

U.S. Medical Claims Payments: A Second Wave of Digital Payments

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IMPACT POINTS

- In Q2 2020, Deluxe commissioned Aite Group to identify leading business-to-business (B2B) medical claims payment trends. Trends included identifying factors that support—or hinder—payers and providers’ switch to electronic payment forms and forgoing of checks.
- This report is based on 20 Q2 and Q3 2020 interviews with executives and influencers at health plans and third-party administrators (TPAs), i.e., “payers,” whose scope includes claims payments. Its findings are also of interest to product and marketing executives at payments vendors.
- Payers remain diligent in their pursuit to convert more checks to digital payments as a top payment priority but are experiencing provider fatigue and diminishing returns from key tactics such as provider outreach campaigns—a leading pain point for payers issuing checks.
- The COVID-19 pandemic has two notable impacts on payers’ payment operations: moving them to be performed remotely and speeding up timelines to digitally transform them.
- In aggregate, respondents estimated that 75% of their B2B medical bill payment transactions are made digitally and 25% are made via check. Payers’ goal is to grow electronic payments from 75% to 85%, a 13% increase, and reduce checks from 25% to 15%—a 40% decrease.
- In Q1 2020, health plans estimated the breakdown of medical claims payment transaction volume as ACH constituting 67%, check at 25%, virtual card payments at 7%, and other forms such as wire at 1%. During the same period, TPAs transacted using ACH 38% of the time, followed by using checks 24% of the time, using virtual cards 28% of the time, and using other forms 10% of the time.
- Payers have a blind spot when it comes to understanding the total financial cost that a single check has on the organization, hindering attempts to measure the progress, or the impact, of their efforts to convert more check payments to digital.
- Payers have a good grasp on material-related check processing costs, averaging US\$1.24, and labor cost estimates, ranging from 60% to 80% of the total costs. But they do not have a good grasp on all check-related outcomes, such as escheatment or inbound call volume costs, given these roll into shared services costs.
- The speed of settlement is the most important factor for providers when deciding to accept a new payment type, followed by minimal disruption to existing processes and data, and receiving payment and remittance information together.
- Encryption and security of data while in transit and at rest emerges as the most compelling piece of payment functionality, followed by attaching the explanation of benefits (EOB) to payment views.

INTRODUCTION

Healthcare electronic funds transfers (EFT)—and to a lesser extent, virtual card payments—have been cornerstones of payers’ digital claim payments strategies for the past eight years. In 2012, payers’ strategies to convert paper transactions to digital were fueled by the Department of Health and Human Services’ adoption of operating rules for healthcare EFT and electronic remittance advices.¹ As the market fast-forwards, two reasons point to a second wave of digital payments that rivals that of 2012. First, payers remain short of their digital goals or, worse, are experiencing diminishing returns in pursuit of their targets. Second, the ongoing COVID-19 pandemic offers a rare window of opportunity to break the current digital stalemate. To realize the second wave, however, payers must alter their strategy and tactics. The alterations center around creating choice, a better payment experience, and self-servicing with the goal of transmitting all data electronically. Inaction, on the other hand, means payers risk being stranded at square one with digital alternatives remaining limited to EFT or virtual card.

This report is of interest for finance, accounting, claims, and cash management executives at health plans, as well as product and marketing executives at payments vendors. The report outlines leading payments trends with an emphasis on advancing digital strategies. It also provides an overview of payments priorities and insights into transaction and check-related cost metrics. Finally, it highlights the forms of digital payments that payers are looking toward to achieve their priorities and why these payment options make sense for payees.

METHODOLOGY

Deluxe—a global leader in electronic payments for financial institutions, retailers, and processors—sponsored an executive survey of finance, accounting, cash management, and product executives in Q2 and Q3 2020. The interviews spanned 20 health plans and TPAs that included 12 U.S. health plans, six medical claim TPAs, and two workers’ compensation TPAs.

The interviews aggregated insights on the following:

- Current payments priorities and the impact of the COVID-19 pandemic
- Measurement of pain points, or barriers, to meeting payment priorities
- Qualitative assessment of current and future state payment transaction breakouts
- Timeline for exploring new digital payment options
- Understanding of providers’ key decision-making attributes to adopt new payment forms, including important feature functionality

Given the size and structure of the research sample, the data in this report are considered a directional indication of conditions in the market.

1. See Aite Group’s report *U.S. Commercial Healthcare Reimbursements: An ACA Progress Report*, May 2016.

THE MARKET

Health plans and TPAs have made strides in their long-standing priority to convert check payments to digital, yet a sizable gap remains between the actual number of checks issued compared to their targets. The COVID-19 pandemic has impacted payment operations for providers and payers as the workforce became remote overnight, requiring quick steps to ensure that payments are processed remotely. Payers, namely TPAs, have shown a greater affinity for virtual cards as a second digital payment option with EFT, yet many providers remain holdouts to accept either of these two digital choices, signaling an opportunity to bring other digital options to market in breaking this stalemate. Finally, the financial cost of issuing checks remains nebulous due to the hidden costs buried in shared cost centers such as call center operations and escheatment services. Yet quantifying this cost is attainable and necessary to assess the benefits check conversion is bringing to plans (Table A).

Table A: The Market

Market trends	Market implications
Converting checks is a top payments priority.	Over half of payers are actively working on plans to convert more check payments to digital payments as the top medical claim priority followed by saving administrative costs as an organizational payments priority and a byproduct of converting checks to digital.
The shift to remote work has hastened.	The pandemic’s impact on payers has been on their go-forward strategy of converting more check payments to digital, but not on deprioritizing the strategy itself. Rather, payers will be leaning on remote workforces to execute and pushing harder on digital transformation as a key payments processing initiative.
The cost of manual payment operations is a dangerous unknown.	Payers have identified saving administrative costs in their payment processing operations as a payments priority, yet understanding the full cost of issuing checks, and therefore the savings, to their organizations remains elusive. This is a dangerous blind spot highlighting the need to develop a standard method to calculate costs across the organization to unpack shared services impacts.
Choice is key when expanding and refreshing payment options.	Electronic checks stand to be the next electronic payment option based on payers’ active exploration on the payment method, with Same Day ACH the next possibility.

