



# Speedy Recovery

*New opportunities resuscitate ailing health-care portfolios*

By Julie Ritzer Ross

The prognosis is good for ISOs and merchant processors whose health-care portfolios are on life support. Industry insiders say recent developments are making now the perfect time to rehabilitate old merchant relationships and forge new ones.

A push for electronic payment and related systems to process both out-of-pocket and reimbursable health-care costs offers the first in.

Last year, consumers spent about \$250 billion on out-of-pocket health-care costs, according to research and consulting firm Celent LLC. Of that total, \$242 billion came from traditional payment methods, such as checks, cash, and credit and debit cards. The remaining \$8 billion was generated by health-care cards, namely flexible spending accounts (FSAs), health savings accounts (HSAs), and health reimbursement accounts (HRAs) tied to either employer-funded accounts or demand deposit savings.

But what if that 10 percent of transactions now handled via traditional methods were converted to an electronic processing model? According to Celent's research, that would create \$363 million annually for the industry—assuming an average interchange rate of 1.5 percent per transaction, and not including processing fees, finance charges, and other revenue streams.

"The crux of the problem in health care is that the sector has not adopted the type of modern payment system seen in retail," observes Mary Dees Griffith, president and COO of Dallas-based Preferred Health Technology Inc., a provider of transaction processing services to health-care facilities. Dees, whose company's services include insurance eligibility verification, real-time claims settlement, and collection of patient payments from electronic card swipe systems, says transactions executed at physicians' offices, hospitals, and laboratories move in batches—long after patients have left the premises. Most providers cannot properly estimate patients'

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liabilities at the point-of-service, and few facilities can accept credit or debit card payments at the time of treatment. Consequently, most submit and settle claims with insurers, and then "bill the difference to the patients and hope they pay it."

Adding a layer of complexity, insurance companies send patients an explanation of benefits that often shows an amount due that differs from the amount due on the provider's bill. The confusion caused by such discrepancies, coupled with the cost and complexity of consumer billing and collections, means providers typically collect only about half of the balances owed to them. That number drops to between 10 and 20 percent for self-pay patients (those without insurance), according to McKinsey & Co.

"The push for consumer-driven health care is complicating the situation," Griffith says. That's because it's fueled by employers who insist on insurance plans with higher deductibles that save the company money but make patients responsible for a larger portion of the payments. As a result, physicians and other providers, who already have a difficult time collecting from patients, must now charge more.

To address this situation, Preferred Health has partnered with Chase Paymentech on the launch of A-Claim, the first fully integrated health-care payment solution. It's designed to reduce accounts receivables for physicians and simplify claims payments for patients by fully automating the information and payment flows. Providers can check coverage eli-

gibility and arrange for payment before patients leave the office, and patients can use credit or debit cards, along with their health insurance information, to automatically pay their portion of the bills.

## Off-the-Chart Value

While the adoption of integrated solutions for real-time claims adjudication and payment is just beginning, it makes a convincing argument for rapid adoption by doctors and hospitals, say McKinsey & Co. analysts Nick LeCuyer and Shubham Singhal. Specifically, such options offer processors and other entities the opportunity to trade constantly declining, per-transaction pricing for a value-based pricing structure in which they receive a cut of the transaction. The result could be attractive not only in terms of revenue, but also in more widely distributed profits as new intermediaries "take a bite out of the surplus currently captured by payers."

Additionally, processors that partner with providers and payers to bolster the consumer-to-provider payment front will help credit card usage grow throughout the sector. Credit cards currently account for less than 20 percent of consumers' out-of-pocket spending on health care, or \$45 billion. With the right business models in place, however, credit card spending on health care could reach \$150 billion by 2015, according to McKinsey research.

## Gift of Good Health

Meanwhile, the health-care gift card playing field continues to widen beyond the scope of proprietary closed-loop products offered by, and redeemable only at, a tiny handful of hospitals and medical practices. Late last year, Pittsburgh-based insurer Highmark introduced its prepaid Healthcare Visa Gift Card, issued by Meta-Bank and sold online in increments of \$25 to \$5,000. Highmark says it's the first gift card of its kind that can be used nationally to cover everyday health expenses, such as office visits, medical equipment,

and gym memberships. Recipients can use the card at any merchant that sells health-related items and accepts Visa credit or debit cards. Participation in the Highmark network is not a prerequisite for purchasing or receiving the card.

Industry observers believe there is a viable market for gift card programs of this ilk, and that the future will bring the debut of similar open-loop products. "The current reimbursement and insurance systems are inadequate, creating an entrée for these cards," notes Mark Rukavina, executive director of the Boston-based Access Project.

Similarly, Kim Bellard, Highmark's vice president of e-marketing and consumer relationship management, says he expects other third-party providers to jump on the open-loop health-care gift card bandwagon. "Consumers are paying for more health care expenses out of their own pockets, be it because of higher deductibles and co-pays, not having insurance, or to buy things like LASIK or cosmetic dentistry," Bellard asserts. "People are more likely to either need to or want to look at health care as another consumer good, and they

want more of the conveniences they can buy other retail items with."

### Compliance Crutch

Just as PCI security standards have prompted selling points for ISOs, another path into the market is being carved out by compliance standards for health-care merchants. A new federal requirement now regulates the acceptance of FSA and HRA debit cards for retail purchases. As of January, stores (other than pharmacies) that accept such cards must identify eligible medical expenses through the use of an Inventory Information Approval System (IIAS) and accept the cards as tender only for those expenses. Pharmacies and health-care providers that sell eligible and non-eligible products (such as ophthalmologists whose inventory includes non-prescription sunglasses and dermatologists who offer cosmetics) have until January 1, 2009 to comply with the rule.

The IRS defines an IIAS as a POS system that identifies eligible health-care FSA and HRA purchases by comparing the Universal Product Code or Stock Keeping Unit

number of the item being purchased against a pre-established list of items. Eligible medical expenses are totaled and sent to the payment card issuer's system, which approves the payment according to the terms of the particular health plan. The IRS rule also states that if a merchant's "merchant category code" is not health-care-related, plan administrators can only approve FSA and HRA transactions if an IIAS is in place.

Tony van Seventer, vice president of marketing and products at StoreNext Retail Technologies, says purpose of the requirement is to ensure that pre-tax dollars reserved for legitimate health-care expenses—such as hearing aid batteries purchased at a drugstore—aren't spent on items that aren't legitimate, like cigarettes. "Merchants will likely look to ISOs for assistance in implementing IIAS systems or making their existing technology IIAS compliant," he adds. **TT**

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