The Benefits of End-to-End Card Processing: **Effective, 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 outsource the financial portion of the equation to yet another party: a payment solutions company. However, the payment company is typically nothing more than a program manager who, in turn, 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 both identify and remediate. Contracting a payment solution company that can oversee the process from end-to-end offers support, flexibility and enhanced security.

History

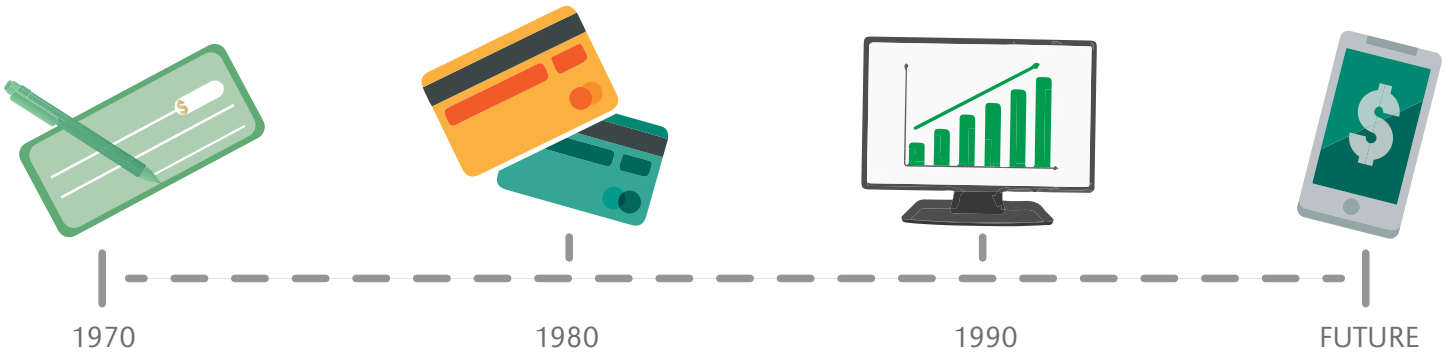
When reduced to its most basic level, there are only three players in the insurance payment transaction: the insurer, the insured, and the provider. The insurer pays the provider for covered services rendered to the insured. Other entities act as intermediaries in the exchange process.

Past payment methods.

Once eligibility for payment has been established through benefits determination, the insurer releases funds from a bank to remunerate the provider. Prior to the 1970s, those monies were distributed via paper checks. The early 1970s brought the advent of automated clearing house (ACH) payments, which process financial transactions electronically between banks. Later, credit and debit cards tied to funds allocated for eligible medical expenses, and held by the insured, were adopted as means of payment. The providers ran the card for the contracted fees at the point of sale, streamlining 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. A more efficient payment cycle workflow is the chief objective of insurers and providers, alike. Payments issued by check can require up to three weeks for processing, which is costly to all parties when measured in labor hours. The healthcare industry typically lags behind the consumer industry, which gives insight into the future of insurance payments. The rise of mobile payments and digital wallets (i.e. Apple pay, Android pay) are indicators of the pending shift toward virtual payments as a response to increasingly mobile lifestyles. The adoption of such technology, however, is complicated by the protected information contained in medical claims, which necessitates a higher degree of security than is required in the consumer industry.



Key Marketplace Issues

As the insurance industry has grown in recent decades, the issues plaguing it have increased as well. The complexity of transactions due to the transmission of sensitive information and the sheer volume of them has created many specialized companies. Each of these companies is party to the larger transaction and brings with it logistical complications and budgetary considerations that include:

1. **Existence of multiple parties.**
   The number of parties involved in the transmission of data and payment from insurer to provider exceeds that which might be anticipated. Each of the following entities plays a part in the transaction:

