



The Medical Lockbox of the Future

Delivering Integrated Receivables

For providers, RCM
Companies, BPO's,
bank lockboxes,
billers and
clearinghouses

White Paper Authored by:
Joe J. Gregory
Vice President Marketing, Healthcare & Payments
OrboGraph

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1. Introduction

Lockbox processing for healthcare providers has existed for decades. It is typically considered to be the “back end” of the revenue cycle; however, it is the aggregation point - where the “rubber meets the road” - and where the majority of revenue dollars flows from Medicare, Medicaid and third-party payers into the bank account of the provider.

This executive briefing highlights what has changed in today’s medical lockbox processing, identifies the hurdles that still exist, and provides a path to maximizing collections and enhancing receivables so revenue cycle companies can assist providers in the next decade.



2. What is a Medical Lockbox?

The medical lockbox is a treasury management service that simplifies collection and processing of healthcare account receivables. Most commonly offered by commercial banks, it processes multiple payment types including ERAs, EFTs (ACH), checks, wire transfers, and now virtual cards. If you include patient payments, credit card payments can also be a part of the mix. Traditionally, it was most commonly known as a consolidation point for paper payments and remittances.

Medical lockboxes were designed to eliminate inefficient, in-house, manual processes at the provider location. This allowed providers to improve collections on receivables, reduce overhead, decrease bad debt write-offs, reduce fraud, and eliminate paper and balance payments. The lockbox has enabled providers to expedite funds availability and have the function performed as part of a bank’s [treasury management](#) services where account analysis is performed on the provider account to determine compensating balances and service fees. Traditionally, this empowered the bank to optimize float management and offer a higher rate of interest payments by utilizing various sweep account options.

As you can surmise, the medical lockbox has changed significantly in the past 10 years.

First, the payment mix has changed. Although the movement toward EDI claims, remits, and payments have made great progress and delivered savings across the industry, the fact that there is a blend of paper and electronic is both a blessing and a curse. The complexity of reconciliation has multiplied, and even with reassociation technology, it’s not easy. For example, try to balance and reconcile payments to remittances from this matrix when you have 50-100-200 payers!

Payment Type/Remit	EDI 835 Remit	EOB/EOP Remit	PDF Remit (Portal)	Totals
ACH	X	X	X	All ACH
Single check-single remit/multiple remits	X	X	X	All check
Single check-no remit			X	
Virtual card	X	X	X	All card
eCheck ¹		X		All eCheck
Totals:	All EDI 835	All EOB	All PDF	Debits/Credits

Let's not forget about the patient payment side! That's an entirely different flow typically, but the check payments still need to be processed and reconciled, along with credit cards, debit cards, and cash!

Second, many revenue cycle companies have entered into this space. Cloud-based solutions, along with in-house deployments from software companies, have empowered clearinghouses, billers, service bureaus, and EHR companies to compete with banks on a level playing

¹ a payment option offered through Deluxe Corp.

field. In fact, one could argue that in some cases, it is easier to route the work to a healthcare stakeholder - like a clearinghouse - which has full access to both claims (clinical data) and remittance data (EDI 835s), as long as the paper (EOBs/EOPs) is routed to the "new" lockbox.

Now imagine a medical lockbox that not only handles this array of payments and remits efficiently but also facilitates automated, straight-through processing (STP) and posting across all areas.

However, there is more to life than just posting... Enter the third major consideration: Integrated Receivables.

3. What Does Integrated Receivables Mean?

One [strong definition](#) from [Deluxe](#) is the following: "integrated receivables eliminate roadblocks that impede access to working capital and slow liquidity management. The solution automates payment processing to enable STP and speed the application of cash to the balance sheet." Essentially, it's the perfect world where all financial systems communicate and share data, so the treasury and finance groups have all the information at their fingertips.



Delivering integrated receivables requires an aggregation point of all the data, so a singular view of AR and collection activity can be achieved. This type of medical lockbox is actually better positioned than any other generic lockbox, because data is generally normalized, aggregated from multiple channels, and involves other input/output functions tied to both the banking core, along with the hospital information system, practice management or billing system. Some providers also have a separate accounting/finance system too.

Ultimately, the vision of integrated receivables for the healthcare industry goes farther than data aggregation. It includes reporting, business intelligence, and now machine learning based on both clinical (claims) and administrative (finance) data. Using the data for treasury management or [cash management](#) is what happens behind the scenes. For many, it is very close!



As For Medical Banking...

Let's not confuse the term "medical banking" with medical lockbox. Medical Banking was actually created in 2007 by the Medical Banking Project as a new direction for banks to deliver consumers' personal healthcare information over the internet via banks' web portals. With the evolution of consumerism, higher deductibles, and patient responsibilities, there was an initial drive for banks to work their way into the center of the patient finance experience. A few banks ventured into this path, but most were not able to overcome interoperability challenges, costs, and technical overhead.

4. Today's Lockbox Challenges

Although the workflow is becoming more complex, the industry has been performing these functions for years. So what is going wrong - and why? We have listed the challenges of today's lockboxes below:

1. Lack of progressive partnerships.

Many lockbox servicers have not partnered with automation partners. This means there are manual paper processes which manual labor has to complete. This includes scanning, data entry, and posting from paper or PDF-remittances. Depending on the environment and service agreement, employees from either the provider, the bank, an outsourcer, or a business process outsourcer (BPO) complete these tasks. For high volume environments, that's potentially tens or hundreds of FTEs.

