

# FINDING COMMON GROUND: HOW BOTH PAYERS AND PROVIDERS CAN BENEFIT FROM VIRTUAL CARD PAYMENTS

BETH GRIFFIN AND ED DOWNS

## EXECUTIVE SUMMARY

With a shared need to reduce billing and payment costs, insurers and healthcare providers alike stand to benefit from integrating virtual card payments. In this study, healthcare providers share their experiences and insights into all forms of claims payments—and offer candid suggestions on how payers can facilitate greater adoption and usage of virtual card payments.

## REVENUE CYCLE MANAGEMENT: A PRIORITY FOR PAYERS AND PROVIDERS

To manage the huge payments flow in healthcare, payers and providers are looking to streamline the revenue cycle management process. In 2012, U.S. healthcare spending reached \$2.8 trillion annually.<sup>1</sup> It's estimated that as much as one third<sup>2</sup> of that spending is on administrative costs, with a major portion attributable to inefficient billing and payment processes.

### Payers Under Pressure

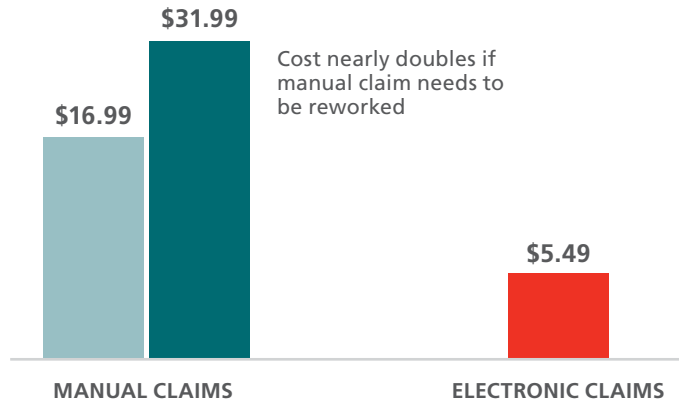
Payers are seeking to rein in administrative costs in response to pressure on a number of fronts. A key provision of the Affordable Care Act, the Medical Loss Ratio (MLR) regulation, now limits the portion of premium dollars that health insurers can spend on administrative costs. Efficiency gains are also seen as a way to offset declines in operating margins, which are projected to decrease by around 30 percent post-reform, according to consulting firm Oliver Wyman. In addition, payers want more efficient transaction platforms to help them forge tighter partnerships with providers and improve consumer satisfaction.

### Providers Overwhelmed

Providers, too, find it increasingly difficult to manage the time and costs involved in claims submission, processing, and payment. The majority of providers, 60 percent, manage claims manually—a costly and time-consuming process that adds about \$17 per claim, and nearly twice that if a claim needs to be resubmitted<sup>3</sup> (see Figure 1). Inefficiencies also have repercussions in revenue flow and the quality of patient care:

- 69 percent of physicians report cash flow problems due to slow payment, non-payment, or underpayment of claims by insurers or government payers<sup>4</sup>
- 63 percent of physicians said that paperwork has caused them to spend less time per patient<sup>5</sup>

**FIGURE 1**  
**ELECTRONIC CLAIMS REDUCE PROVIDERS' COSTS SUBSTANTIALLY**  
 TYPICAL PROVIDER COSTS TO PREPARE AND SUBMIT CLAIMS



Source: AHIP, An Updated Survey of Health Insurance Claims Receipt and Processing Times, February 2013; Electronic Transaction Savings Opportunities for Physician Practices, Milliman USA, June 11, 2006; The Council for Affordable Quality Healthcare, US Healthcare Efficiency Index, 2012. Instamed, Trends in Healthcare Payments, 2012.

## VIRTUAL CARD PAYMENTS – A POTENTIAL SOLUTION?

Virtual card payments can help payers and providers address the efficiency issues around revenue cycle management, potentially reducing administrative costs, increasing speed to payment, and improving accuracy, security, and access to data.

