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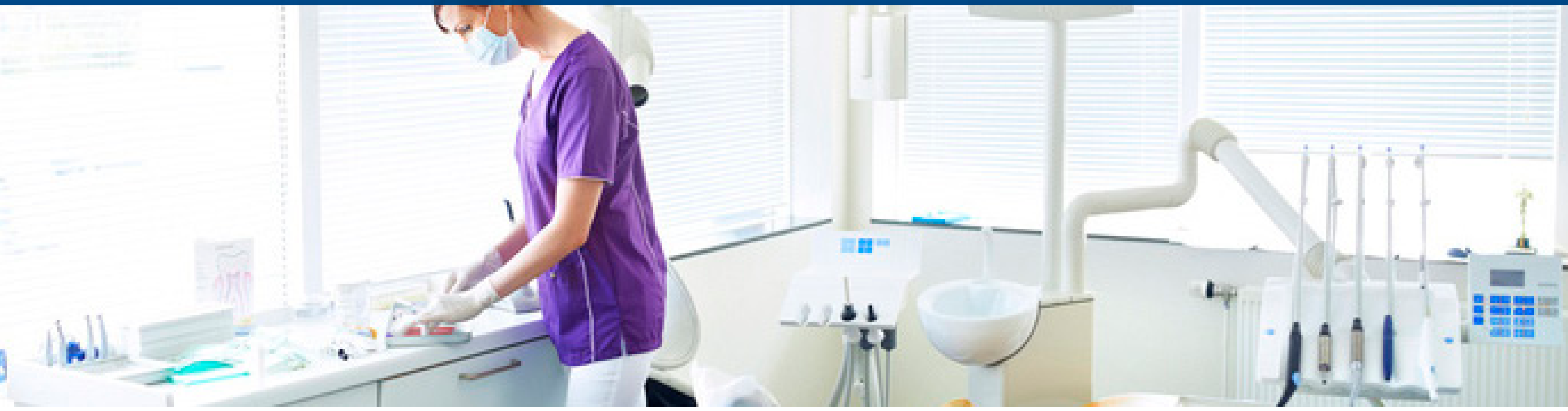

Revenue Cycle Management: An Important Opportunity for Healthcare

The healthcare sector is undergoing a profound transformation, as small practices consolidate into larger multi-location businesses, and external investors, such as private equity, increase their involvement. For healthcare businesses, growth can improve professionalism, efficiency and patient care. However, consolidation and growth also shine a spotlight on inefficiencies in the sector. Most notably, there are significant gains to be made in relation to revenue cycle management (RCM).

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RCM is, in theory, a straightforward process that brings together the business and clinical sides of healthcare. It includes a range of tasks, including charge capture, claim submission, coding diagnoses and procedures, and collecting payments. However, in practice, the almost infinite number of variations available in the US health sector in terms of payers and processes means that RCM at many healthcare providers is sub-optimal.

Historically, medical services – and dental services in particular – have been extremely fragmented and small scale. That means that investment in technology has often been seen as prohibitively expensive and largely unnecessary. It has been easy to overlook inefficient RCM practices given the local, low-volume nature of activity. As a result, processes associated with billing and reimbursement have, in many cases, remained largely unchanged for decades.

What's driving change?

The accelerating pace of consolidation of offices into Medical Service Organizations (MSOs) and Dental Service Organizations (DSOs) is prompting a reconsideration of inefficient legacy processes. For instance, one dental group that works with Citi recently acquired multiple practices that deal primarily with cash, submit paper reimbursements to insurers or the Centers for Medicare & Medicaid Services (CMS) via mail, and receive consolidated paper checks on a 45 to 60-day timeline.

Processes involving paper-based documents and cash or check-based collections increase the amount of time between providing a service and receiving payment, which increases working capital requirements and potentially acts as a drag on profitability. Perhaps most importantly, manual-based processes are time consuming and prone to errors: for small practices in particular, billing, chasing up and reconciling receivables can take up large amounts of employees' time.

