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Jim Zadoorian: A New Approach to Receivables Performance

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Q & A

This past May, TriCap Technology Group received a patent for the approach it has been using with health systems across the nation to organize, value, and trade medical accounts receivables on an open market exchange. The system projects how medical receivables will perform based on their lifetime value. TriCap then matches health systems with servicing companies willing to guarantee hospitals levels of performance on various uncollected asset classes. In effect, this approach secures guaranteed levels of performance on receivables for healthcare providers through negotiated and competitive bidding processes.

In this interview, Jim Zadoorian, PhD, president and COO of TriCap, discusses why medical receivables underperform, what is motivating hospitals to participate in an open-market approach, and what to consider when determining whether to access the market.

Q: **What are some of the reasons why receivables typically underperform?**

A: The main reason we see receivables underperform involves the lack of data integrity. More than 12 to 16 percent of the guarantor data—key fields such as the patient's first, last, and middle names, date of birth, address, social security number, and phone number, for example—are inconsistently recorded, missing, and/or inaccurate. When there are data issues related to these core variables, the hospital starts with a record of inefficiency that affects performance throughout the life cycle of the assets.

Second, hospitals typically do not invest in receivables forecasting tools and/or analytical systems, despite having hundreds of millions of dollars (in some cases, billions) under their management. Without these systems, it is difficult to project market value, set benchmarks, direct performance, or intervene when improvement is needed. Instead, hospitals rely on limited scoring systems and/or "rear-view" indicators, such as historical or third-party performance reports, that are based on the way assets have performed as opposed to what the optimum level of performance could be.

Third, hospitals generally apply the same work effort and recovery tactics to each account without having first analyzed the core attributes that affect actual performance. It is the clinical equivalent of dosing every patient with the same antibiotic for each visit, no matter the disease state. Hospitals do this because of their unfamiliarity with and limited access to business intelligence systems that segment receivables based on core performance criteria. In addition, hospitals may believe that processing claims using performance segmentation approaches puts them at odds with Medicare compliance rules that require that no "discrimination" take place between Medicare and non-Medicare accounts. Either way, accounts are processed

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and batched together irrespective of the costs, performance, or success rate—which I'm pretty sure was not Medicare's intent: to drive up costs unnecessarily and toss evidenced-based recovery technology and protocols to the wind.

Finally, there is limited transparency and performance accountability throughout the receivables servicing sector. Why? Because of poor data integrity, limited use of performance forecasting metrics, low visibility as to how servicing agencies prioritize their recovery activities, an overreliance on low- and variable-return, contingency fee-based servicing arrangements, and underutilized internal and external asset management procedures. These same conditions cripple performance throughout the financial sector and are not surprisingly having a similar impact on one of the nation's largest financial institutions: health care.

Q: **Could you tell us about your company's approach to receivables? What is the philosophy behind the approach and open market exchange?**

A: Our philosophy is to help hospitals improve their ability to finance and fund their clinical and charitable missions by using proven market mechanics that can drive efficiencies and guaranteed performance standards across all asset classes.

When we first meet with a hospital, we develop an analytical footprint and financial performance pathway—in the same way a physician would provide a patient with a clinical path that would ensure the patient receives the appropriate care—for the best outcome. When a patient comes into the emergency department (ED) with a critical condition, that patient isn't alphabetically split between other patients in the ED, nor is he or she given the same treatment as every other patient. That patient would certainly expect transparency and accountability from the physician and the clinical support team charged with his or her care. Likewise, our first order of business is to diagnose the assets and establish their true value and optimal performance pathways. We look to generate a true expectation of how and where those assets should perform from a liquidation perspective—whether these asset classes are on the insurance side, the third-party side, the governmental side, or the patient responsibility side of a hospital's receivables asset mix.

We provide a hospital with the information it needs to make an evidence-based decision regarding whether it wants to put its assets out to the market, which assets to place for disposition, and where and how to place them for optimal return. For example, we will provide the hospital with market-based performance metrics that show how an asset is likely to perform and why. Then, the hospital can determine whether to work an asset internally, with the analytics and insight we have provided, or whether to outsource assets to a group or groups that specialize in particular types of assets in return certain performance guarantees, such as those related to worker's compensation, self-pay, or commercial third-party payers. For each type of asset class, we match the hospital to agencies across the United States to achieve optimum performance.