With virtual card capability, the point-of-service (POS) card terminal in the provider’s office becomes the conduit for claims reimbursement. Once a claim is approved, a unique 16-digit transaction code—the virtual card number—is sent by a financial institution via the payer to the provider’s office. When that number is keyed into the POS terminal, the payment is deposited directly into the provider’s bank account. Additionally, many issuers of virtual card payments provide the associated remittance information that enables providers to connect the payment to the specific patient benefit.

### Benefits to Payers

- Reduced administration and distribution costs—It’s estimated that some insurers have the opportunity to drive significant efficiencies each year by converting from check-based payments to virtual card payments.
- No need for provider enrollment—Any provider with a POS terminal can accept virtual card payments; unlike converting practices from check to EFT, there is no need to enroll providers.
- Reduction in claims rework and overpayments—Because the virtual card number and the claims reference data are issued together, the provider does not have to spend costly administrative time to associate these items. For the payer, the virtual card number serves as a unique identifier for the transaction, helping to improve payment accuracy.
- Improved consumer satisfaction with faster, more accurate claims payments.

### Benefits to Providers

- Improved cash flow—Virtual card payments are typically received 10 days sooner than check payments, helping practices improve revenue flow.<sup>6</sup>
- Faster reconciliation—Having payment and claims remittance data integrated can help practices save time and money compared to reconciling paper EOBs and checks.
- Reduced back-office paperwork—With payments deposited directly into the provider’s bank account, the administrative burden is lessened.
- Increased payment security—With virtual cards, payment authorization is restricted to healthcare transactions and sensitive deposit account data is not shared with others.

**WHAT DO PROVIDERS THINK ABOUT VIRTUAL CARD TECHNOLOGY?**

Still relatively new, virtual card payments are unfamiliar to the majority of healthcare providers who are reimbursed by paper check or electronic funds transfer (EFT). To learn more about healthcare providers’ use of, and willingness to expand acceptance of, virtual card payments, MasterCard commissioned a study to:

- Understand current payment methods from the providers’ perspective
- Capture perceived likes and dislikes of the payment methods in use
- Explore future functionality for virtual card payments
- Gain insights into how to support providers interested in transitioning to virtual cards

To satisfy these objectives, a research firm conducted telephone interviews with billing managers from small, midsize, and large healthcare organizations that are using virtual cards to receive reimbursement from insurance providers. The interviews were brand agnostic, with no identification of MasterCard as the research sponsor.

**HOW IT WORKS**

**THE ADVANTAGES OF VIRTUAL CARDS COMPARED TO OTHER PAYMENT METHODS**

	ENROLLMENT	PAYMENT TO PROVIDER	CLAIM DATA TO PROVIDER/ REASSOCIATION	UPLOAD TO PRACTICE MANAGEMENT
<b>VIRTUAL CARDS</b>	<p>Acceptance network of 600,000 healthcare providers</p> <p>No enrollment requirement for provider</p> <p>Provider need not share banking information with payer</p>	<p>Payment instruction pushed from payer or TPA to provider for processing via existing POS device or deposited into bank account via merchant bank relationship</p>	<p>Typically sent by payer/TPA to provider concurrently with payment instruction</p> <p>Sometimes sent via EDI 835 file transmission to portal</p>	<p>Mostly manual upload based on processing of card transaction and receipt of claims data</p> <p>Some TPAs and acquirers offer automated file posting</p>
<b>PAPER</b>	<p>No enrollment requirement for provider</p>	<p>Paper check mailed directly to provider or to bank lockbox</p>	<p>Sometimes sent by payer/TPA to provider concurrently with check</p> <p>May be reassociated with check if bank lockbox service is used</p>	<p>Mostly manual upload based on deposit of check transaction and receipt of claims data</p> <p>Some TPAs and lockbox banks offer automated file matching and posting</p>
<b>EFT</b>	<p>Provider must share sensitive deposit account information with payer or TPA</p> <p>Account information changes must be updated with payers/TPAs</p>	<p>Payment instruction pushed from payer/TPA to payer’s bank for issuing credit to provider’s bank account</p>	<p>Often sent by payer/TPA to provider separately from deposit advice</p> <p>More commonly used in conjunction with EDI 835 file transmission</p>	<p>Most larger payers provide ERA via EDI</p> <p>EFT transmission from bank may be automated for large providers</p> <p>Mostly manual uploading from smaller payers/TPAs</p>
	<p>■ ADVANTAGE</p>	<p>■ NEUTRAL</p>	<p>■ DISADVANTAGE</p>	