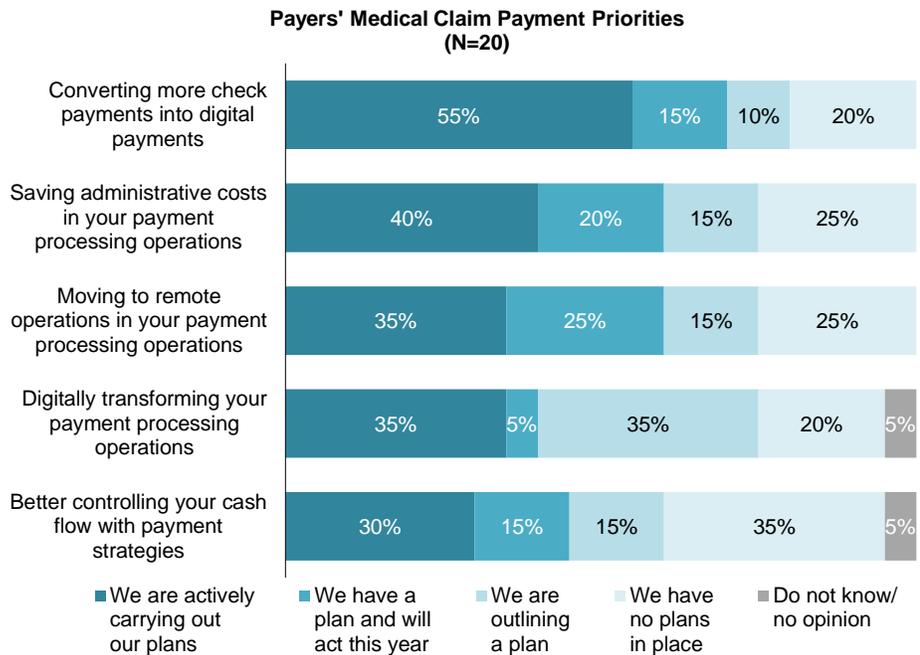
Source: Aite Group

CONVERTING CHECKS IS A TOP PAYMENTS PRIORITY

Converting more checks to digital payments is a top priority for payers, with 55% actively working on their plans. Saving administrative costs is also a key priority, with 40% of payers actively working on a plan. Other priorities include moving to remote operations and digital

transformation of payments operations is an emerging priority, despite its priority with health plans in other areas of the value chain such as customer experience (Figure 1).²

Figure 1: Payers’ Medical Claim Payments Priorities



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

Converting more checks to digital is an active priority for health insurers and TPAs, as seven of 12 health insurers reflect this status, compared to four of eight TPAs (Figure 2).

2. See Aite Group’s report *Digital Transformation in Insurance: Current Benchmark and Future Roadmap*, September 2019.

Figure 2: Timeline for Converting More Check Payments Into Digital Payments by Payer

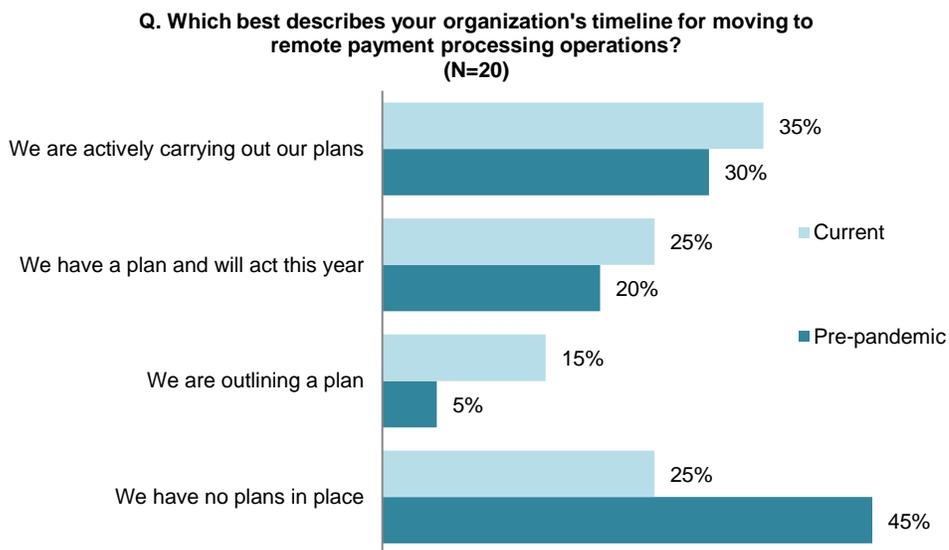


Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

THE SHIFT TO REMOTE WORK HAS HASTENED

The COVID-19 pandemic impacted payers’ payment operations in two notable areas: moving to remote payment operations and digitally transforming payment processing operations. Prior to the pandemic, 45% of payers had no plans to move payment processing operations to a remote location, compared to 25% now. A subset of those that remained with no plans view payment operations as essential, or in-office, work (Figure 3).

Figure 3: Impact of COVID-19 Pandemic on Moving to Remote Payment Operations



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

THE COST OF MANUAL PAYMENT OPERATIONS IS A DANGEROUS UNKNOWN

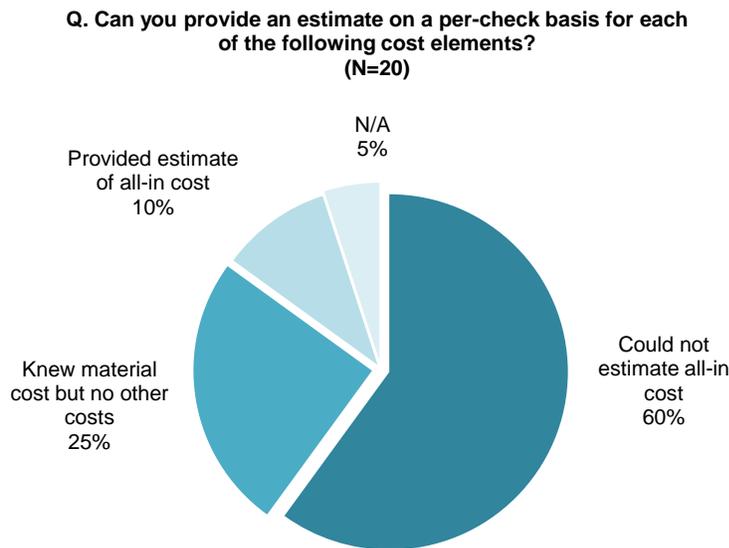
Payers have identified saving administrative costs in their payment processing operations as the second-highest payments priority. One component of generating such savings is reducing check-related costs with digital payments. Unfortunately, understanding of the full cost of issuing checks to their organization remains elusive for payers. Calculating the exact cost of issuing a check is not an easy one, as they face difficulty with quantifying these costs:

- Payers do not have a clear visibility into specific expense line items, such as call center volume, escheatment, and fraud. This is because payers use a variety of internal accounting and cost allocation methods, which blend shared services such as call center operations into general overhead expenses. Consequently, these costs are not transferred into or reflected in their operating budgets in a visible way.
- Payers have become numb to the pain levels associated with check issuing and, therefore, the costs associated with them, given the length of time they have been executing digital strategies.

This is a dangerous blind spot, which requires a call to action to develop a standard method to calculate the “all-in” cost of issuing a check. Only in this manner can the associated savings become clear when a check is converted into a digital form of payment. Key components of issuing a single check include the following:

- Labor cost to prepare, mail, and send the check or, if an overpayment was made, recoup funds
- Material costs including postage, envelope, and mail services
- Payment-related costs, including bank and lockbox processing fees
- Call center operations support for inbound calls tied to the payment, such as status-of-check processing
- Escheatment management services for checks that go uncashed
- Fraud costs for checks sent to fraudsters or cashed fraudulently
- Returned mail due to a bad address that requires second or even third mailings, which impacts all the above costs except escheatment and fraud

Payers have a good grasp on material costs that average US\$1.24 and estimate labor costs that average 60% to 80% of the total costs, but they generally do not have a good grasp on the total “all-in” costs per the reasons above. To illustrate, of those interviewed, 60% could not estimate the total cost, 25% knew the material costs but no other costs, and only 10% were able to provide an estimate of the all-in costs (Figure 4).

Figure 4: Payers' Understanding of Costs to Issue a Check for a Medical Claim Payment

Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

CHOICE IS KEY WHEN EXPANDING AND REFRESHING PAYMENT OPTIONS

The path to digitizing medical claim payments is littered with false starts and fizzled-out experiments, due to a lack of provider enthusiasm and engagement. It can be summed up with “if it isn’t broken, why fix it?” For payers, intent and interest have not ventured far beyond EFT and virtual cards, though there is budding interest to add other digital payment options, such as electronic check conversion and potentially Same Day ACH. Payers have minimal awareness or interest in other payment alternatives, such as Zelle or real-time payments.

HEALTH PLANS

- The largest health plans tend to send payments via healthcare EFT, check, and virtual card, and are coming around to virtual card revenue as a way to offset print costs and move providers off of check.
- Midsize to large regional plans gravitate toward ACH and check. When health plans think of future goals tied to the conversion of more check payments to digital, virtual card plays a secondary role to EFT. However, payers like the interchange that virtual card offers, as they can use that revenue to offset printing costs.
- Health plans are actively exploring new payment options, and electronic check conversion is the one most likely to be added as a third digital payment option. Regional payers, on the other hand, would likely be among the first adopters of Same Day ACH.

TPAS

- Larger TPAs resemble the profile of health plans, with their payment transaction breakout weighted heavily toward ACH. The next tier of TPAs, however, leans more heavily on virtual card than health plans do, lured by interchange revenue to help offset check-related print costs or as a new revenue stream.
- Virtual card plays a prominent role in future plans to convert check payments, and TPAs are not as active in exploring new payment options, but electronic check is the most likely candidate to be the next option added (Table B).

Table B: Profile of Health Plan and TPA Views on Digital Payments

Payer	Overview of digital payment transaction mix	Overview of digital payments in goals	Overview of adding new payment options
Health plans (n=12)	National and Blue Cross Blue Shield plans lean on three payment forms; regional insurers gravitate toward EFT and check.	EFT, or ACH, remains the goal, but plans are coming around to virtual card as an electronic bridge from check to EFT; introducing new payment options is on the table.	Most plans are actively exploring new payment options and have given preference for ACH. Electronic check conversion is the likely choice, but regional payers are showing interest in Same Day ACH.
TPAs (n=8)	National and large TPAs deploy three payment forms; regional TPAs gravitate toward virtual card over EFT.	EFT, or ACH, and virtual card are both central to conversion goals; introducing new payment options is on the table for larger TPAs.	TPAs are not active explorers of new payment options, but virtual card remains top priority for those not currently offering, and electronic check conversion is also on the table.

Source: Aite Group

MEDICAL REIMBURSEMENT PAIN POINTS

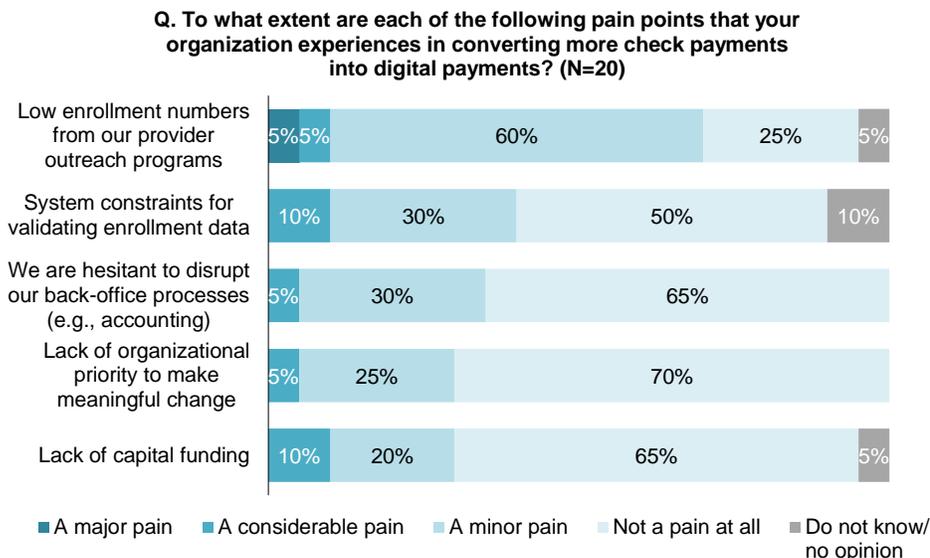
Payers are experiencing muted pain when it comes to their top payments priority and the impact of issuing checks that are not converted to digital. While payers could have high pain tolerances, the lower pain levels they report may be due to a lack of visibility into the extent of problems or the organization becoming numb, as most initiatives have been ongoing for eight or more years.

