutions since 1984. Learn more at ***www.dpath.com*** *or call* ***(800) 633-3841****.*