## RESEARCH FINDINGS

### OVERALL INSIGHTS

**Communication Is Critical.** Many respondents spoke of difficulty in virtual card adoption due to confusion during the introductory phase. Educating practice leaders and staff is critical. Administrative employees need practical how-to information on processing virtual card payments, and all decision makers should clearly understand the benefits of virtual cards in relation to other payment methods.

**No Payment Method Is Perfect.** Billing managers are willing to consider alternative payment methods, since even tried-and-true methods have drawbacks that reduce operational efficiency. For example, ACH is disliked due to the lack of EOB with payments, vague remark codes, and difficulty in issuing credits to payers when necessary.

**Enhanced Virtual Card Solutions Are Popular.** Billing managers were enthusiastic about future enhancements to virtual card payment processes, including automated notification of payments, claims reference numbers in bank statements, and integration of the claim/payment data directly into the provider's practice management system (PMS) for reconciliation.

**Educate Providers on True Costs.** Present a true cost-benefit analysis that factors in the operational efficiencies of virtual cards—fewer errors, less administrative time, mitigation of check processing fees, etc.—compared to the alternatives. In addition, coupling virtual card payments with additional value-added services (revenue cycle solutions, reconciliation, etc.) can provide a positive cost-benefit analysis with a virtual card solution as well.

### VIRTUAL CARD USAGE

The provider study found that virtual card usage currently represents the smallest share of reimbursements—less than 20 percent, on average—for all participating practices. However, most respondents say virtual card usage has increased significantly in the last 6 to 18 months, and they expect that growth to continue.

Billing managers say that foundations and non-profit payers often utilize virtual cards for claim payments. These organizations play a key role in some specialty areas by helping patients pay for high cost medicines not covered by insurance companies.

#### LIKES

Respondents who prefer virtual cards to checks like that:

- Payments are faster
- Payments have a paper trail
- Money is deposited directly into the bank
- Posting and reconciliation are simpler with EOB details matched to virtual card numbers

In general, most billing managers describe their virtual card experiences as being good, with few problems.

#### DISLIKES

- The merchant processing fee, which particularly irritates practices receiving large reimbursements for which processing fees can be sizable
- The need to key in card numbers

*"I like [virtual card numbers] a lot better than checks. I know it's there and I don't have to wait."*

*Midsized Provider,  
Rheumatology*

*"It's been good overall. It's a good way to pay out the claims and I think it's more economical for the insurance companies."*

*Small Provider,  
Oncology*

*“This is awesome. We need to get more government and insurance companies to use virtual cards.”*

Midsize Provider,  
Internal Medicine

*“If it’s electronic, stop sending paper.”*

Large Provider,  
Retinal Specialist

*“Integration into the practice management system is awesome if it is reliable and includes our system.”*

Small Provider, Oncology

*“Checks are time-consuming and labor-intensive.”*

Small Provider, ENT

*“I like EFT best. There are no worries, no cost, and payment goes direct to the bank.”*

Small Provider, Rheumatology

*“I like it best of all. The funds are there immediately, they go direct to the bank, and the EOB detail can be downloaded right into our PMS.”*

Midsize Provider,  
Family Practice

### Virtual Card Enhancements Greeted with Enthusiasm

When efficiency enhancements to virtual card technology were described to interviewees, the features were met with considerable enthusiasm. Specific benefits of interest to the practices include:

- Straight Through Processing (STP), in which virtual card payments are posted directly to the practice bank account with no manual intervention required
- EOB data downloaded directly into the practice management system
- HIPAA-compliant claims reference number on the bank statement
- Portal notification of payment rather than fax

Virtual card enhancements that save time, increase standardization, and make training easier will go a long way toward improving the value equation for providers.