So while acknowledged pain levels are minor, payers and payments providers should take note of where the pain resides and follow it to its root. This requires rethinking strategies and tactics to convert providers and their check volume to digital payments in three ways:

- Expanding digital payment options for providers to choose from beyond EFT and virtual (“choice”)
- Offering a ubiquitous enrollment experience for payment options across payers (“payment experience”)
- Enabling an environment that allows the dynamic management of payment options across payers (“self-service”)

While only 10% of payers cite low enrollment numbers as being a source of considerable or major pain, the fact that another 60% acknowledge that they are a source of minor pain underscores the prevalence of this problem. This specific point may well be the root cause behind providers’ unwillingness to explore and adopt new payment options. The second-highest pain point ties back to enrollment too, as 10% of payers indicate system constraints for validating enrollment data as a considerable pain point, and another 30% indicate it as a minor pain point (Figure 5).

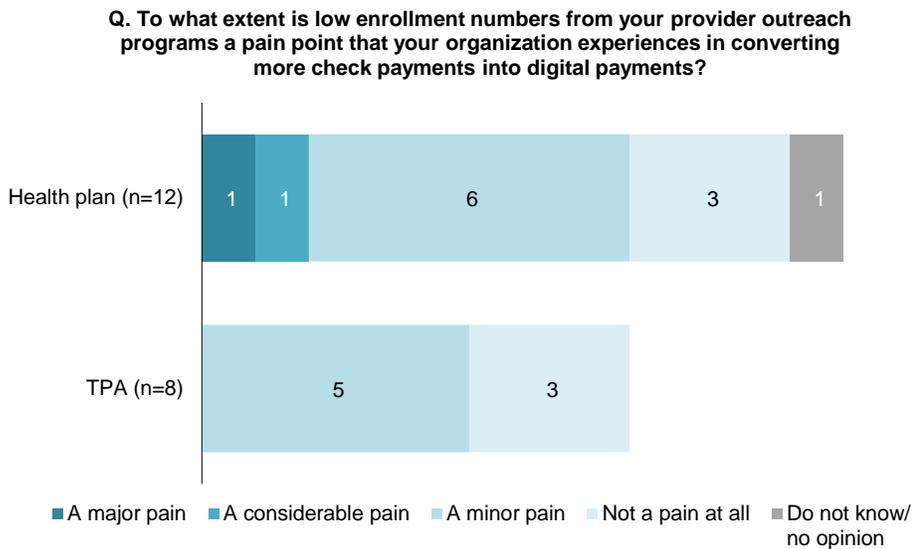
Figure 5: Pain Points Regarding Converting Check Payments Into Digital



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

Payers are frustrated by the low enrollment numbers from providers, despite numerous outreach efforts to convert providers receiving check payments to a digital payment method. One health plan cites low enrollment numbers as a major pain point, one cites it as a considerable pain point, and six cite it as a minor source of pain. Five TPAs indicate this is a minor pain point, and three indicate it is not a pain at all (Figure 6).

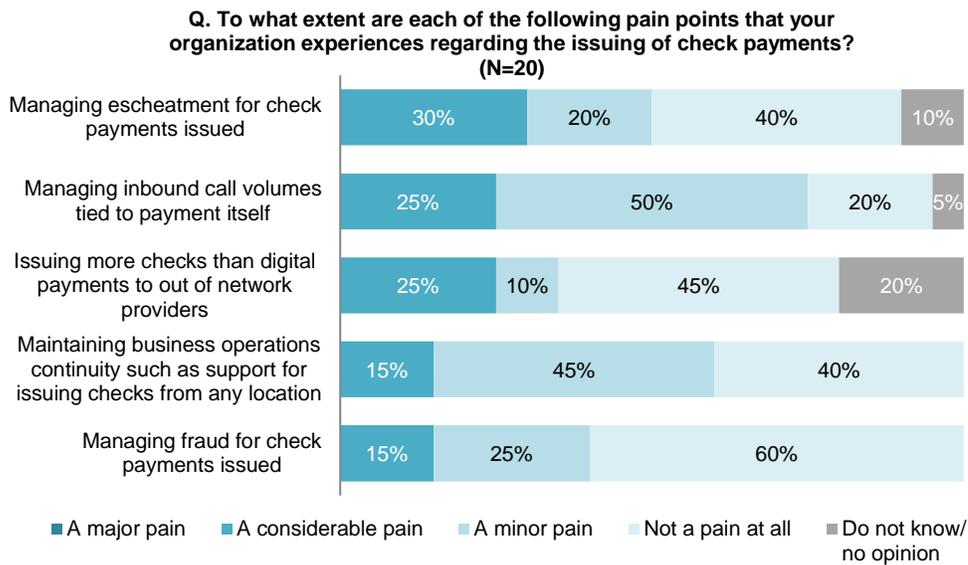
Figure 6: Organizational Pain Level From Low Provider Enrollment



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

When it comes to issuing check payments, health plans and TPAs point to difficulties they encounter around managing escheatment and inbound call volume tied to the payment itself. Less prevalent, but nevertheless present, are challenges around fraud management (Figure 7).