   - **The insurer.** The insurer is either a company whose primary business is to indemnify another company or a corporation of substantial-enough size to insure itself. In either case, the insurer is the entity with financial obligation to the insured according to the contracts issued.
   - **The employer.** The employer is the company (and its employees) being indemnified by the insurer. The employer selects the insurance company on behalf of its employees to cover their medical needs. Most often the employer will interact with the third-party administrator (see below).
   - **The providers.** The providers are the medical practitioners (or service providers, in the case of property or casualty insurance) to whom the payment is due for services rendered to the insured individual.
   - **Third-party administrators (TPAs).** Most insurers contract a third-party administrator to oversee the claims processing for their plans. The TPA generates the Explanation of Benefits statements, having matched all the requisite data, and acts as the "payer" on behalf of the insurer.
   - **Program managers.** Program managers are enlisted by TPAs to disburse the funds to the providers; TPAs do not typically manage the financial portion of the transaction, focusing instead on administrating the claims according to the policy guidelines. Accordingly, program managers are hired to control the financial aspect of the payer/provider relationship. However, many program managers are little more than front-end sales people who, in turn, contract the actual payment processing to yet another party: the card-processor.
   - **Card-processors.** Most program managers don't have relationships with banks to enable payment to the providers, which therefore necessitates hiring a card-processor. The processors' sole task is to execute payment to the provider for the services rendered, as authorized by the TPA (via the program manager).
   - **The banks.** The insurer holds its cash at a financial institution and releases funds (and the related data) to be disbursed to the providers. Similarly, the providers' banks receive and acquire the disbursed funds and data.

   Over the course of the payment transaction from insurer to provider, both data and dollars change hands multiple times. Many of the parties involved aren't visible to, or aligned with, the others, creating a set of logistical complications.

2. Logistical complications.

With a large number of parties involved in today's insurance transactions, how well those parties interact is crucial to an effective, efficient payment process. These relationships affect the transaction in a myriad of ways:

Low visibility into other parties' processes. With separate entities tending to different aspects of the payment transaction, each party's vision is limited to only its own purview. This creates significant difficulty in communication and accountability.

Rigidity in workflow and process. When each party in the transaction chain has its own set of guidelines, policies, and metrics, flexibility diminishes in the overall process, thereby reducing the quality and timeliness of payment to the end user: the provider. Furthermore, sub-contractors may not adopt changes to product offerings based on their individual development priorities and roadmaps, or are poorly synchronized in doing so.

Lack of seamless reporting and analytics. Having multiple parties to a transaction results in multiple reports and varying report formats. This poses a challenge in assessing the overall financial picture. To determine which payments are outstanding, for example, requires cross-referencing reports from multiple companies, each generated in its own format and rubric. Analytics are cumbersome and obtaining quality information upon which to base decisions is an unwieldy process.

Difficulty identifying breakdowns in the system. When each party has domain over merely its own portion of the transaction, identifying gaps in the process is challenging. For example, if a provider hasn't received a payment, finding the source of the problem may require calls to more than three companies to isolate the system gap.

The number of times money and information changes hands. The number of parties involved implicitly increases the risk of breach of the sensitive, protected information, and of fiscal loss due to error or fraud. With each transmission of data or dollars, the exposure to loss compounds. According to the *2015 AFP Payments Fraud and Control Survey*, 62% of financial professionals reported being targeted with payment fraud in 2014. When sensitive information bounces across multiple desks, the risk increases exponentially.