### Check Usage

Some practices still prefer checks to all other forms of reimbursement, and checks account for a sizeable portion of receipts in many businesses. Respondent estimates ranged from 10 percent to 70 percent of reimbursements.

#### LIKES

- Familiarity
- Ease of reconciliation
- Attached EOB

#### DISLIKES

- Lag time in receiving payments
- Administrative time and manual effort to process, deposit, post, and reconcile
- Added difficulty when EOB is separate from check

### EFT Usage

EFTs represent an estimated 30 percent to 70 percent of receipts, the provider study found, and are the preferred reimbursement type for most practices.

#### LIKES

- Speed and convenience
- No extra fees
- Money deposited directly in bank
- Reduced reconciliation time
- Ability to download Electronic Remittance Advice (ERA) into the PMS

#### DISLIKES

- Late or missing EOBs
- Time and effort required to catch/correct errors
- Lack of consistency in uploading to PMS platforms

## BEST PRACTICES

### Make the Case for Virtual Cards versus Checks and EFT

In the interviews, it was clear that while these practices accept virtual cards, they don’t feel that the current value equation is optimal. Billing managers understand the advantages for the insurance company, but would like to see more benefits delivered to their practice.

Payers interested in getting more practices to adopt virtual card payments need to make a compelling case versus other payment methods.

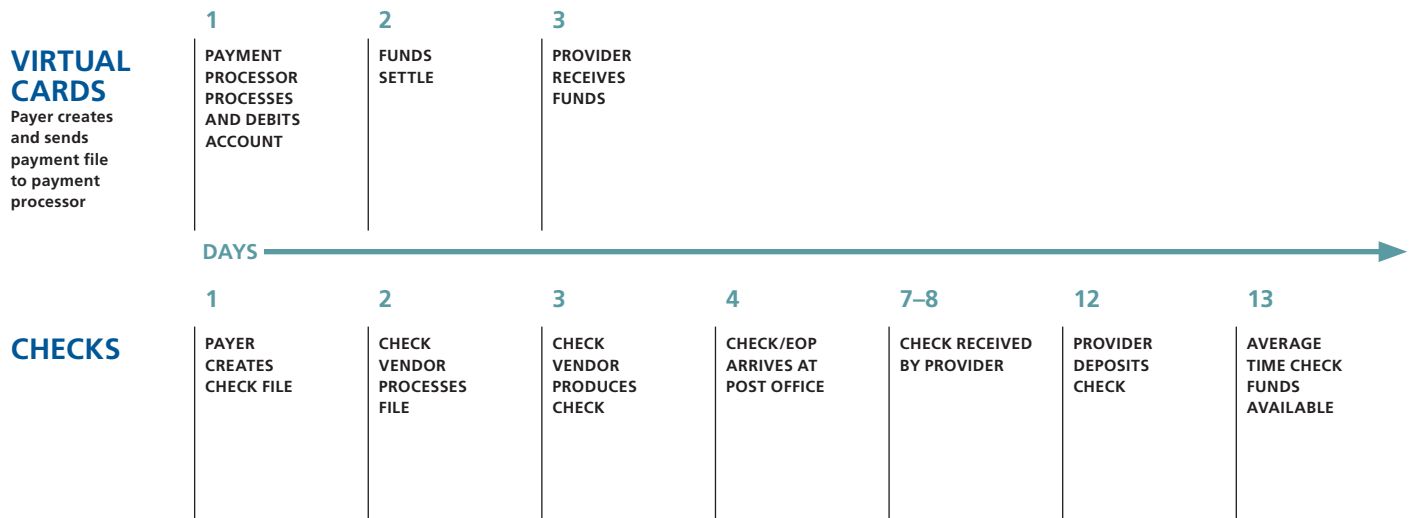
**Virtual Cards Versus Checks**

When virtual card cost/benefits are stacked up against those provided by check payments, virtual cards compare very favorably to checks. It’s critical to enumerate the full cost implications of paper checks to the practice. Your analysis will need to compare virtual card processing fees with the significant “human costs” (fewer errors, time savings, etc.) of maintaining paper-based methods of payment.