Figure 7: Pain Points from Issuing Check Payments

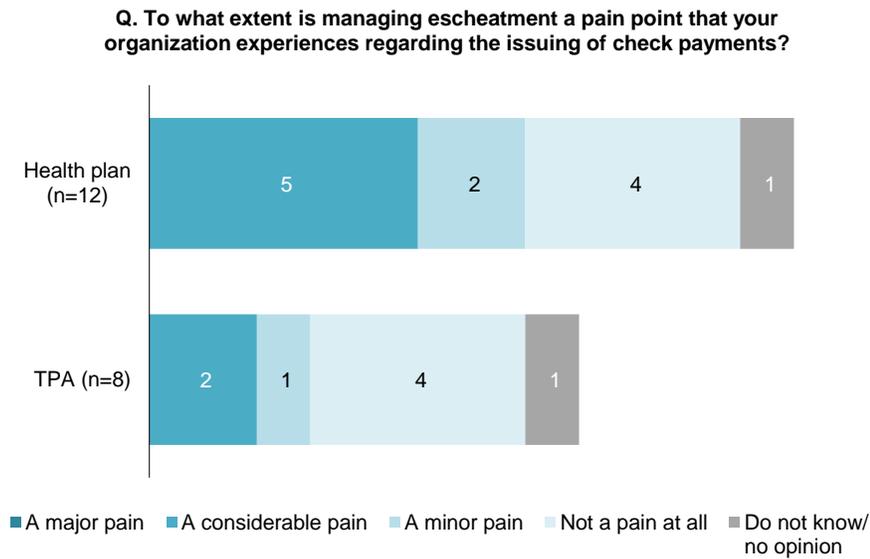


Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

Payers indicate their leading sources of pain are managing escheatment and managing inbound call volume tied to the payment itself:

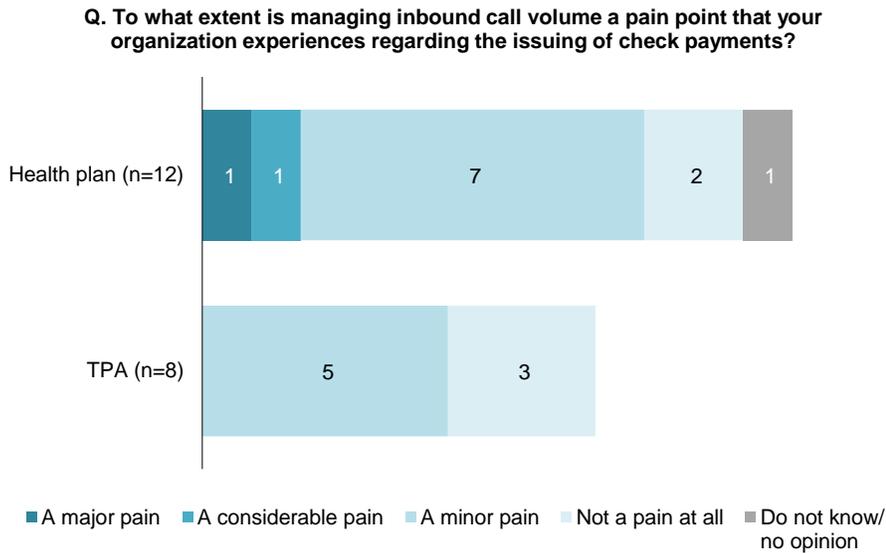
- Escheatment registers as a pain point, as indicated by five health plans citing this as a considerable pain point, two citing it as a minor pain point, and four citing it as not a pain point. These findings points toward escheatment services as a key piece of the overall payment product and service bundle (Figure 8).
- Managing inbound call volume regarding check payments may not have been a key source of pain, but it is nevertheless prevalent across both health plans and TPAs, as one health plan indicates this is a major pain point, one indicates it is a considerable pain point, and seven health plans indicate it is a minor pain point. Five TPAs indicate this is a minor pain point and three indicate it is not a pain point (Figure 9).

Figure 8: Pain Levels for Managing Escheatment Regarding Check Payments



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

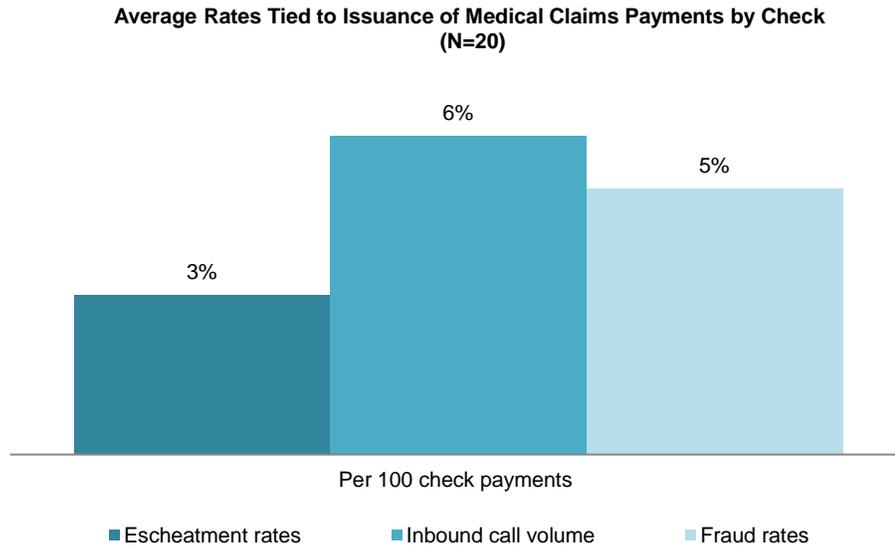
Figure 9: Pain Level for Managing Inbound Call Volume Regarding Check Payments



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

As outlined previously, payers have a hard time assigning a cost to escheatment, inbound calls, and fraud either due to lack of visibility or because the cost of these services is part of a broader share service. While assigning a cost is challenging, payers have a good grasp of the number of occurrences for each of the cost elements. For every 100 medical claims payment checks issued, payers could anticipate a 3% escheatment rate, a 6% rate of inbound calls asking for payment status, and a 5% fraud rate (Figure 10).