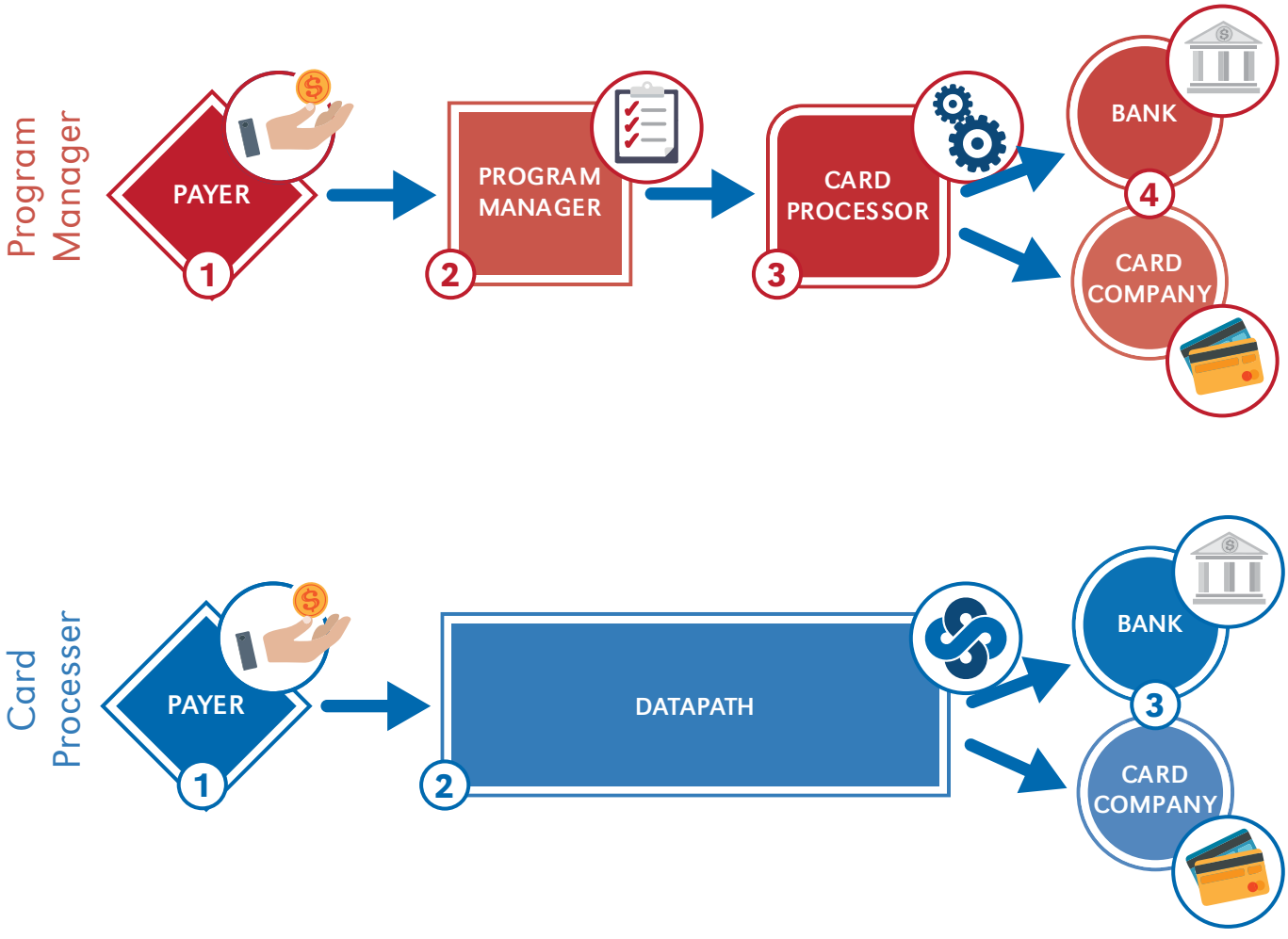
Mergers and acquisitions. In a marketplace where companies merge and are bought with regularity, the partnerships between parties are often just as changeable. A relationship between TPA and program manager may be terminated if one is sold. At the very least, the contract is likely to be renegotiated.

Having many parties associated with insurance payment transactions complicates the process in multiple ways. The system is vulnerable to marketplace changes, low visibility and accountability, and inefficient reporting methods.

