

# How Fit is Today's Healthcare Provider's Financial Back Office?

### A Case for Automated EOB Processing

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It's no secret that today's healthcare providers face immense obstacles in trying to contain the exorbitant costs of running an efficient patient financial services operation. As part of their attempts to do so without impeding the quality of patient services, efforts to overhaul patient claims and payment processing systems to accommodate electronic remittances stand out for their extreme cost-savings potential.

In today's healthcare environment, providers spend upwards of \$100 billion annually to manage the overall claims process. A main factor driving these extreme costs is the fact that more than half of transactions between payers and providers are paper based and manually processed, making the effort much more costly than processing transactions electronically.\*

Further, issues such as expensive staff turnovers, cash posting backlogs and system problems are common to paper-based transaction processing systems. These dilemmas often escalate into spiraling processing expenses, unresolved accounts receivable (A/R) balances and shrinking posting rates as a result of subsequent delays in other back-office revenue functions (e.g., working denials or filing secondary insurance claims).

## The EOB Culprit

As a necessary and primarily paper-based function for all healthcare providers, the processing of Explanation of Benefits (EOB) forms from health insurers is central to this problem. Compiled on behalf of all covered patients, EOB statements detail the charges and coverage amounts for all patients' medical procedure(s). Processing these forms, and the huge amounts of associated data, has become one of today's most labor-intensive and costly back-office functions for healthcare providers.

Critical to managing the provider's working capital, EOB payment information and accompanying data allow the provider to resolve its A/R and bill the balance to the patient or to a secondary insurance carrier. The bulk of this information — nearly 60 percent\* — is delivered from the insurer and processed by the provider in paper form.

### The Automation Answer

To get a handle on this massive volume of data and reduce the

#### AN AVALANCHE OF INFORMATION

EOBs are received from an insurer for every patient, for every procedure.

Nearly 60 percent of this information is delivered and processed in paper form.

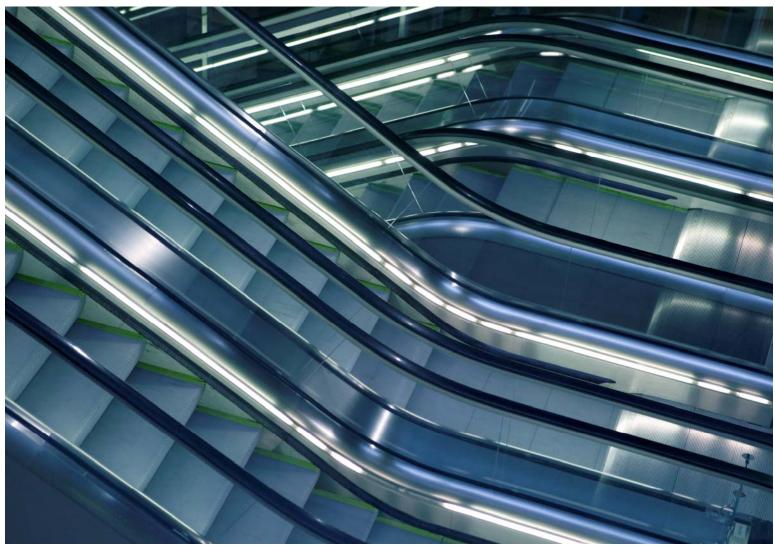
The McKinsey Quarterly "Overhauling the U.S. Healthcare Payment System" Web exclusive

companies to the healthcare provider. Having access to electronic EOB information offers a faster, more accurate method for processing the voluminous payment data that is integral to a provider's revenue cycle.

costs inherent in manual processing, it is critical to enable the electronic movement of EOBs and payment information from insurance

Automation also means savings for the entire claims operation, including accelerated patient account reconcilement and quicker access to the data needed for subsequent billing and reporting functions that must occur. Additionally, important staff resources can be redirected from the manual posting process to other revenue-related duties for further cost reductions.

But if converting paper EOB data to electronic processing can result in such dramatic savings, why hasn't the industry made the change en masse? The answer is twofold: perceived technology issues and implementation costs.



### The New Technology Reality

As any healthcare provider is well aware, EOB forms are extremely inconsistent, containing remarkable variations in length, formatting and the type of patient and insurer information requested. This complexity not only accounts for why data processing has been historically handled manually, but also why it is extremely time consuming, costly and error prone.

However, advances in Optical and Intelligent Character Recognition (OCR and ICR) technology have resulted in the precise recognition of varying amounts and types of unstructured data between non-standard forms. These innovations can accurately process electronic, non-standard patient data, making the automation of payment posting from EOBs a reality.

