



# The Emergence of the Collaborative Healthcare Payments Model

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## WHITE PAPER

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## IDC HEALTH INSIGHTS OPINION

The reform decade ushers in a new era of cost-containment mandates and challenges for U.S. healthcare payers. Currently, strong and relatively immediate cost-containment opportunities exist in healthcare payments automation. Among the key drivers of these opportunities are the significant costs associated with the lack of payments automation.

As part of the healthcare payments network, providers and consumers are also strong drivers of payments automation. With the growing need to reduce consumer bad debt and enable more efficient payment processes, providers are experiencing an immediate demand for automated payments. Furthermore, consumers want integrated electronic banking and online payment options equivalent to their retail and financial services payment experiences, as well as clear and timely payment information.

While the investment in payments automation meets more immediate and tactical objectives by lowering overall administrative costs, payers will gain long-term strategic value as they increasingly compete on efficiency, collaboration, and outcomes. Healthcare payments automation is a differentiating service that payers can leverage to attract and retain consumers while enhancing provider satisfaction.

This white paper discusses the market drivers and demands for automated and integrated next-generation healthcare payment processes and revenue cycle management processes.

## SITUATION OVERVIEW

The U.S. healthcare payer 2011–2014 reform market brings a new, unparalleled level of disruption of business models, markets, processes, and procedures. Payers are called upon to simultaneously execute new sales strategies, embrace new individual consumer markets, engage in new care delivery models, manage new payment schemes, implement new information codes and reporting, achieve mandated cost efficiency, and demonstrate improved value and outcomes.

Key influences and pain points driving this focus on efficiency and cost management include:

- **Market cost pressures.** In January 2010, a report issued by the Centers for Medicare & Medicaid Services, *National Health Expenditures by Type of Service and Source of Funds, CY 1960–2008*, stated that national health expenditures as a share of gross domestic product (GDP) rose from 5.2% in 1960 to 16.2% in 2008. The aging population and highly fragmented U.S. healthcare delivery network will continue to severely stress healthcare resources over the next 10 to 20 years.
- **Regulatory pressures.** The medical loss ratio mandate in the U.S. healthcare reform legislation has forced payers to focus increased energies on lowering administrative costs. One method to reduce costs has been the push for electronic payments automation to the payers' provider networks, which should help payers achieve the mandated ratios. With the need to deliver payments automation for both healthcare and payment transactions, a secure, compliant, and reliable platform to deliver these healthcare and payment transactions is required.
- **Consumer emergence.** Estimates project that nearly 42 million individual consumers will be purchasing and using healthcare insurance and delivery services by 2016. As of January 2010, an estimated 10 million individuals were enrolled in high deductible health plans, more than doubling the 2004 enrollment level. This trend moves the responsibility for healthcare payments toward consumers; the consumer market will demand more sophisticated and efficient payments automation capabilities.
- **Provider cost pressures.** The increase in consumer responsibility has led to an increase in consumer bad debt for providers. Meanwhile, economic challenges and changing payment methodologies drive provider needs for automated and integrated payment solutions and revenue cycle management tools. Consequently, providers will need integrated payment and financial tools to better track and manage payments and outcomes.
- **Payer and provider partnership.** Achieving healthcare payments automation requires collaboration between healthcare payers and providers. As providers merge or acquire healthcare networks, and accountable care organizations, and align with medical homes, the need for collaboration between payers and providers increases. While this relationship shifts to a partnership model, payers will seek technology strategies that enable provider integration and connectivity as a means of differentiation and attraction. Efficient and automated payment solutions will attract providers under cost pressures and improve financial reporting and management.

## **CURRENT OUTLOOK**

Although healthcare spending is expected to account for 17% of the gross national product by 2012, the current healthcare payments environment is far behind the automation levels of retail and financial industries. Among the key challenges and disconnects of the current payment and revenue cycle management model are:

- Segmented, separate, and disparate claims, submission, and payment processes and technologies, which lead to significant costs
- Separate and disparate payment and healthcare technologies and networks
- Limited adoption of electronic payments by providers
- Lack of collaborative and integrated healthcare and payment tools among payers, providers, and consumers

## **FUTURE OUTLOOK**

Next-generation U.S. healthcare payment solutions will align and integrate disparate processes to create end-to-end financial solutions and a collaborative payer, provider, and consumer payment environment. The solutions will bring together numerous redundant and expensive processes across the end-to-end claim-to-payment process chain by leveraging an integrated technology platform and integration services among healthcare payers, providers, portals, clearinghouses, and financial institutions.

Emerging collaborative solutions include:

- Payments automation for provider, consumer, and payer transactions with industry-standard transaction formats for healthcare and payments
- Integrated healthcare and payments platform
- Integration services for provider connectivity
- Integrated fraud and abuse management

By 2015, solutions will also support payments and financial resources for delegated accountable care organization and medical home models. Additional tools will include:

- Payment and allocation tools for providers participating in global, risk-based reimbursement models and/or medical homes and accountable care organizations
- Integration with provider and consumer quality and health incentive programs to support near-real-time or real-time incentive payments

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### **Opportunities**

With these integrated solutions come opportunities for payers, providers, and consumers. Payers will experience more timely and accurate claims submission and integrated payment data with reduced operational costs. They will also, ultimately, achieve payments automation with access to a large provider network and payments network. Providers, in turn, will improve payment efficiency and revenue cycle management, increasing collections and accelerating payments while decreasing administrative costs. Finally, consumers will experience clarity in payment expectations as well as multichannel and multisource payment options. Furthermore, consumer payment services will be consistent and integrated with electronic banking and payment solutions.

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