3. **Protected information.**
Both insurers and providers deal in sensitive information, not the least of which are medical records and Social Security numbers. 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. MasterCard's *Emotions of Safety & Security Survey* revealed that one-third of the responders had their financial information compromised within the last two years, highlighting the need for better security measures. Title II of the *Health Insurance Portability and Accountability Act of 1996* (HIPAA) protects the privacy of individuals' medical records and payment history. Similarly, the Payment Card Industry Data Security Standard (PCI DSS) requires organizations and merchants that store, process, or transmit credit card information to maintain a secure environment for that data. These regulatory stipulations are subject to periodic audits to ensure compliance is being maintained appropriately. Considering the number of parties that lie between the insurer and provider in a typical insurance payment transaction, any breakdown in the system leaves sensitive information exposed and vulnerable to misappropriation.

4. **Budgetary considerations.**
Each of the parties involved in insurance payments incurs its own operational costs, which add to the aggregate cost of the transaction. Overhead expenditures to maintain staff and office space (to field inquiry calls and reconcile statements) are significant costs that erode profitability for each of the associated healthcare organizations, banks, administrators, and providers.

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



Overcoming Challenges to Create Solutions

The varied challenges associated with having many players involved in insurance payment transactions can all be addressed through end-to-end card processing. A streamlined, secure process, operated by a single company, alleviates the issues of security, accountability, and reporting. In addition, it decreases overall costs. Here's how:

Provides support and accountability.
With a single point of contact for the entire process—from EOB to issuing payment—third-party administrators 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. Breakdowns in the system are rare since all of the operations are "in house" but if one occurs, the source is easily identified and can therefore be rectified in a timely manner. Blame-shifting from party to party is eliminated as the responsibility lies with the end-to-end processor, making the TPA's job simpler.

Delivers increased security.
An end-to-end payment processor maintains a relationship with both the insurer (or TPA) and the bank. Doing so means holding the highest standard of integrity: complying with each of the associated regulatory stipulations, HIPAA and PCI DSS. Processing the claims and payments virtually through a secure web portal further reduces the possibility for fraud. That's because 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*. By eliminating several parties from the transaction chain, protected information changes hands fewer times, making it far less vulnerable to breach.

Facilitates a strong banking relationship.
Whereas program managers contract with card processors to issue payments and manage the banking relationship, an end-to-end payer owns the entire process. This requires being 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.
In stark contrast to the rigid workflow that arises from involving many parties in a payment transaction, an end-to-end processor has a large degree of flexibility. As a single entity with only one set of corporate protocols, an end-to-end processor has the ability to customize the process to each TPA's and provider's needs and preferences. Plus, any changes in product offerings can be integrated seamlessly and immediately. This flexibility is enhanced by the close relationship it has with the bank—something a traditional program manager doesn't offer. Furthermore, today's mobile marketplace demands a virtual solution that can be accessed anywhere at anytime; a secure web portal offers providers the ability to access the system (and support) whenever necessary.

Results in improved reporting.
In the traditional TPA-program manager-card processor arrangement, the parties are generally reluctant to share information with one another, due to the security and compliance requirements. Much of the reporting information contains sensitive data, so companies either can't or won't pass it on to other parties in the equation.

When reports are provided, the TPA is forced to handle the daunting task of assimilating them into a comprehensive report before the information is useful. A single point of contact with an end-to-end processor means one report with insight that's useful immediately.

Generates operational efficiency.
Processing payment to providers is a costly and complex effort. Using an end-to-end processor offers vastly improved operational efficiency. Due to the banking relationship, payment to providers can be issued as quickly as the next business day, reducing the cycle time for processing. Payroll expenses decrease due to fewer payment inquiry calls and more efficient reconciliation. Overhead postage and printing costs decline, and payment errors and escheatment are minimized through virtual payments.

An end-to-end card process is capable of handling all the 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.

Selecting an End-to-End Card Processor

To evaluate whether hiring an end-to-end card processor might be worthwhile, evaluate the answers to 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 a myriad of vulnerabilities. By contrast, end-to-end card processing for third-party payments is a far more holistic approach, one that meets the needs of the insurer and the provider alike, and does it 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****.*

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