Clear advantages for virtual cards:

- Cash flow—Practice receives payment sooner
- Administrative costs—Less time and effort to process, deposit, post, and reconcile checks
- Accuracy—EOB typically arrives with payment, no need to locate and download from payer’s website

**FIGURE 2**  
**VIRTUAL CARD PAYMENTS GREATLY REDUCE TIME TO RECEIVE CLAIMS PAYMENT**  
**CAN ALSO SIGNIFICANTLY REDUCE BACK-OFFICE EFFORT AND PAPERWORK**



Source: Pay-Plus™ Solutions Inc., Advanced Payment Solutions for Payors and Providers, December 2012.

*“Regardless of the company, type of error, or type of payment, if the insurance company makes a mistake it takes forever to get corrected; but if it is our mistake, they demand immediate attention and correction.”*

Large Provider,  
Multi-Specialty Practice

**Virtual Cards Versus EFT**

EFT is preferred by most practices, accounting for 30 percent to 70 percent of receipts. The business case needs to focus on the two drawbacks cited by interviewees:

- Late or missing EOBs
- Time and difficulty in correcting errors

When providers receive EFT payments that are not easily associated with an EOB, it takes time and effort to reconcile those payments. Moreover, when errors occur, billing staff must spend considerable time and effort to contact the insurance company, get to the right person, explain the problem, and work through the solution.

Clear advantages for virtual cards:

- Accuracy—EOB and payment are integrated
- Problem resolution—Virtual card payments have a clear paper trail

## EDUCATE PROVIDERS – BEFORE, DURING, AND AFTER THE SWITCH

All payers would do well to communicate early and often with providers about any changeover in payment methods or adjustments to existing processes. This should include:

### Strategic Plan for Virtual Card Introduction

To promote provider acceptance of virtual card processes, payers should develop a detailed plan for virtual card introductions. This plan must include communication and training modules designed for practices new to virtual card technology and those who have already had experience with it.

### Early Notification, Emphasizing Support and Partnership

Most billing managers said they had little control over a payer's switch to virtual cards. Many said there was no advance notice; virtual card payments just started one day without warning or explanation. The practice had to take the lead in contacting the insurance company regarding what to do and, in extreme cases, the attitude on the part of the insurance company was "take it or leave it." This type of switch-over without advance notification or opportunity for discussion and dialogue was extremely frustrating to providers.

### Thorough Training on Virtual Card Fundamentals and Processing Practices

To date, proper communications and training have been noticeably absent from many virtual card introductions. Many practices have had to learn on their own. As a result, many do not understand:

- The full benefits of virtual cards—Why it is faster, safer, more accurate
- How to process claims so the practice is paid faster

## FOCUS ON HELPING PROVIDERS SAVE TIME AND MONEY

### Strive for Simplicity

In every interview, the billing managers talked about the many hats they had to wear in their jobs, the breadth of responsibilities they had to cover, and the stress involved in getting it all done. They are looking for products, policies, and processes that simplify their lives while meeting practice needs and their own expectations.

In discussing current reimbursement methods and evaluating both the current and enhanced virtual card process, respondents repeatedly criticized complexity and confusion, praised simplicity and standardization, and indicated their openness to change if the new is clearly better than the old for the practice.

### Notification Alerts – Consider a Portal

Emails are easily missed in an already overloaded in-box, and fax machines are generally shared by others in the practice, which often leads to lost, missing, or delayed receipt. Most interviewees expressed a preference for an online portal that would provide a more direct link to important notifications and enable faster problem resolution.