Figure 10: Payer Metrics Tied to Issuance of Medical Claims Payments by Check



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

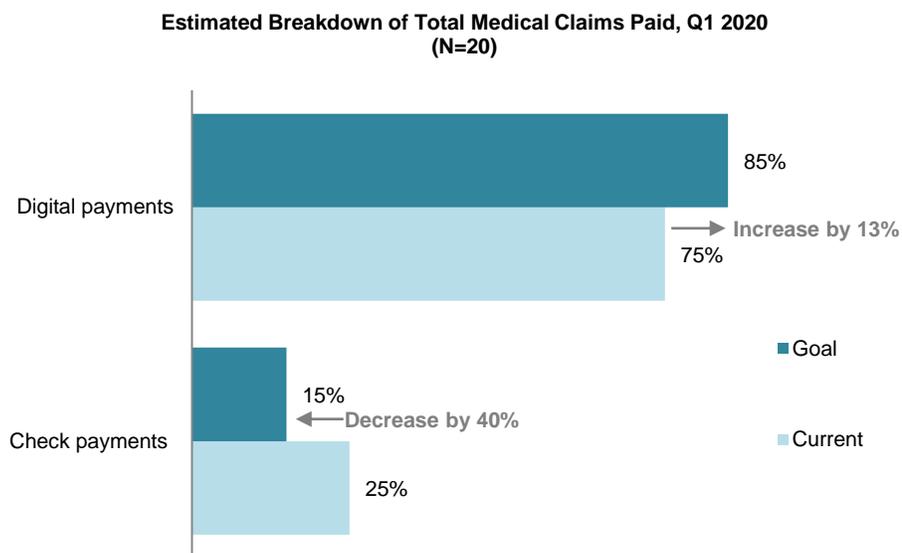
ACHIEVING DIGITAL PAYMENTS GOALS

The shift away from paper checks to digital payments has been a long-winded story. Part of the reason for this lengthiness is that the journey to digitizing medical claim payments has been slowed down due to a lack of enthusiasm from providers. The second coming of digital payments—now available in multiple flavors, including virtual cards, electronic check conversions, or Same Day ACH—provides a rich setting for health plans and providers alike to reconsider and shift the remaining long tail of check payments into digital channels.

TRANSACTION METRICS

Payers have their work cut out for them to reach their digital goals. On aggregate, payers estimate that 75% of their B2B medical bill payment transactions are digital and the remaining 25% are via check. To get to their goal, payers need their digital transaction volume to shift electronic payments from 75% to 85% of the time, or a 13% increase. Conversely, payers aim to reduce check volume from 25% to 15%, or a 40% decrease (Figure 11).

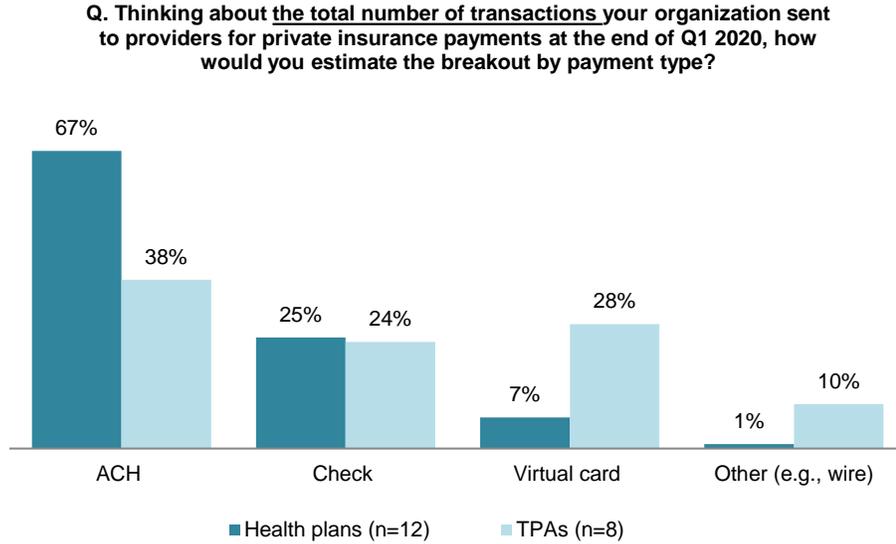
Figure 11: Breakdown of Digital vs. Check Medical Claims Payments



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

Without taking the number of actual transactions into account, at the end of Q1 2020, health plans estimated the breakdown of medical claims payment transaction volume as ACH constituting 67%, check making up 25%, virtual card payments constituting 7%, and other forms such as wire amounting to 1%. During the same period, TPAs transacted using ACH 38% of the time, followed by using checks 24% of the time, using virtual cards 28% of the time, and using other forms of payment 10% of the time (Figure 12).

Figure 12: Percentage of Transactions by Payment Method by Payer

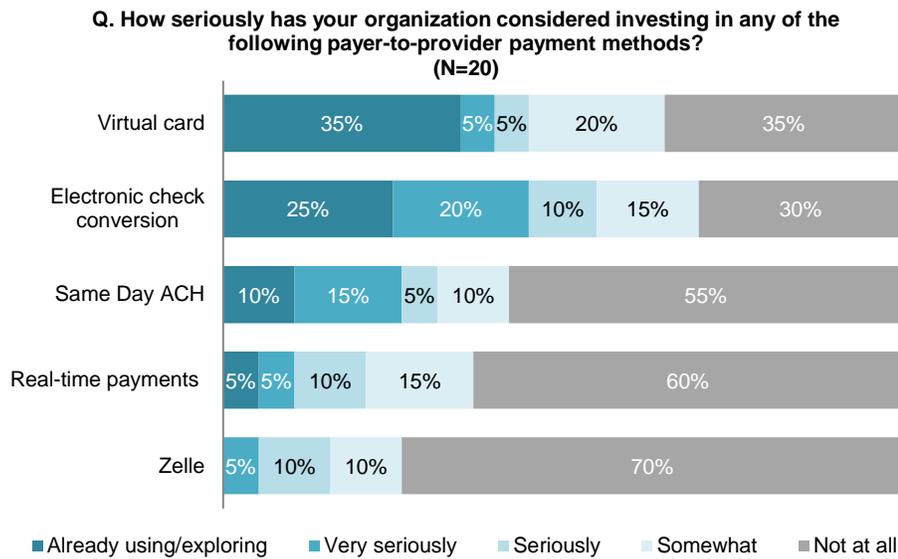


Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

PROSPECTS FOR NEW DIGITAL PAYMENTS

The path to digitizing medical claim payments has been littered with false starts and fizzled-out experiments due to a lack of enthusiasm and engagement from providers and a delay in moving from intent to action. Virtual card registered the highest among plans and TPAs that are already using or exploring this option, but electronic check conversion displays the most promise as a new payment form to be introduced into the market, as 45% of payers are already using, exploring, or very seriously considering this option. Beyond electronic checks and virtual cards, health plans and TPAs manifest some interest in Same Day ACH but have minimal awareness or interest in Zelle or real-time payments (Figure 13).

