Revenue Cycle Management for the healthcare industry is a hot topic. Hospitals all over the US are having serious issues with their bottom line. What role can outsourcing/offshoring play in stemming the tide of business inefficiencies and bankruptcies?
‘Health care is a sacred mission’, ‘commercialization of care is a big mistake’, ‘Healthcare is a moral enterprise and not a commercial one.’ These words are echoed over and over, and true though they may be, there is another more realistic, monetary aspect to providing healthcare. Healthcare providers today are wondering how is a healthcare practice expected to run with restricted cash flow? How can cutting edge technology be available in hospitals facing a cash crunch? Can charity care or even quality care be given by providers who have no financial stability?

Even veterans in this industry are surprised at the number of hospitals that filed for bankruptcy in 2005-06. It is disconcerting that the US government’s spending on healthcare is 4.3 times the amount spent on national defense (1). In 2004 the total amount spent was $1.9 trillion, or $6,280 per person (2), equaling a whopping 16 percent of GDP. The health care expenditure is expected to increase from these levels until 2015, reaching $4 trillion, or 20 % of the GDP (3). It is not surprising that though the US government does not provide free healthcare to all, its spending on healthcare is still higher than any other country in the world.

Insurance company profits seem to be soaring sky high year after year. A study of the revenues of insurance companies in 2006 revealed that ‘United Healthcare’ reported a 54% increase in revenue over 2005, ‘Humana’:- revenues up nearly 50% and earnings per common share up 60% over 2005, ‘Aetna’, a 29% increase in profits over 2005, ‘Cigna’: 38% increase, ‘Coventry’: 17% increase in revenue over 2005. (4)

So why are so many hospitals filing for bankruptcy? If healthcare spending has increased and insurance has improved profit margins, why do most hospitals have such dismal revenues and are forced to write off millions of dollars of Accounts Receivable (AR) at the end of every financial year? Physicians are being paid less than ever by health insurance companies to provide patient care, according to the sixth annual fee schedule survey conducted with doctors nationwide by Physicians Practice ®, A US America’s Leading Practice Management Journal. In 2005 the cuts were dramatic, but in 2006 they became worse still. The truth is that despite the high healthcare spending the country is short by a whopping $14billion to cover the costs. (5)

### Challenges Providers Face Today

The RCM industry (including large hospital organizations) today seems inefficient in processing key business transactions because it is limited in automation and uses not-integrated IT business applications. As a result, 30 cents on every dollar billed is never collected, and 20% of all uncollected funds occur because coding was wrong or insurance requirements weren’t met up front. Accounts receivable isn’t enough, because in 90% of the cases, by the time a bill gets to collections, it’s too late. Also, healthcare providers are spending up to 40% on administrative costs. Offshoring these administrative functions to vendors with expertise & state-of-the-art technology will not only improve their collection rates but also allow them that extra bandwidth to focus on their core business – providing quality healthcare. (5)
A closer look into the workings of providers’ revenue cycles reveals that the grass-roots level reason for the dip in provider’s AR collections/reimbursement seems to be - poor denial management and over all revenue cycle management.

There are of course other woes that providers have:

- Skyrocketing Costs (Labor and Material)
- Decreasing Government funding
- Medicare, Medicaid programs
- Aging US population (increasing demands on hospitals)
- Increasing Number of uninsured (Nearly 47 million)
- Lack of expertise and workforce development
- Inefficient Revenue Cycle Management

A majority of hospitals lose money serving Medicare and Medicaid patients while one-third lose money on operations

![Graph showing percentage of hospitals losing money](image)

Percent of Hospitals Losing Money – 2004 (latest data available)

Source: AHA

Hospitals now need to adopt a laser focus on improving their cost and cash flow in the revenue cycle. However that is easier said than done. Certain factors like reimbursement policies, high cost of technology, and rising number of uninsured patients are to an extent out of the control of the provider management. However, what is in control is effective and efficient management of the revenue cycle. The old business adage “cash is king” applies to healthcare organizations as much as any other – if a provider does not have strong financial health it will never be able to provide the quality of healthcare ideally expected.

The bottom line is: ‘No Margin – No Mission’

This paper discusses the challenges faced by healthcare providers in Revenue Cycle Management. What providers can and must do to improve their bottom line. How they can ensure smooth functioning of all of the RCM processes thus achieving timely net collections. It highlights
the benefits providers are gaining by offshoring the entire/key functions of their RCM process. The paper discusses the various offshore options that are available to healthcare providers in the US.

**RCM in the US**

Revenue Cycle Management is the process of managing the admission, charge application, billing and collection of revenues by a healthcare provider (hospitals, clinics, physicians). Due to cost and man-power constraints, healthcare providers in the US have been outsourcing this non-core activity from internal management to a specialized external entity/company (billing companies) for decades now. Although onshore outsourcing has its advantages, offshoring, which began only in the late nineties, has been proven to have higher value add when compared to ‘onshore outsourcing’, owing to the huge cost differentials and economies of scale.