### Streamline Claims Management

Providers are looking for ways to reduce the need for manual intervention in receiving, depositing, and reconciling benefits payments. Billing managers said they would prefer payers to:

- Always provide an EOB with each virtual card payment
- Offer STP so that virtual card payments could be posted directly to the practice bank account, eliminating the need for office staff to manually input individual virtual card codes into the terminal
- Provide an online option for virtual card processing to integrate with computer-based practice workflow and online banking practices
- Enable the virtual card process to be fully integrated into the provider's PMS, allowing faster reconciliation through full automation
- Provide a claims reference number (in a HIPAA-compliant format) that would appear on practice bank statements to facilitate claim-payment matching

*"Emails and faxes are not always reliable, prefer an online portal like we get with EFT."*

*Midsized Provider,  
Internal Medicine*

*"This makes much more sense. It's electronic, no paper at all."*

*Large Provider, Rheumatology*

**Increase Speed, Standardization, and Security**

The billing managers said insurance companies could make their lives easier in a number of other ways as well, including:

- Shorten provider hold times when calling for information
- Standardize the payment process across insurance companies
- Keep upgrading security

**EDUCATE PROVIDERS ON THE RELATIVE COST OF FEES**

It was clear throughout the interviews that billing managers considered virtual card fees to be a drawback to virtual cards. This was particularly true for those practices in which sizable reimbursements drove up the fees resulting from standard percentage formulas.

**Give Providers the Facts**

In many interviews, providers weren't sure exactly what their virtual card fees were. Findings from an Aite Group study of small healthcare practices can be instructive. In this study, virtual card fees ranged from 2.5 percent to 5 percent of each payment transaction, a price composed of merchant acquiring and card issuing fees. On an average transaction size of \$162, the median cost per transaction was 3.75 percent, or \$6.08.<sup>7</sup>

The difference between the ideal transaction costs that respondents were willing to pay and the current industry median cost was not that great—especially when the savings from switching from manual to virtual card processing is taken into account (Figure 3).

*“We do a lot of infusions that can run \$8K–10K each, and factoring in the virtual card fees is a lot of money.”*  
 Midsized Provider, Rheumatology

**FIGURE 3**  
**VIRTUAL CARD TRANSACTION PRICE COMPARISON FOR AN AVERAGE \$162 PAYMENT**

PRICE DESCRIPTION	PER-TRANSACTION COST (%)	PER-TRANSACTION COST (US\$)	NET PROVIDER REVENUE
Average of ideal cost to pay	1.29%	\$2.09	\$159.91
Average of highest cost willing to pay	2.18%	\$3.53	\$158.47
Minimum of current industry range	2.50%	\$4.05	\$157.95
Midpoint of current industry range	3.75%	\$6.08	\$155.92

Source: Aite Group, Healthcare Virtual Cards for Small Providers: Transaction Cost Impacts Acceptance, August 2014.

*“Originally the practice wanted to opt out because of the high fees, but the volume is not too high yet, so we haven’t.”*

Small Provider, Retinal Specialist

In provider interviews commissioned by MasterCard, many practice managers did not understand the full range of advantages and value-added services available with virtual cards. Fees were still an irritant, but less of an issue when providers learned about enhanced solutions and value-added services to support billing and collections, such as EOB virtual card reassociation, STP, and electronic file integration. In addition, interviewees were open to reasonable fee maximums, a sliding scale fee structure, and/or flat transaction fees for high-dollar reimbursement amounts as possible alternatives.



### Recommendations on Mitigating Cost Concerns

In managing the fee issue, payers should consider these best practices:

- Evaluate alternative fee strategies that recognize the very high value, repetitive reimbursements associated with some specialty drugs and treatment protocols, and offer a more acceptable pricing alternative that lowers and limits practice exposure
- Encourage providers to engage their merchant banks or third-party advisory firms on account analysis to understand cost and value of services and pricing, and determine what mechanisms exist to adjust price based on volume and type of transactions initiated by the provider
- Don't require providers to enroll in a virtual private network, which can be costly and inconvenient
- Consider absorbing some fee costs for larger volume providers to encourage greater acceptance

According to the Aite study, reducing transaction prices would increase the number of small providers willing to accept virtual card payments. In the study, 47 percent of respondents said their practices were "likely" to begin receiving virtual card payments if transaction prices were lower.

