

Technology Needs Assessment of Claims Payment Solutions for the Auto Insurance Industry

What You Don't Know
Could Be Costing You

How Claims Are Processed Can Cost Auto Insurers More than Realized

THE NEED

The aftermath of a traffic accident can generate a lot of claim activity for auto insurance companies. Issuing payments on the behalf of policyholders for emergency services, physicians, and hospitals in case of injury or to body shops, towing companies and rental car companies for vehicle repair can be both expensive and time sensitive. Generating these payments is only a part of the process. Monitoring payments and reconciliation of those payments requires attention and logistical follow-up. For small-to-medium size and independent carriers, who do not have the economies of scale and ready access to administrative and budgetary resources like larger companies do, the allocation of the limited staff and budget can be comparatively higher for their business operations.

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This is why insurers need to objectively assess their claims payment process in terms of how much they are investing in dedicated staff hours, print and mail costs, maintaining an updated system, securing sensitive bank account information for ACH payments and providing payment support services. A good assessment should also review efficiency benchmarks, such as the accuracy of claims information, the amount of time needed for payment delivery and the rate of check fraud.



THE APPROACH

VPay (Richardson, TX)—a provider of complete turn-key business-to-business claims payment solutions—regularly advocates to insurers the need to identify the strengths and pressure-points within their claims payment systems. This helps determine the best claims payment configuration to benefit both their business, as well as its network of payees. VPay makes the claims payments, delivers the remittance advice, manages payee preferences on payment type and delivery, and responds to payment inquiries from payees.

This allows insurance companies to simplify their claims payment process, reduce payment-related costs, and convert those costs into a revenue stream. The benefits of VPay's efficient claims payment processing include eliminating (or greatly reducing) check printing and mailing costs, reducing bank fees (such as stop pay and positive pay fees), allowing payees more payment options, establishing real-time reconciliation management, reducing check fraud and assuming payee payment support.

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Through VPay, clients utilize multiple payment methods, including ACH (direct deposit) and virtual cards, in addition to traditional paper checks. Virtual cards, which are created and issued by VPay on a per claim basis, have a card account number associated with the exact dollar amount of the claim (so the card cannot be overcharged) and are processed by the payee through a card network, such as Mastercard, just like a traditional debit or credit card. Insurers can earn a fee on every virtual card transaction, creating revenue from their previous expense-incurring claims payments.

Additionally, the use of virtual cards eliminates print/mail costs (they can be delivered electronically) and the need for payees to share and insurers to store the payee's private bank account information (which is required for ACH payments). With the virtual card as an option, payments are typically expedited to the payee, check fraud eliminated, traditional banking fees significantly reduced, and revenue generated by the card transaction may be shared with the insurer and/or used to offset ACH and check payments to payees that elect those payment methods.

The Industry Perspective on the Current Situation

VPay contacted Porter Research (Atlanta, GA)—a research firm specializing in the healthcare and payer markets—to acquire additional insight about claims processing issues from the perspective of operators of mutual insurance companies around the nation. The project involved a moderator and a select group of industry executives who have topic insight who participated in an online bulletin board focus group (BBFG)—to encourage an open dialog about their thoughts on claims payment processing and treasury management solutions that are currently available in the marketplace.

The blind study [*VPay was not identified as the sponsor*] was in a Q&A format designed to get participants talking about various claims topics, including:

- › Their strategic objectives to manage claims processing costs
- › The barriers of converting from paper checks to electronic payments
- › The most significant factors they use to evaluate an outsourced solution

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CURRENT PAYMENT METHOD AND STRATEGIC GOALS

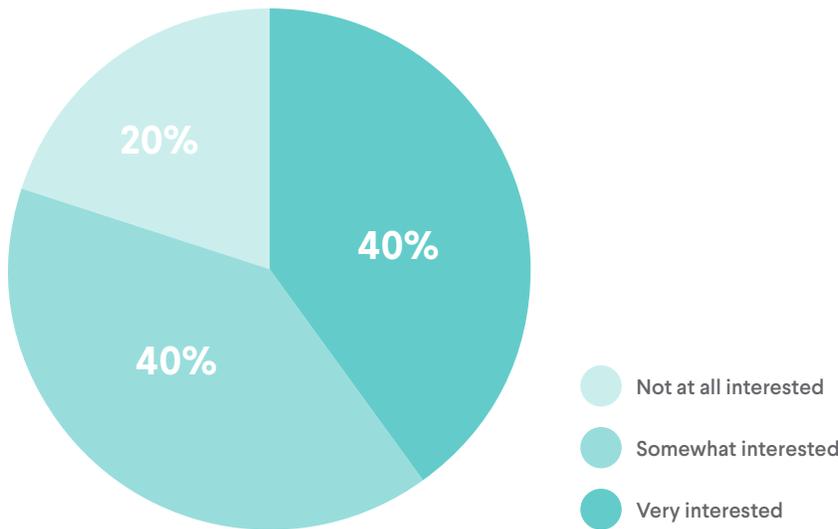
Group participants were asked to assess their current payment methods:

“Are you currently able to deliver payments electronically to more than 50% of your payees?”

