

ADMINISTRATIVE COSTS IN HEALTHCARE
REIMBURSEMENTS

STRICTLY PRIVATE AND CONFIDENTIAL

Banks are deeply involved in servicing healthcare claim reimbursements (\$2.5 trillion in flows, representing 1.2 billion claim remittances¹)

- J.P. Morgan has observed that the costs and requirements to support payment processing for healthcare clients are far less efficient than comparable industries. Prominent is the high incidence of paper check processing.
- No indication that economies of scale have been or will be realized in terms of administrative costs. In fact, there is a direct linear relationship between transaction costs and clinical costs.

Opportunity exists for the healthcare industry to leverage existing infrastructure for scale efficiencies

- Similar to other industries usage of buyer/supplier networks, financial services firms provide the infrastructure necessary to process payment transaction instructions with associated transaction data.
- Healthcare administrative costs are materially higher to both payers and providers due to lack of transparency of remittance detail required to reconcile payments with submitted claims.
- Infrastructure already in place to process payment and information. In addition, other industries have created commercial incentives around efficiency opportunities through early payment discounts and other “time value of money” based programs.

Through enforcement of payment and information standards banks can address inherent inefficiency and weakness

- In order for payment processing to be efficient end-to-end, stakeholders should be mandated to make payments using the healthcare industry data remittance standard (ANSI X.12 835).
- To create a scalable exchange of information, payments and data associated with payments need to be consolidated.
- Industry data indicates that fraud is reduced considerably when electronic payment processing is used.

The addressable efficiency is calculated at \$3.6 billion² attributable to operational improvements throughout the payment process

- While small in comparison to other long term Healthcare system improvements being proposed, it is tangible and actionable now.
- Accelerated paper to electronic migration
- Sophisticated automation of payment and remittance aggregation
- Centralized provider preference and relationship management
- Streamlined payment status management and inquiry resolution

¹The McKinsey Quarterly June 2007, Overhauling the US health care payment system

²JPMorgan Healthcare Segment Analysis

- Transparency of receivables - clear flow of payment, clear identification of what is being paid and shortening of receivables cycle.

Challenges and Obstacles:

- Privacy considerations may deter the consideration of electronic funds transfer as an appropriate network to handle private health information.
- ACH Network participants are not considered "covered entities" which may preclude them from engaging in the detail necessary to effect this change.
- Cost to "upgrade" stakeholders ability to adhere to standards. Cost not currently identified with clarity in healthcare information technology stimulus package.