

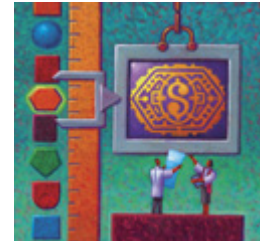
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OPERATIONS

Not Your Boring Lockbox Anymore!

New solutions to automate remittance processing

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Lockboxes are not just about “float” anymore. Banks have moved from simple depository services to producing both image files and posting files. Billing companies should take a lockbox tour and learn about new solutions to automate remittance processing. What are these new lockboxes and why are they used?

When a bank picks up claim payments from a post office mailbox and deposits the check, the process is referred to as a “lockbox” operation. The name is not always helpful—it tends to conjure images of an iron box perched atop a stagecoach—but the service can be one of the most efficient tools available to providers and billing companies. First begun in the late 1940s, lockbox services are now sophisticated mechanisms for managing the receipt, deposit, and posting of payments from health plans and patients.

The decision to use a bank for payment processing, as opposed to handling it internally as some billing companies do, is often driven by the requirements of customers, their external auditors/accountants, and billing company managers who feel safer letting a bank handle money. Outsourcing these functions to a bank improves controls and reduces the risk of fraud by separating cash receipt from the rest of the revenue-cycle process. The bank affords substantial back-up capabilities with redundant facilities to maintain cash flow in the event of a natural disaster. And today’s lockboxes provide specialized services that create posting files and image files for both consumer and health plan payments. Payment posting and processing can now be completely automated and paperless.

This article will lay out the specialized banking services currently available to you. Carefully consider whether your financial institution or the bank recommended by your provider meets these contemporary standards.

Lockbox Evolution

The most basic service functionality of any bank lockbox operation is the early-morning pickup of checks and correspondence from a P.O. Box, with check deposits early enough to obtain the fastest “available funds” for investment. The first lockboxes provided by banks to major corporations in the late 1940s served to reduce both “mail float” and “clearing float.” Here’s how it

worked: a company in California receiving payments from customers on the East Coast would set up a lockbox service back east to eliminate the week it might take to get mail across the country (“mail float”). As time moved on, availability through a more aggressive clearing capability was a competition factor among banks. Banks began to compete on speed. Which institution could process the checks and get them to the issuing bank fastest (“clearing float”)? Earlier availability allows the customer to invest funds or pay down debt sooner. These factors are still significant, but their relative importance has declined as banks have added new services.

Consumer and Corporate Payments

The core lockbox service is about mail and check management, but over the last few decades, lockbox operations have featured customized solutions that provide different technologies for consumer and corporate payments. As detailed below, consumer payments are processed in “retail” lockboxes and corporate payments are processed in “wholesale” lockboxes. In healthcare, that translates into patient-statement payment processing (retail) and health plan EOB/RA (explanation of benefit/remittance advice) processing (wholesale).

Retail Lockboxes

The typical consumer bill is what you are familiar with from your household finances. Your utility bill, your credit card bill, your department store bill, and other repetitive invoices are generally sent to your house with a stand-alone or a tear-off coupon. If you pay by mail, you are instructed to enter the amount being paid on the coupon and return it and a check in the return envelope provided. Another option allows you to enter a credit card number to be charged.

The bank picks up your payment from the post office, but what happens next is a marvel of modern processing. Banks have very specialized machinery that allows checks and coupons to be processed in a high-speed, automated environment with little human intervention. The machines are amazing to watch, as each envelope is weighed and opened, and then each check is read and encoded for the dollar amount, endorsed, imaged, and sent for collection to the issuing bank. The same machinery is simultaneously processing the coupon from the same envelope. Each coupon is read to capture the account number to be credited, imaged, and validated against the related check amount. Based on the information from both the check and the coupon, a posting file is created and passed to the lockbox customer, such as the gas company, for automated posting.

Related image files are available for research. Thanks to this automation, banks are often able to complete consumer payment processing at a much lower cost to the billing company than can be achieved through in-house processing. Your banker refers to the “coupon” and the “consumer.” The billing company speaks about the patient statement with a tear off portion on the bottom rather than a “coupon.” No matter, the machinery designed for “consumer coupons” works just as well for “patient statements.”

Wholesale Lockboxes

Wholesale lockbox is the general term used in the banking industry for processing business-to-business invoices. There are no coupons involved. That is generally true across all industries where businesses are billing other companies for goods and services. It also applies when healthcare claims are submitted to insurance companies and claim payments are mailed to the provider’s pay-to-address.

Different machinery is used in a wholesale lockbox operation from that in the retail operation described earlier. Dedicated work stations within the bank allow operators to process mail; encode, deposit and copy a check; and route the related remittance information—often with a check copy and a deposit ticket copy—to the wholesale lockbox customer. Customers can ask their banks to process remittance data according to customized instructions. Multiple post office boxes help organize work for processing at different locations or subsidiaries within the customer’s organization. Billing companies generally use one P.O. Box per practice.

In recent years, banks have supplemented this core competency with the use of high-speed image-capturing machines. This impressive technology allows the bank to scan all remittance documents and correspondence and forward the images to the customer, eliminating the work of scanning at the customer's site. Image creation at the bank also enhances the disaster-recovery capabilities for customers, because no physical documents at the billing company site will ever be lost due to natural disaster. As many billing companies who faced fire and flood will report, the offsite computer back-up worked fine, but the paper was impossible to replace.

The latest enhancement to this service allows some banks to turn scanned EOBs/RAs into posting files in the ANSI ASC X12 835 format mandated by HIPAA. This is done by a combination of the image scanning service and "IOCR," or Intelligent Optical Character Recognition. IOCR can extract text data from an image file. The output from this service is both an image file for billing companies to use for research and customer service as well as an 835 file that can be used for automated posting, secondary billing, and standardized denial management.

A trend should be obvious here. Lockboxes are not just about "float" anymore. Banks have moved from simple depository services to producing both image files and posting files for both consumer payments (retail) and corporate payments (wholesale).

The EDI Lockbox?

Billing companies should realize that banks have an important role to play in the receipt of electronic data interchange (EDI) files as mandated by HIPAA and related electronic payments. Most billing companies have only a fraction of their payers supporting electronic remittance advice (ERA) and EFT (electronic funds transfers). As ERA volume increases, the challenge of matching related funds transfers becomes more time consuming. EFT payments and ERA files may be sent days apart by health plans. Banks have robust reporting services, and some offer reassociation services so that remittance advices are passed to the customer only after they have been matched to a funds transfer. Reassociation services eliminate an onerous manual reconciliation process. This is particularly difficult for billing companies with many bank accounts to which EFT is directed by payers.

The upshot of all this is to reconsider the role of the banking system as you seek to automate your remittance processing operations. Banks have evolved from 1940s deliverables to 21st century deliverables. Billing companies are also migrating to new and better ways to do business and they have the opportunity to improve timeliness, accuracy, and efficiency while reducing overall costs by adopting the "best practices" of today's banking system.

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