### VIRTUAL CARDS – A PROMISING PAYMENT MODE POISED FOR GROWTH

To improve the efficiency of revenue cycle management, both payers and providers recognize the need to integrate electronic alternatives to paper-based payments. And while no payment method is perfect, virtual card technology offers a way for payers to significantly reduce administrative costs, while giving providers a cost-saving payment alternative that is fast, secure, accurate, and easy to use. Those operational benefits will expand as virtual cards continue to be enhanced with even more robust features, such as STP, PMS integration, reconciliation tools, and alternative pricing models.

The most important takeaway for payers from the study is that virtual card technology will not sell itself to providers—simply because no disruptive innovation can succeed without support that makes the case and paves the way for change. Payers need to develop a strategic plan comprising several key elements:

- Communication that tells a compelling virtual card story to practice leaders
- Training that shows practice staff how to process payments and integrate virtual cards into daily operations
- Development of bundled services that deliver real value to business managers
- Creation of alternative pricing models to accommodate individual practice economics
- Continuous improvements to drive even greater efficiency through automation

## METHODOLOGY

MasterCard commissioned a research firm to conduct telephone interviews with account representatives from various healthcare organizations that are using virtual card networks to receive reimbursement from insurance providers. Thirty-five providers were interviewed in September–October 2014: small (1–5 providers), midsize (6–25 providers), and large practices, hospitals, and clinics (25 or more providers).

## ABOUT THE AUTHORS

### BETH GRIFFIN

Vice President and Business Leader, U.S. Healthcare and Insurance

As Vice President for Healthcare and Insurance at MasterCard, Beth drives MasterCard's strategy to address the healthcare and insurance payment needs of the market and is responsible for thought leadership, product innovation and development. The Institute of Healthcare Consumerism recognized Beth as a 2013 Healthcare Consumerism Superstar for Innovation for her focus on moving from healthcare to health in her work in wellness. Prior to MasterCard, Beth ran Card Strategy at OptumFinancial and, previous to Optum, held a variety of leadership roles with Metavante (now FIS) and Firstar (now US Bank).

### ED DOWNS

Vice President and Senior Business Leader, U.S. Commercial Products

Ed Downs is a Vice President of Product Management for Commercial Products at MasterCard Worldwide. He is responsible for developing and delivering products and solutions that increase the financial efficiency of businesses and governments operating in North America. Prior to MasterCard, Ed worked in Citigroup's Global Cash Management and Trade Finance businesses and for the Federal Reserve Bank of New York. He has an MBA in finance and is a Certified Treasury Professional.

---

## MasterCard – Your Partner for the Next Generation

### ENDNOTES

- 1 All U.S. figures from Centers for Medicaid and Medicare Services (CMS).
- 2 Woolhandler S, Campbell T, Himmelstein DU. Costs of health care administration in the United States and Canada. *New England Journal of Medicine*. 2003; 349(8): 768–775.
- 3 Source: AHIP, An Updated Survey of Health Insurance Claims Receipt and Processing Times, February 2013; Electronic Transaction Savings Opportunities for Physician Practices, Milliman USA, June 11, 2006; The Council for Affordable Quality Healthcare, US Healthcare Efficiency Index, 2012. Instamed, Trends in Healthcare Payments, 2012.
- 4 2011 Texas Medical Association survey of Texas physicians, medical students, residents, and interns.
- 5 Survey conducted on behalf of The Physicians' Foundation by Merritt Hawkins & Associates. Results compiled October, 2008. © October, 2008, The Physicians' Foundation.
- 6 Pay-Plus Solutions Inc., Advanced Payment Solutions for Payors and Providers, December 2012.
- 7 3.75% represents the midpoint of current industry range. Aite Group, Healthcare Virtual Cards for Small Providers: Transaction Cost Impacts Acceptance, 2014.