Once the EOB is scanned and made into an electronic image, today's recognition technology locates the required data with highly accurate recognition capabilities. The data is captured (as defined by the healthcare provider), translated and fed back to the provider electronically. The files can be downloaded to the provider's patient accounting system to automatically post up to 90 percent (or more)\*\* of payments and resolve outstanding balances.



# The True Cost of Manual Processing

The prospect of revamping a manual EOB process may initially seem cost prohibitive. And, contracting with a vendor to apply the technology, allocating resources to handle data overhauls and retraining staff for handling new functions can seem exceptionally daunting.

But evaluating the exorbitant costs of manual EOB processing operations and cash application delays (that can start with slow payment processing and extend to prolonged timeframes for submitting secondary claims) reveals the deep savings potential (and value) of automated processes to an organization's entire funding stream.

# Moving to digital payments and remittance processing can produce cost savings estimated at \$1MM to \$10MM per hospital.

Healthcare Financial Management Association (HFMA) Educational Report, "Looking to Rev Up Your Revenue Cycle."

### The Exponential Savings of Automation

Transitioning to electronic payments and remittance processing can produce cost savings estimated from \$1MM to \$10MM per hospital.\*\*\* Multiple revenue cycle practice areas can benefit, both immediately and for the long term, from automation:

- Accelerated cash posting rates Automated systems can typically post 90 percent (or more) of payer remittances to patient
  accounting systems via electronic files within 24 hours of payment receipt.\*\* This means that secondary/tertiary billing or underpaid
  and denied claims can be addressed quickly for fast cash collection.
- Streamlined revenue cycle processes The ability to electronically locate EOB patient data provides quicker access to information needed for working with payers on adjusted or denied claims or when answering customer servicing inquiries. This can also offset complaint resolution times and staff resources dedicated to researching, correcting and maintaining client accounts and handling service issues.
- Decreased labor costs Cash posting staff reductions occur when a move to electronic processing allows providers to refocus resources on other revenue-generating operations, like reject or secondary billing collections. Also, posting the data electronically can absorb peaks in volume and deter the need to increase staff.
- Reduced cash posting errors The accuracy of an automated system speeds the entire operation from beginning to end from accurate patient account posting (the first time), to lower customer servicing issues and reduced bad debt write-offs.
- Enhanced researching capabilities Access to reports of payment statistics and trends allows management to more quickly and efficiently pinpoint problem areas in the registration or billing process. Such areas can be addressed early to avoid the costs of researching problem claims at the end of the process.
- Greater data flexibility An electronic, automated system allows you to retrieve patient data in a variety of ways to serve your specific billing, customer inquiry and researching needs. Data can be queried by looking at the entire EOB image, payer-specific claim information or by patient claims based on a medical record number or patient account number.



### Moving Forward with the Right Provider

Converting to an automated EOB system requires choosing a technology vendor who will receive your EOBs (provided in image form by your lockbox vendor[s] or other image provider), and who can lift and format the claim remittance information for transmission back to you via electronic file.

The search for the right provider mirrors the best practices model employed for finding any outsourced solution provider, including evaluating a third party for experience, capability and compatibility. Some considerations include:

### THE LOCKBOX FACTOR

If your organization is considering an electronic EOB solution, but does not currently have a lockbox solution to handle incoming remittances, now may be the time to consider one.

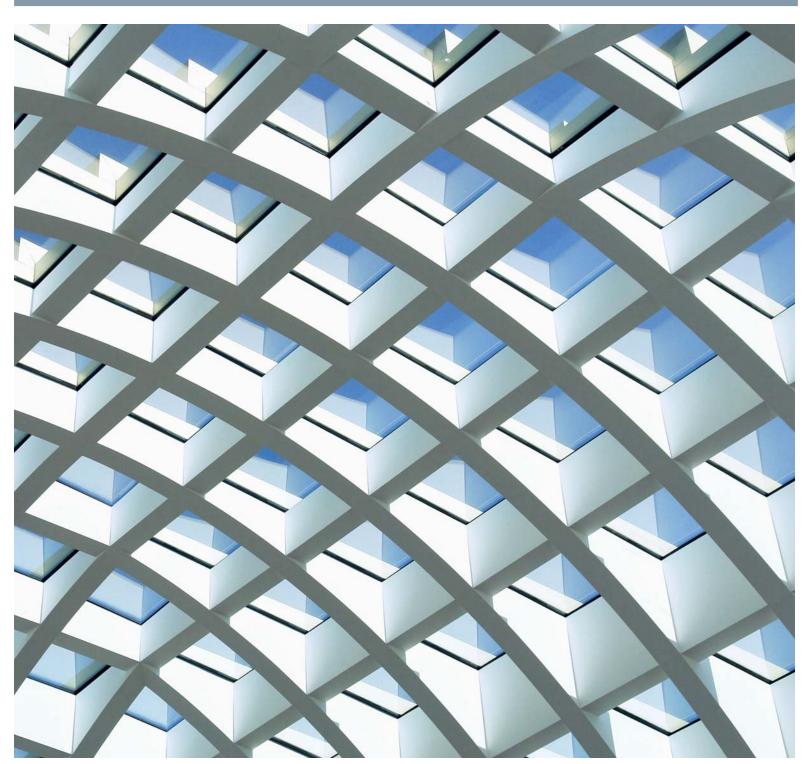
In addition to faster access to funds (with reduced mail and check clearing) and advanced lockbox imaging technology for same-day delivery of check images to your desktop, a remittance processing provider may also offer an automated data-lift and posting solution that saves you the time of inputting voluminous EOB data from the images or paper.