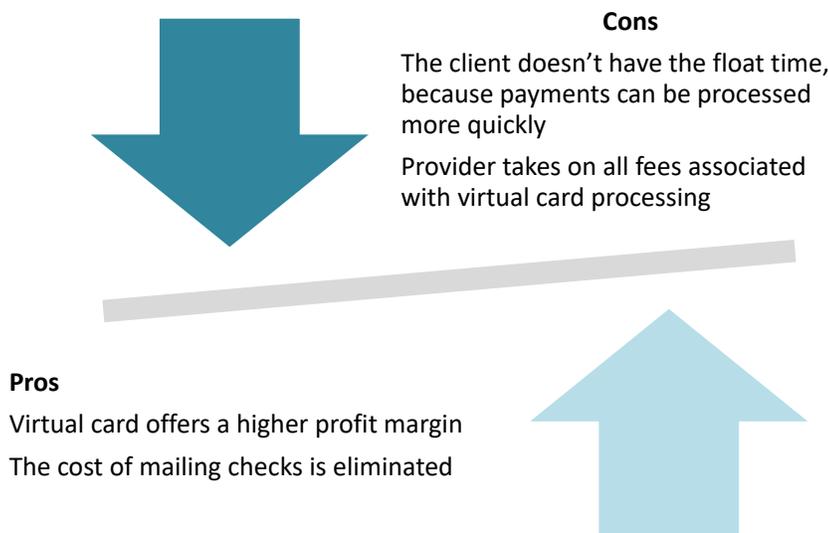
Figure 13: Assessing the Level of Attention on New Payment Methods



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

The host of relatively new payment methods available merits proper review. Virtual cards, for example, provide a higher profit margin for health plans and TPAs while lowering costs associated with check issuing, thanks to lower mailing fees and postage. That said, payers must ensure that they have sufficient funds in their bank accounts, as virtual payments are processed far quicker than check payments, meaning fewer days of funds “floating” (Figure 14).

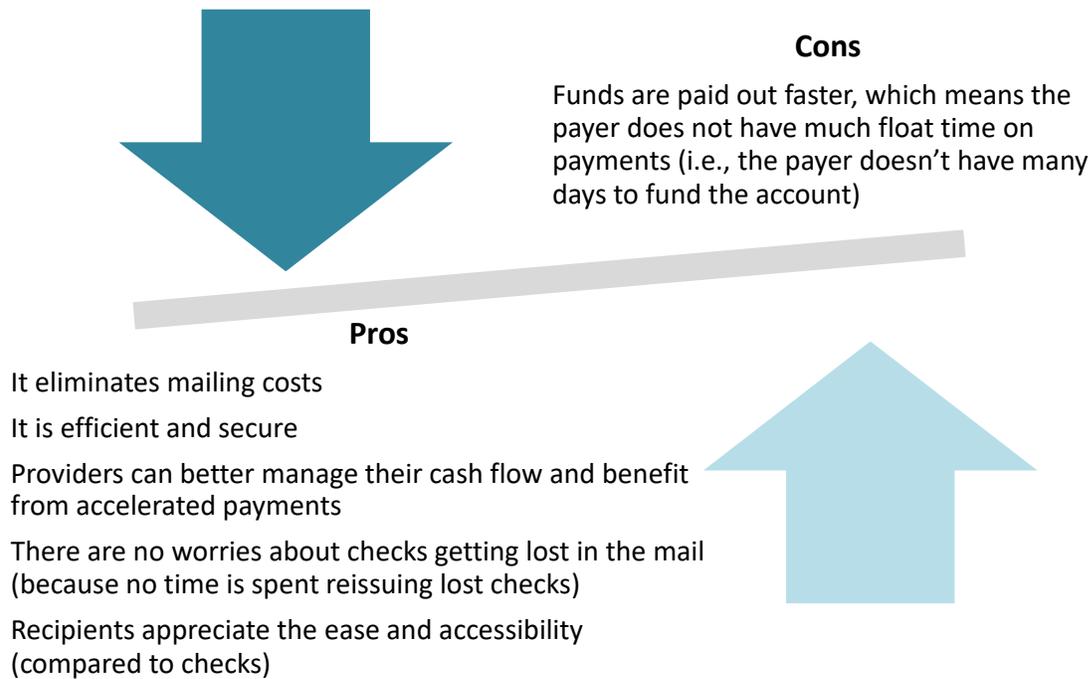
Figure 14: Pros and Cons of Virtual Card Payments



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

Electronic check conversion is another payment method that reduces mailing costs, like virtual cards, and provides an efficient and secure manner to transact funds. Electronic check conversions arm providers with a better tool with which to manage their cash flow and benefit from accelerated payments. Like virtual payments, electronic check conversion requires that payers be mindful of the brief float time in their accounts. While a check may take 10 days to cash, that number drops precipitously to one or two, meaning that their accounts must always be funded (Figure 15).