2. Healthcare administration burnout.

Healthcare is emerging from a long period of intense technology shifts. Between EMR and cybersecurity concerns, healthcare administration teams are continually managing high-priority projects. Burnout among those on these teams is common; however, selling them to change the processes within the lockbox is challenging.

3. Diminishing returns.

Once certain lockbox servicers hit 80-90% native EDI 835 electronification, they give up on completing the final volume because of a wider sampling of smaller payers.

4. Hospital budgets and labor expenses.

[According to Deloitte](#), labor accounts for about 60% of hospital non-capital costs, making it the largest driver of operating expenses. Hospitals need solutions that do not translate to more manual labor on their part and ultimately encourage efficiency.

5. Automation desires.

Only 82% of providers prefer EFTs (over paper) from payers. No wonder providers are not motivated to eliminate the EOB.

6. Data analytics limitations.

Exporting data automatically can still be problematic. Additionally, business intelligence (BI) tools do not always receive the full picture of the data, as silos block information sharing (i.e. remit data from EOBs are entered into a single system).

5. What is the Future?

The medical lockbox of the future is the next step of evolution within the revenue cycle - with a blend of new innovations which manage both electronic and legacy payments. Why legacy? Consider this: according to InstaMed, 90% of providers leverage paper and manual processes for collections, and 53% of payers still deliver checks to providers.²

The medical lockbox of the future will...

...be more electronic with a migration toward native EDI files, but also leverage AI technologies to convert remaining remits into images and data to achieve 100% electrification.

...further leverage cloud computing.

...offer more flavors and configurations including fully outsourced, SaaS, in-house via cloud, or other hybrids.

...offer more options with partners. In some cases, banks want to offer the service, but they work with partners to integrate the service and take the risk of the relationship.

...offer improved sales tools.

...use the archive as a big data warehouse and run business intelligence (BI) and/or machine learning to identify trends and solve specific business problems.

...better handle bundled payments with improved abilities to split payment allocation at the lockbox level.

...provide more robust analytics around denied claims, automatically extract denial requests from correspondence letters, and utilize RPA to automate responses.

...improve communication with notifications, such as patient notification that an insurance payment was received, simplification of payment options after notification, use of remittance data to simplify, and enrich the patient payment experience, and potentially incorporate electronic bill payment and presentment (EBPP). Perhaps this is another way to get to Medical Banking!

...facilitate patient financing. Solutions to finance patient responsibility can be offered at the back end of the process as well.

...deliver better postability and accuracy via improved quality control measures of AI.



¹ Provider Healthcare Payments Survey 2018

² InstaMed Trends in Healthcare Payments, Ninth Annual Report: 2018

³ Provider Healthcare Payments Survey 2018

Lending Based on Medical Receivables

There is an opportunity for lockbox services to expand into receivables financing or medical factoring based on Medicare, as well as third-party payers. This service enables banks and lenders to offer short term loans to cash-hungry providers, essentially so they have faster access to working capital. It is a concept which sounds easy and although it has complications, it is a reality - even today!

A plug-in service or application will ingest claim data and run a valuation process on receivables. This sophisticated, real-time modeling will create the necessary calculations to collateralize the medical receivable so a loan can be offered to the provider. Collateralization occurs when a borrower pledges an asset as recourse to the lender in the event that the borrower defaults on the initial loan. In this case, it is the receivable from Medicare or the payer.

There is tremendous benefit to the providers, including improved margins via lowered financing costs, more predictable cash flow, and reduction of DSO. To the servicer or bank, it's about fees and interest income. A win-win for the future of the medical lockbox.

One more note...Anti-assignment Provisions:
(See this [LexisNexis paper](#))



- According to the Code of Federal Regulations, 42 C.F.R. § 424.73, "Medicare does not pay amounts that are due a provider to any other person under assignment, or power of attorney, or any other direct payment arrangement."
- "Payments due to a provider may be sent to a bank for deposit in such provider's account if certain conditions are met, including that the account be "in the provider/supplier's name only, and only the provider/supplier may issue any instructions on that account."

The above provisions illustrate the need to create a separate lockbox processing environment for Medicare. To meet this requirement, the business opportunity is to deliver a single interface and aggregation point to the healthcare provider and their treasury management team.



6. Three Perspectives

At the 2019 Healthcare and Check Payment Technology Conference hosted by OrboGraph, three companies presented their vision for the future of medical lockbox.

1. Deluxe Corporation focused on receivables automation, accelerating working capital, and reducing exceptions through STP across all payment channels. They support integrated receivables across all platforms and industries.

2. athenahealth illustrated how integrated receivables, automation, and AI can eliminate manual work altogether:

- One thousand worker hours every month were allocated to remittance processing tasks including batch creation, slicing envelopes, outsort exceptions, manual keying, extract, and image capture. They averaged two to three touches on every item.
- They reduced this number to 100 worker hours in a month with automation while experiencing a 38% volume growth between 2015 and 2018.

3. Catch21 expanded their service bureau offering into a medical lockbox and RCM servicing company, working with banks and providers alike. [See their case study and video story.](#)



7. Outlook

The medical lockbox environment of today is challenged in many ways. Innovations must take place for the medical lockbox of the future to prosper and to integrate more tightly with receivables.

As summarized in this executive briefing, there are many opportunities to utilize AI and other technologies to drive process automation for complete electrification and straight-through processing. Better utilization of clinical and administrative/financial data can be used for reconciliation, as well as expanded treasury management services. Best-of-breed enhancements can enrich this process and drive a new revolution of services to providers.

Have other thoughts? Email us at marketing@orbograph.com.