The potential of healthcare ‘Offshore outsourcing’ is only now becoming evident.

Outsourcing in the US was once mainly used to provide support services such as housekeeping, cafeteria (staff and patient’s special diets), security, etc. It has now spread to high-end executive jobs like billing, coding and other patient financial services (PFS).

Today providers are discovering benefits of strategic outsourcing and are increasingly agreeing to ‘full package deals’. Outsourcing a part of the service, e.g., only coding or charge capture, solves the problems of that single department but does not address the issues that plague the entire revenue cycle. Strategic sourcing also includes reengineering of processes thus making the facility much healthier. Strategic outsourcing can include all of the services provided by the PFS department.

The US healthcare outsourcing market has crossed the $4 billion mark in the US (Dun and Bradstreet) and this is expected to grow by leaps and bounds over the next decade. Only a fraction ($220 million) of that $4 billion has currently been offshored to India, providing huge opportunity for offshoring.

**Why Offshore?**

Effectively managing the internal operations and revenues of a healthcare practice in today’s intensely competitive market can be quite a challenge. It is becoming increasingly difficult for providers today to introduce efficiencies into their systems to the extent that can positively affect their bottom line. To cope with this, an increasing number of providers are turning to outsourcing their core businesses as a cost-saving measure. Every dollar saved by a hospital can be diverted towards providing better quality of care to its patients.

Besides improving their bottom line, providers are discovering the benefits of operational efficiencies. By taking a more holistic front-to-back office approach, offshoring can bring significant value to a provider by reducing costs and improving collections.

Providers who have offshored efficiently have dramatically lowered their percentage of aged receivables. They have also discovered the benefits of offshoring ‘full-business’ offices. Some of the advantages that these companies swear by are discussed below:
i. Cost-efficiencies

Cost savings is the most obvious benefit of offshoring. It reduces manpower costs, training costs and cost of infrastructure required to maintain that staff. These savings can be diverted towards the provider’s core business, such as new medical equipment and supplies rather than in staff and/or technology. For example, Evanston Northeastern Healthcare in Highland Park, Ill., estimated that they would save about $400,000 annually through outsourcing. Hennepin County Medical Center in Minneapolis reduced its unbilled encounters from more than $2 million to less than $800,000 by offshoring. They also reduced un-coded DNFB accounts (discharged not final billed) by almost $9 million by outsourcing their coding - it reduced un-coded records from $13 million to $4 million.

ii. Controlled Management:

It is no secret that majority of the AR aging and denial is due to the in-efficiencies embedded in the administration and registration process. The entire revenue cycle would be much healthier if providers emphasized the importance of handling this function accurately the first time. Obtaining accurate and sufficient data is the most critical factor in order to successfully realize the AR. It must be understood that all other functions tie into this process and any slip-ups here will affect every stage in the entire process.

Unfortunately most admissions and registrations staff tend to skim over this function. This happens because they are under-staffed and the provider does not emphasize the importance of this function, often deploying either temporary staff or untrained staff. However, providers fail to realize that they actually end up spending more money and time fixing errors of admissions and registration at the later stages of a claim cycle, than they would have spend setting up an efficient admissions and registration department thus avoiding these errors at the beginning of the cycle.

Offshoring full business cycles can effectively solve this issue. Statistics show that billing companies that handle the entire claim cycles are able to realize higher AR as compared to companies that handle just a part of the revenue cycle. Once the entire business cycle is managed by a single service provider, their performance can be tracked better. Billing companies are able to depute their own resources at the front office in order to ensure efficient admissions and registrations. These companies, due to cost-efficiencies are able to deploy better qualified and adequate number of staff.

Studies show that most of the outsourced projects that have failed are mainly due to external factors – lack of communication between various provider departments with the offshore office, lack of accountability and responsibility, etc. During its lifecycle, a claim falls in the basket of various departments; hence pegging the non-realization of a particular account becomes difficult and gives way to the ‘blame-game’ (each department blaming the other’s failure to support/respond on time etc.) The blame-game is eliminated when all associates in each
department report to a single management team. Once the entire cycle is the responsibility of a single management team – management becomes easier - it is easier not only to identify but also to fix these issues.

We see hospitals now seeking companies with complete line of business services. This helps them avoid the time and cost of managing multiple vendors without losing control of the business services. They also get a performance-based risk/reward contracting model.

Here is a percentage comparison of quarterly profitability of full business office (FBO) offshoring versus just AR process offshoring

![Comparison of Quarterly Profitability](source: Tholons database)

### iii. Specialization and Expertise:

Expertise and specialization is another issue billing companies can resolve.