- Healthcare industry experience Given the complexity of the industry, look for a provider with knowledge of and experience in
  handling EOB data, an understanding of your specific processing requirements, along with proven healthcare systems and technology.
- Image storage and accessibility Find out early in the search if the capacity, retention and accessibility of the imaged EOBs match your storage requirements. Electronic claims data that you cannot access due to limited or unavailable storage will do neither you nor your patients any good. Be sure you can access what you want, when you want it.
- Cost transparency The vendor's development costs for creating the solution you need should not be passed on to your organization. While you will be contracting the use of their technology customized to your specific needs the underlying technology should already exist without additional, hidden development costs for you. All fees should be identified once your requirements are determined.
- Working with a bank lockbox provider By choosing one of your bank's existing vendors for your EOB solution, your organization may avoid costly and time-consuming contract negotiations and the legal expenses involved in setting up a separate vendor relationship. This may potentially eliminate separate monthly invoices that require review and approval, as well.

## Commitment to a Complex Implementation Process

The process of lifting paper-based patient data and testing electronic files can extend over weeks and possibly months and requires certain areas of oversight. A dedicated project manager is critical to ensure that all team members and project tasks are moving forward, as the effort typically involves multiple organizational entities and various areas within each entity.

A process for managing testing errors should also be implemented, including identifying unique policies and procedures that are key to individual payment posting systems, such as contractual allowance calculations, interest payment reporting, etc. Customer servicing issues should also be reviewed to determine how potential situations that arise as a result of shifts in EOB processing (such as increased call volumes) would be handled (staff redirected due to the automation process may be helpful here).



### Increasing Your EOB Fitness Quotient

As healthcare providers drown in a sea of EOB paper and continue to face mounting operational costs, the solution to automate billing and patient claim processes is not only wise, but also completely viable.

Advancements in OCR technology that precisely recognize varying types of form data have revolutionized the cash posting operation. And, despite the upfront resources a healthcare provider requires to make the shift to automation (including the necessary technology and staffing resource adjustments) the immediate and long-term savings and efficiency benefits are shown to far outweigh these hurdles.

By enabling the receipt of electronic EOB and associated payment detail in your required format, your financial operation can reap the rewards of increased efficiencies across the board, including Productivity is about ensuring the right level of person is doing the right job in the right way, not the total FTE count.

Technologies that facilitate process improvements to achieve that goal are key.

IFMA's Healthcare Finance Outlook 2008-2013

accelerated cash posting rates, streamlined revenue cycle processes, decreased labor costs, enhanced researching capabilities and greater customer satisfaction. And, a smoother back office operation allows for greater focus on the true heart of your business — quality patient care.

The Bank of New York Mellon offers automated EOB processing services that can be customized to fit your individual back-office requirements. Our experience as a leading provider of working capital management solutions for the healthcare industry offers you an expert source for making the right decisions when looking to automate your paper-based systems for greater efficiencies and cost savings. Contact us at 1 800 424 3004 (Option 2) or visit www.bnymellon.com/treasury for more information on our proven solutions.



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<sup>\*</sup>The McKinsey Quarterly, "Overhauling the U.S. Healthcare Payment System"; Web exclusive, June 2007.

 $<sup>{}^{\</sup>star\star} Results\ based\ on\ The\ Bank\ of\ New\ York\ Mellon\ Treasury\ Services\ Healthcare\ Client\ Survey.$ 

<sup>\*\*\*</sup>Healthcare Financial Management Association (HFMA) Educational Report, "Looking to Rev Up Your Revenue Cycle."