OFTEN THE ROLLING UP OF SMALL PRACTICES INTO LARGER GROUPS COINCIDES WITH THE APPOINTMENT OF EXECUTIVE MANAGEMENT (SUCH AS A CFO), WHO MAY COME FROM BUSINESS SECTORS WHERE TREASURY PRACTICES ARE MORE SOPHISTICATED.

Consolidation of individual practices into larger, scalable platforms inevitably results in growing pains relating to such processes. One group that Citi works with had just five practices in 2019 but will have 35 by the end of 2020: billing and reconciliation business-as-usual is simply not sustainable at that pace of growth.

Often the rolling up of small practices into larger groups coincides with the appointment of executive management (such as a CFO), who may come from business sectors where treasury practices are more sophisticated. This can elevate the importance of receivables management. Equally, the involvement of private equity investors in MSOs and DSOs can increase the focus on transparency of costs. Both factors can lead to higher levels of investment and a newfound emphasis on automation of processes to improve efficiency.

An additional recent driver that has emerged in the COVID-19 environment is the pressure on healthcare providers' revenues. The industry currently has an enormous backlog, following a two-and-a-half-month shutdown, during which only emergency patients were seen. Consequently, revenue has fallen to almost nothing. Now that businesses are reopening, billing of payers has begun to resume. But there will be a gap of 45 to 60 days before collections are due. Initiatives to accelerate those receivables are therefore a priority.

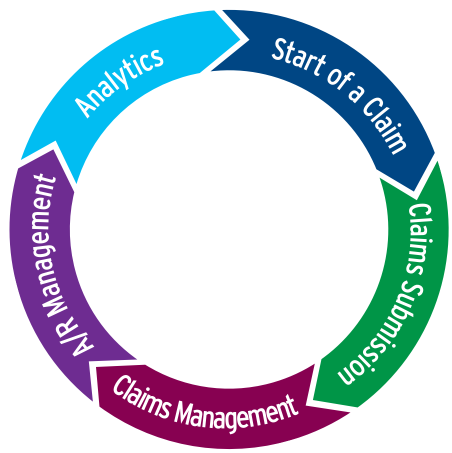
Equally, many companies have sought to take advantage of market conditions created by the COVID-19 pandemic to raise debt and equity capital in order to make acquisitions. As part of a plan to enhance their liquidity base and better position themselves for M&A activity, some companies are giving a higher priority to receivables in order to accelerate cash flow.

Recognizing the challenge

Treasury products have a large part to play in expediting receivables for healthcare companies. But before MSOs and DSOs start to consider the various solutions available, it is important to get the basics right.

Most obviously, healthcare companies need to recognize that they face a challenge in managing their receivables. This can be trickier than it sounds. Often people managing receivables just assume that the problems they face are intractable because it is not their core day-to-day function. In other situations, employees responsible for managing receivables may be reluctant to make changes to ingrained work practices for fear of losing status (or even their job).

So how do companies know if there is a problem? The biggest sign is that the business faces cash constraints on a periodic basis. Many healthcare firms run a boom-and-bust revenue roller coaster without realizing that RCM can smooth it out. Often the arrival of an outsider (usually with finance expertise) acts as a wake-up call. A CFO at one Citi client recalls the challenge that



greeted his arrival: he had to reconcile 25 office locations that paid into a single account, with no idea of where the money had come from.

Recognizing there is a problem does not mean that healthcare companies have to transform their operations overnight. Indeed, treasury products and structures can go a long way to increasing treasury sophistication without requiring large-scale investment in training or technology. MSOs and DSOs should also make use of the expertise and thought leadership of their banks, which are familiar with common RCM strategies and best practice in the healthcare sector.