Most (60%) of the executives stated ‘No’; electronic payments were not utilized for even half of their payees. As most of these claim payments include printing batch checks, mail processing and paying postage for mail delivery, group members were asked if the work was fulfilled by in-house staff or an outsourced solution. The vast majority (93%) stated that this laborious work was performed in-house.

VPay readily shares with businesses that **‘Every single one of our clients has realized reduced print/mail costs and banking fees’**, so the solution provider wanted to know if the BBFG insurers were aware of the innate value of converting to a paperless format for claim payments to providers of goods and services. Therefore, the group of executives was asked:

How interested would you be in a solution that eliminates print/mail costs?



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As indicated above, most participants (80%) expressed an interest in a solution that could eliminate print/mail costs for their business. However, there are many reasons why insurers may be resistant to completely eliminating traditional paper checks options for clients, including a lack of endorsement from its own payee’s relations team. Many provider relations teams are not aware of the benefits electronic payment options can provide to their own provider networks, primarily in the form of a more rapid turnaround time on claim payments.

Next, the focus group was asked about their top strategic objectives set for payment processing and treasury management processes at their respective organizations. Among the wide range of topics discussed about payment processing, the most frequently mentioned subjects had to do with risk management, fraud, and improved cash flow. **According to the executives, the top 3 strategic objectives for their payment systems include:**

- › Improved efficiencies
- › Superior system integration
- › Enhanced accuracy

“Make [payment processing] accurate. Make it reliable. Make it easy,” as one participant succinctly commented.

To find out more about what possible barriers the insurers perceived about being able to implement an improved payment processing system that better aligns with their top strategic objectives, they were asked:

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“What would you consider the greatest challenges your organization is currently facing with payment processing and the costs associated with it?”

The most commonly mentioned issues were related to system automation and cyber security threats, as leading challenges to payment processing.

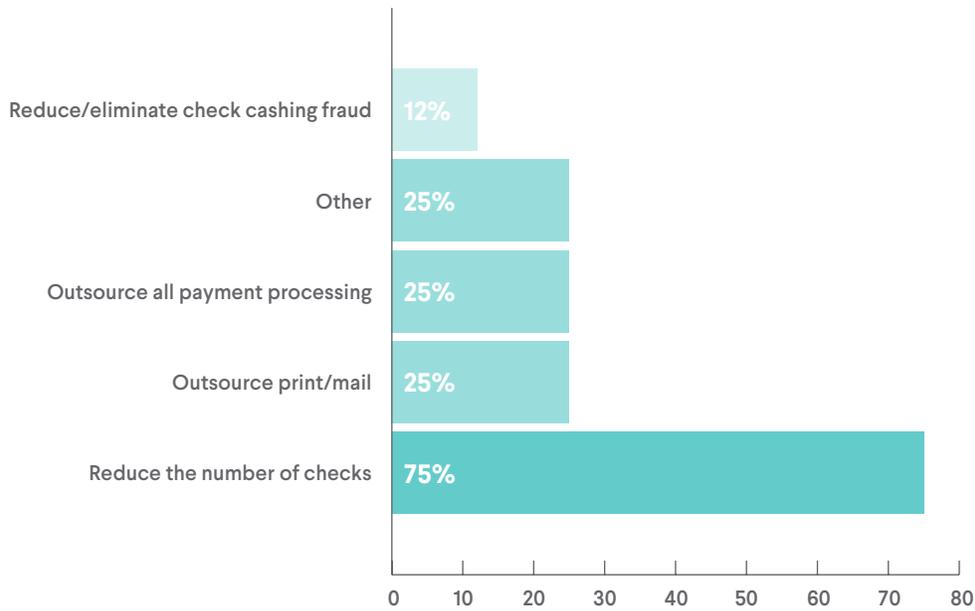
One executive outlined his goal, **“Automating the process of issuing electronic fund transfer (EFT) payments to claimants, policyholders and providers/vendors [contractors, body shops, medical providers, etc.]”** Another group member expressed concerns about achieving these automation and system security milestones. Specifically, he pointed out the underlying IT infrastructure upgrade costs, the related staff training and adding a new process to the existing workload as likely cost-feasibility barriers.

SHORT TERM GOALS

The group was then asked about their more immediate plans, over the next five years, for making investments into the claims payment process. They were presented with a list of investment areas. Based upon responses, they plan to initiate future efforts in the following areas:

Future Areas of Focus—Payment Processing

Over the next 5 years, which of the following areas will be your investment focus as it pertains to claims payment solutions?



The majority (75%) of focus group members stated that they plan to invest in efforts that promote more EFT payments, wherever possible, as a means to reduce the high costs associated with paper check generation and disbursement. Most of the individuals recognized the need for converting from checks to electronic payments for payees.

Case in point, when asked about the main challenges insurers face today in paying, reconciling and monitoring claims payments to different payees, they most often mentioned the logistics of issuing checks to payees. Some of these challenges include: too many checks being issued and check/mail fraud, and to a lesser extent, delays in receiving payment and recipient names that are too long for the check (which typically requires manual handling).