This applies to the rapid pace of changes in legislation, payer rules and industry practices and trends. It is key for today’s leadership to stay on top of these changes, and billing companies are in a better position to focus their energies here. They can ensure all changes are captured immediately, thus controlling incorrect billing and inducing cost-efficiencies (by lowering costs of re-billing, risk of fines due to inappropriate Medicare billing etc). Specialty and niche-oriented functions can be better managed by organizations specializing in that segment. This is also cost efficient as it does not burden the provider with investing money in training personnel or hiring high priced executives to manage such functions.

The ever increasing volume of self-pay AR in hospitals is another area where offshoring can bring more value to the table. Increasing amounts of deductible and co-insurance that is due from patients is becoming a challenge for providers to collect. A billing company is in a better position to focus energies on this expanding AR. They have specialized staff with high customer focus,
who have good experience with handling patient calls, and expertise in skip tracing and establishing payment plans.

iv. Economies of Scale/Manpower:
Offshoring offers many other potential benefits to healthcare organizations. Economies of scale, is another major benefit. The capability of providing enough staff to take over the operations of a provider instantly shoots the production and collection levels much higher than any other profit boosting methodology.

Since these companies have multiple providers as clients, the cost of technology and manpower is shared among them. This kind of cost sharing allows them to afford best of breed staff as well as ‘cutting edge’ technology for collections. These economies of scale highly benefit the provider’s bottom-line as each of them individually might not have been able to afford the same level of quality of resources.

Shortage of labor is an ongoing issue for most employers in the US. This shortage results in higher wages, unskilled labor and temporary staffing. Offshoring can be the answer to all these issues. 22% of hospitals in the US face shortage in billing and coding staff, 15% in IT technologies, 39% in lab technicians and 36% in imaging technicians. The shortage of customer service/contact center staff is even higher. The chart below depicts the percentage of shortage in various departments of a healthcare provider. In spaces like nursing, pharmacy etc where direct offshoring is not the obvious answer – offshoring the paper work will indirectly help. This will free up the nurses’ time devoted to administrative work so that the nurses can concentrate on core activities such as patient care.

‘Altoona Hospital in Altoona, PA., for example, was having a tough time coping up with the number of night time calls in the Radiology department. The hospital was able to resolve this when it successfully outsourced some of its radiology readings to India. Outsourcing routine X-rays and scans helped to stabilize the heavy workload for the hospital's in-house physicians. In addition, transferring routine paperwork off-site allowed in-house staff to concentrate on core competencies, such as improved patient care, and to spend more time practicing medicine.’ (6)
v. Affordable, Cutting Edge Information Technology

The ever changing technological landscape can be quite a challenge to keep up with. Cutting-edge technology purchased one year might be rendered redundant the next. Keeping up with this might well be impossible for most providers for whom money spent on patient care is definitely a higher priority, as ‘revenue cycle management’ is not their core business. These additional services and technologies are often available with vendors who can afford them as they specialize just on AR collection strategies. These can be worked into a well negotiated packaged deal, thus enabling the providers to enjoy benefits of latest technologies without having to heavily invest.
Services Offshored in Revenue Cycle Management:

Revenue Cycle Management Services include:

<table>
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<tr>
<th>• Registration</th>
<th>• Database management</th>
<th>• Skip tracing</th>
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<tr>
<td>• Admissions and Pre Admissions</td>
<td>• Managed care contract compliance follow-up</td>
<td>• Bad-debt collections</td>
</tr>
<tr>
<td>• Insurance Verification (authorizations and referrals)</td>
<td>• CDM review/updating</td>
<td>• Medical Management</td>
</tr>
<tr>
<td>• Eligibility determination (Medicare, Medicaid)</td>
<td>• Billing</td>
<td>• CRM and technical help desk service</td>
</tr>
<tr>
<td>• Charge entry</td>
<td>• Insurance follow-up</td>
<td>• Account recon</td>
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<tr>
<td>• EOB management - data entry</td>
<td>• Self pay follow-up</td>
<td>• Coding</td>
</tr>
<tr>
<td>• Contract management</td>
<td>• Denials Management</td>
<td>• IT Services</td>
</tr>
<tr>
<td>• PPO network (Preferred Provider Organizations)</td>
<td>• Appeals</td>
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So which services out of the ones listed above can be offshored?

The answer is that almost all of them can be offshored, but with varying degrees of complexity. EOB (Explanation of Benefits) management (data entry), insurance and eligibility determination are the simplest to offshore whereas processes such as CDM (Charge Description Master) maintenance, medical coding, and debt collections are some of the most complex ones.