Finding the right solution

There is a wide range of options available to healthcare companies seeking to improve their RCM. One possibility may be to outsource billing and remittance processing to a specialist provider with experience of high-volume CMS billing. However, this option can be costly and many providers prefer to centralize their billing in-house. For those that do, efficiencies can come from myriad different technological solutions.

On the operational side, electronic bill presentment and payment software, such as Citi Present & Pay, can do much to streamline processes and reduce paperwork. Some companies may find they have a large number of re-billings (whether to commercial or government payers) due to payment declines resulting from incorrect case codes, for example. Re-billing effectively doubles administrative costs. The introduction of relatively inexpensive medical billing software can not only reduce such costs, but also lay the foundations for further automation.

Automation of collections is often the next step undertaken by MSOs and DSOs to improve their RCM. Companies that currently collect reimbursement checks should quantify the costs associated with this process as well as the implications in terms of days receivables and average cash in hand. Most Medicare and Medicaid payments can now be received electronically – these payment methods are typically seven days faster than a mailed check and are straightforward to implement.

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There are still some Medicare and Medicaid payments at the state level that are reimbursed via check. Technology can improve efficiency even in these situations, with Remote Check Deposit capabilities that allow for seamless check depositing from multiple locations.

Reconciliation is a common pain point for healthcare companies. Many find it challenging to post Electronic Data Interchange information, especially when it relates to multiple payers. In some cases, a payer might send a single ACH payment for 500 patients, which takes time and effort to break out and reconcile.

Citi® Smart Match uses artificial intelligence (AI) and machine learning (ML) to read remittance notices received by a company (either in paper form or electronically), extract various useful pieces of data and implement a single process for all receivables. The use of AI and ML means that the system learns where a payment is coming from and how to handle it. Receivables are automatically matched to received payments, making cash application significantly more efficient and focusing the attention of account receivables employees on exceptions management. Automating manually intensive processes reduces costs and saves time. At the same time, faster reconciliation lowers days sales outstanding and optimizes working capital.

Building a sound structure

As well as technological solutions, banking structures can play an important role in RCM. Companies first need to ensure that their bank account arrangements are fit for purpose. Some groups that have grown by acquisition may have dozens of legacy accounts, incurring unnecessary fees and increasing complexity; where possible, these should be consolidated. All companies should also check to ensure that CMS and private funds are properly segregated within their account structures.

Once this groundwork has been done, MSOs and DSOs should work with their banks to investigate options such as zero balance accounts (ZBAs) and sweeps that move funds between the management company and clinical enterprises on an automated basis. Such structures ensure that liquidity gets to where it can be used most effectively, as quickly as possible.

In a typical structure, individual accounts are set up for each practice. These then feed into a parent account that serves as a source of funding for business spending and payroll. As well as increasing the availability of liquidity, ZBA and sweep structures facilitate easy segregation of funds for individual offices. This can be important in groups where offices are independently licensed and credentialed with payers. In such situations, billing must remain at sub-entity level (with funds received in the same account). However, funds can be automatically rolled up to the parent account.

Segmented account structures can go a long way toward making reconciliation easier, in addition to the technological solutions available to automate reconciliation.

Conclusion

The healthcare sector is changing rapidly and the pace of change could accelerate further in the wake of COVID-19, which could prompt opportunistic M&A activity. Many MSOs and DSOs are seeking ways to improve how they manage their revenue cycle and, hence, add value to their company. Those that are not might benefit from taking a good look at their practices and the costs associated with processes such as billing and reconciliation. In many cases, there may be room for improvement.

Many companies in the sector are sensitive to costs. However, investments in RCM can yield dramatic benefits in terms of operational costs, while putting an end to the boom-and-bust cycle of revenue that makes working capital management extremely complex (and potentially costly in terms of borrowing). It is important to remember that there is no one-size-fits-all answer for RCM: every MSO and DSO has a different starting point and potentially different objectives. Healthcare companies should therefore seek the advice and support of their banks and other partners.

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