Figure 15: Pros and Cons of Electronic Check Conversion



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

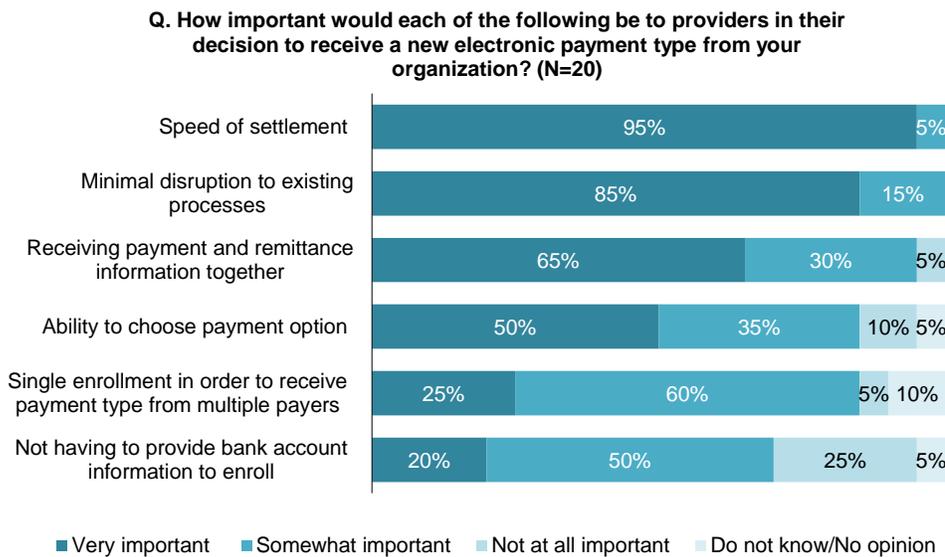
MEETING PROVIDER NEEDS WITH NEW PAYMENT OPTIONS

Payers will experience greater success by introducing new digital payment options that truly strike a chord with provider needs. The speed of settlement, or the time it takes to receive deposited funds, is hands down the most important factor that resonates with providers. Minimal disruption to existing processes is also very important, as is the convenience of receiving payment and remittance information together. The following describes the importance of provider decision-making criteria.

- Speed of settlement is an area of opportunity in seizing on market needs during the COVID-19 pandemic for faster payments, as 95% of payers see this as the largest piece of a provider's decision-making criteria.

- Minimal disruption to existing workflows due to electronic transmission of payment and remittance advice data, and to the portability of the electronic information into the system of record, is the second-highest ranked decision criteria.
- Receiving payment and remittance information together is critical, given the ability to support minimal disruption to processes, namely supporting the reconciliation of payment and remittance data.
- The ability to change payment options is emerging as a key differentiator in B2B payments—even linking to speed of settlement in which providers can control cash flows and reduce checks by choosing payment type.
- Despite advances that have been made in the EFT enrollment process, they sit as lower decision-making input but are likely key to practice managers that oversee receivables workflows (Figure 16).

Figure 16: Assessing Provider Needs Regarding Digital Payment Acceptance



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

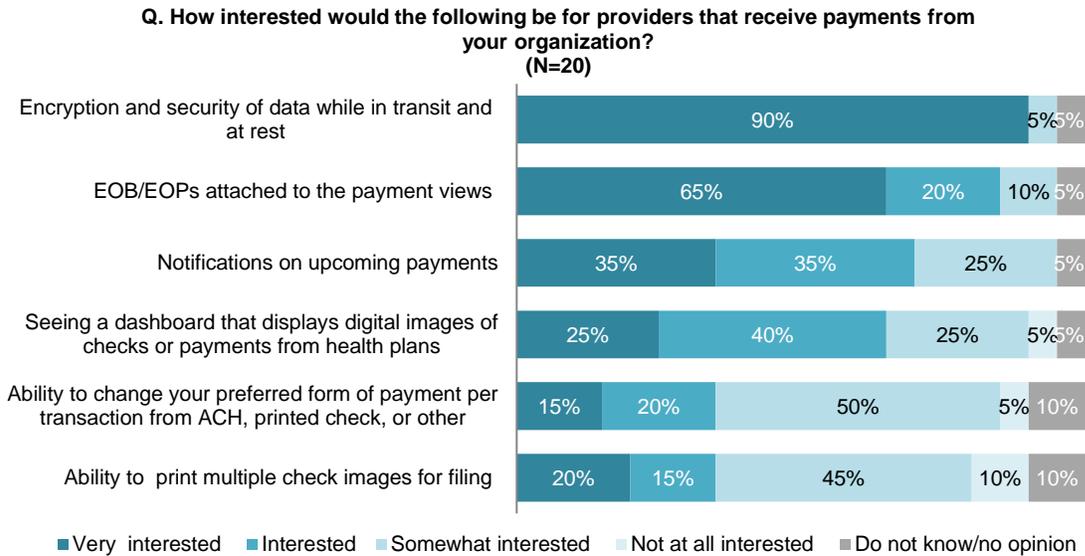
DESIRABLE PAYMENT FEATURES AND FUNCTIONALITIES

Moving the needle in changing behaviors across healthcare providers is not an easy task. Limited resources dedicated to accounts receivable and payment processing, and the often-clunky process to adopt new payment forms, make for an unappealing value proposition. Nevertheless, specific features and functionalities for providers can galvanize a change in behavior, and on how they receive and process B2B medical bill payments:

- Nearly all respondents identify encryption and security of data as the most desirable features or functionality.

- EOB attached to payment views ranks as the second-most desired provider feature, with 65% of respondents finding it to be very interesting.
- Receiving notifications and seeing a dashboard with check images are the next two most desirable features, with 35% and 25% of respondents identifying them as very interesting, respectively (Figure 17).

Figure 17: Features and Functionalities of Greatest Interest to Providers



Source: Aite Group interviews with 20 payments executives and influencers at health plans and TPAs, Q2 2020

CONCLUSION

All stakeholders:

- Moving the needle in changing behaviors across healthcare providers is not an easy task, and the often-clunky process to adopt new payment forms instead of check makes for an unappealing value proposition. Focusing on faster payments, speeding up of cash flows, and liquidity are key areas for both sides to consider.
- Encryption and security of data are the most desirable features or functionality that must be built into, and messaged, across all payment models and options. Doing so will ensure that the solutions resonate strongly.
- Having EOB and EOP attached to payment views, receiving notifications, and seeing a dashboard with check images are also highly desirable features that will ensure a successful electronic payment offering.
- Aligning with providers' needs means minimal disruption to their existing processes and offering rapid payment options.

Health plans and TPAs:

- Vanquish a dangerous blind spot by developing a standard method to calculate the "all-in" cost of manual payment operations as the associated savings become clear when a check is converted into a digital form of payment.
- Expand the digital playbook, or expand the evaluation of the digital playbook, to offer multiple digital payment methods across ACH, virtual card, electronic check conversion, and Same Day ACH.

Payment providers:

- Payments providers will benefit from aligning their go-to-market approach to resonate with the payer and, in turn, support the payer in its efforts to convert providers to new payment methods.
- Innovative payment methods can galvanize the providers into action to resolve the pervasive pain of low provider enrollment once and for all.
- Digitally transforming payment processing operations hints to opportunity for payments providers and finance operations teams. A collaboration that aligns with other digital transformation initiatives (e.g., customer experience) would resonate well with executive stakeholders.

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