Finally, we negotiate on the hospital's behalf, securing a guaranteed level of performance on the receivables that are outsourced. Because we are able to assign value to a hospital's receivables, the hospital can decide whether to move its receivables out to the market and immediately receive compensation or performance guarantees, rather than waiting 120 days, 200 days, 300 days, or years into the revenue cycle. This allows the hospital to absorb that revenue and use it to fund its clinical and charitable priorities. It's a fundamental change that takes the “cycle” out of the revenue cycle while infusing guarantees and performance standards and safeguards into the process.

Q. **What would a hospital's motivation be for participating in an open market exchange?**

A: Performance guarantees, improved cash acceleration, recovery safeguards, and improved operating margins are the top reasons. The reality is, hospitals already use the open market to recover on receivables, but today they do so without the full array of options and tools available to them to secure top performance. What we have done is to create a sort of

superhighway of receivables where market and performance options are organized in a way that allows hospitals to move assets along at the pace and standards they choose and do so much more effectively. Under this approach, hospitals can exchange all or portions of their receivables in return for fair market recovery value by getting that asset into the hands of those that have the best capacity to perform.

Q: **Would entering the open market exchange cause a hospital to sell its receivables at a discount?**

A: That's a really interesting question in that it presumes that the hospital actually knows what the true full market value of its assets are—and is actually achieving those returns via the current array of methods it has employed to work its receivables. That is typically not the case for all of the aforementioned reasons. Alternatively, hospitals working in our open market exchange system tend to achieve 12 to 22 percent higher returns on receivables than they would have achieved historically. This is due to the data cleansing, valuation, asset scoring work, competitive bidding processes, and guaranteed performance offers our system provides.

We believe the least attractive pathway for hospitals is to continue to hold onto a model that is locking them into chronic underperformance, especially when there are higher-performing, guaranteed options available to them in the open market.

Q: **What factors should CFOs consider before determining whether to pursue an approach such as this?**

A: The first thing we suggest is to consider the open market simply as an alternative performance option. Start with an orientation to understand how the market exchange works and how to value receivables (and improve value); then evaluate whether current practices are performing to open market standards.

If hospitals decide to take an open market approach to working a portion of or all of their receivables, CFOs may need an orientation on the legal issues related to bringing such deals to fruition, as well as how to communicate with the agencies to ensure a smooth transition that is as seamless as possible.

We also suggest that CFOs educate their boards about the open market approach to working receivables and help them to understand that it is a sophisticated and evidence-based approach— a performance option for hospitals today. Helping board members understand that there are safeguards for hospitals that are built into this approach is important as well. And CFOs should invest in patient advocacy education, to help the patient advocates understand that every patient has his or her receivables outsourced at some point, and that transparency and accountability are an important part of this process.

Jim Zadoorian, PhD, is president and COO of TriCap Technology Group, New York. In 2005, TriCap developed a tool for organizing medical receivables, analyzing these assets, determining their market value, and putting them on the open market, with guaranteed levels of performance for hospitals. This tool, ARxChange®, "addresses the business challenge of rapidly rising receivables and their crippling impact on liquidity, cash flow, and the financial viability of health systems across the (nation)," according to TriCap's website. It does so by converting patient receivables into immediate cash by using advanced business methods, predictive metrics, and interactive, Internet-based systems to assess performance, value assets, and conduct online competitive bidding processes on overdue patient account pools.

In May 2011, TriCap received a federal patent for its processes for organizing the medical receivables market, determining receivables portfolio market value, and establishing the process by which healthcare organizations award portfolios to receivables management firms. It is unclear what effect the patent will have on healthcare systems and other companies that manage portions of this process in ways covered by TriCap's patent. "As it stands now, the patent affords us an exclusive right to core recovery processes when they collectively come together in an approach to managing and performing on receivables," Zadoorian says.

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