“Eliminate check payments, increase EFT payments and reduce costs associated with check issuance, reconciling and [managing] unclaimed property maintenance,” expressed one participant about how EFT payments would help his company to pay, reconcile and monitor claims payments to different payees. The others concurred that a main business problem of claim payments were reconciliation and the need for a more efficient cash/workflow management process.

Common Beliefs About Claims Payment Methods & Outsourcing

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VPay’s largest clients save over \$1,000,000 annually by transforming their payment processes, including the adoption of alternative payment methods like virtual cards. The solution provider has seen many of its clients benefit from virtual card usage over the expense of generating paper checks and knows how this payment conversion can significantly impact an insurer’s bottom line.

Therefore, VPay wanted to gauge the study participants’ perceptions about this payment method:

“Are you familiar with virtual cards being offered as a payment option for claims payment?”

More than half of the insurance executives were familiar with virtual cards.

However, among those individuals who knew about the payment technology, the consensus was that virtual cards would have little or no impact to their business.

Based upon the comments, the group's knowledge about virtual cards appears to be more conceptual rather than having an in-depth understanding about how the technology would actually work within their existing organizational framework. This may, in part, account for the lack of interest. As one respondent admitted, **"I need to do more research into the virtual card. I need to have knowledge of the technology before being able to know how it will impact our business."**

Since there was either a lack of awareness or a lack of perceived value about virtual cards, which runs contrary to the real world outcomes experienced by insurers who use the technology, the study participants were asked about other factors that they thought would likely impact their business.

The insurance executives indicated some of the factors, such as reducing administrative costs, that would be required if they contracted with an outside source or provider. When asked:

"What would you look for in an ideal 'trusted' partner?"

For outsourcing needs, **the most mentioned quality about the vendor was "easy to do business with,"** and that the provided solution offered ease of use for the insurer. Lastly, the group was asked about the requirements their organization would consider in order to outsource all of their claim payment work. Members provided a wide range of considerations, and one executive admitted that it would take a considerable amount of research. However, **the two most mentioned requirements that would make outsourcing worth pursuing for the insurers were based on cost effectiveness and the ability to handle/manage multi-payee payments.**

"I've been through a lot of IT implementations and VPay has been the easiest by far. I can't say enough about how well they managed the process and helped us every step of the way."

Angela Storms, IT Manager
Corporate Benefits Service, Inc.



The feedback provided by the executives reflects their insurance market experience, as perceived relevant for each organization's unique business model. These industry leaders' viewpoints have to take into consideration how an internal process change will have a cascading effect upon the overall business, affiliated interests, their staff, and the clients in the market the organization serves. Whatever the particular circumstances, **the representing insurance leaders recognize the presence of inefficiencies within their own claim payment systems, acknowledging that it is likely costing them more than they realize.**

Realizing Value from B2B Payment Processing

VPay has partnered with TPAs, health plans and insurers in health care, property and casualty, workers' compensation and automotive warranty industries for more than ten years to provide a total payment solution configured to meet individual business needs. During that time, VPay has developed comprehensive payment solutions that include real-time reconciliation tools for tracking and reporting, flexible payment options for payees, a dedicated call center to provide one-on-one payee assistance, and payment and remittance processing according to proven standards designed to lower operational costs, fraud risk and administrative efforts for clients. With this expertise, the VPay team has been integral in helping its clients reach measurable improvements in its business performance, which they can then share with their key stakeholders and investors.

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THE ROAD AHEAD

According to VPay President Jeff Brown, auto insurers need to be aware that new payment technologies are emerging each and every day. **“Businesses that embrace innovations in payment solutions often realize immediate, material returns. There are as many different types of payers as there are payees, and within each group there can be widely varying requirements for managing payables and receivables,”**

shared Mr. Brown. “The availability of a multiple payments solution can ease this, and ensure that payers and providers can choose the solution that best suits them.”

The modern payment system is evolving rapidly in response to industry mandates and technology advances. Part of that evolution is being driven by the demand for payment solutions that are more secure and convenient. Virtual cards are an offshoot of this broader evolution that are helping companies keep pace while delivering real value.

“While there is no doubt that older technologies, such as check and ACH, may be favored by many in the insurance industry, **it is in the interest of the industry as a whole that participants are allowed to choose the payment option that meets their specific needs.** All payment options—whether check, ACH or virtual card—present unique value propositions to both the payer and the businesses and service providers it pays.”

“Only a total payment solution, such as VPay, can deliver all of this under one roof and provide insurers with both the opportunity to realize financial benefits, while providing a level of claims payment services previously unavailable,”

Jeff Brown, President
VPay



About VPay

VPay is the total B2B payment solution. By eliminating checks with fast and secure electronic payment, VPay simplifies the reconciliation process which helps companies realize unexpected and unprecedented revenue return.

Led by a team with over 50 years experience in financial services, VPay uses patented technology to facilitate billions of dollars in payments to over 650,000 medical providers, 100,000 auto repair facilities on behalf of over 70 clients.

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Get in touch:

VPay
111 W. Spring Valley Rd., #220
Richardson, TX 75081
855-VPAY-USA
vpayusa.com