RCM services can be offshored either piece-meal or as a whole package. RCM service provider companies offer full business contracts via a blended-shore model. These contracts offshore the entire PFS, including the admissions and registration departments to the coding and cash posting. Advantage of this model is the complete control of the Revenue cycle, thus enhancing efficiencies. Once a single management team is responsible for the complete cycle, the results are better tracked and managed.
The chart below shows the average benefits received from outsourcing different functions in RCM:

**IT Services:**

Surprisingly, not all healthcare providers are keen adopters of technology. To meet the demands of modern healthcare management, providers need to continually adopt innovative information technology.

Keeping abreast of constant technology changes can be quite a challenge. Among other reasons for the lack of IT usage in the healthcare space, high cost investments and lack of expertise rank the highest. While definitely a costly endeavor, implementation of information technology can reap great cost benefits in the long run. It helps providers add an edge to their Revenue Cycle, as efficient management and control can be achieved with proper IT implementation. Offshoring, might just be the answer for providers facing the ‘cost and expertise’ hurdle, as cutting edge technology is available at a fraction of the cost in countries like India and Philippines.
Note: Based on 903 community hospitals with complete information
Forward Momentum: Hospital Use of Information Technology. Washington, D.C.

Forward Momentum: Hospital Use of Information Technology. Washington, D.C.
RCM Offshoring in India and Other Countries

According to a recent research report, the Indian share of BPO revenues from the offshoring of revenue cycle management (RCM) services was estimated at $125 million for 2006. Considering the number of US providers in need of outsourcing and the $4 billion RCM outsourcing revenues, the scope of leveraging this is huge. Market studies show that the Indian share of revenue cycle management revenues will cross $450 million in the next 5 years, almost 4 times the current figures.

The entire potential of this market has obviously not yet been fully explored. There are many services that have not been offshored optimally. The core services offshored currently include insurance follow-up and billing, with medical coding fast catching up. The vast resource pool of people trained in medical practices in India poses a huge opportunity in this niche segment.

The RCM industry in India is still very young, with very few providers actually providing a full range of blended offshore models. Most small to mid-sized companies in this space provide small bits and pieces of services which do not fully exploit the potential of the process. A few large vendors like Perot Systems, Zavata and Ajuba offer end-to-end RCM services. Others like Deloitte, Apollo Health Street, Medusind and Zenta also provide a wide array of services which encompass a large section of the Revenue cycle.

Scope of RCM services in countries other than India

India so far has been a clear leader in the US RCM offshoring space. However countries like the Philippines, China, Australia and Switzerland are quickly catching up. The growing trend has urged providers to look beyond the 'traditional' outsourcing space.

Cost is a major driving factor. Countries like the Philippines which have a strong workforce and yet are cost efficient are becoming more popular every day.

Dr. Robert Wachter, Chief of Medical Services at UCSF Medical Center and a UCSF Professor of Medicine, explores the growing "dis-location" of medicine in the United States in a issue of the New England Journal of Medicine. According to him: “Medicine has traditionally been a local enterprise but as health care enters the digital age, many services no longer need to be housed within the confines of a hospital or clinic, but can be anywhere, including overseas”. He adds that: “Diagnostic imaging and intensive care unit monitoring are just two examples of services that can now be outsourced, both domestically and potentially offshore. If focused towards improving quality and reducing costs offshoring holds tremendous advantages for patients.” (7)

Many RCM companies with setups in India are now looking to set up contact centers in the Philippines and other low cost, high quality locations to realize higher efficiencies and cost savings.

Case Studies of Offshored RCM Contracts

The advantage offshore companies have leveraged is no secret. RCM services are thriving in India in the past decade because of the huge potential of the industry. India today has high level expertise in the industry and is slowly emerging as a center of excellence in RCM. The case
studies discussed below (of companies such as Deloitte and Zavata) are an indicator of the potential of offshoring RCM.

**Deloitte:**

- 11 hospital health systems with 90 days in A/R utilizing revenue process optimization and extended business office services. Deloitte evaluated and redesigned revenue cycle processes as well as liquidated accounts receivable

  **Achievement: 28 day decrease in days in A/R resulting in:**
  - Incremental cash increases of over $100 million
  - $12 million - Net Revenue improvement
  - Continued A/R reduction 6-months post project completion

- Nationally recognized 3-hospital academic medical center with over $1.3 billion in net facility revenue utilizing revenue identification services. Deloitte performed a complete CDM redesign for ambulatory services and strategic pricing analysis for all services

  **Achievement:** Identified and implemented over $25 million in net revenue improvements primarily in the following areas: Cardiac Catheter, Emergency, GI/Endoscopy, Radiology, Chemotherapy, and Radiation Oncology. (8)

**Zavata:**

Penn State Milton S. Hershey Medical Center (HMC) an academic institution providing a wide range of fully integrated patient-care services. In 2000, when HMC experienced high volumes of aging accounts receivable (AR) – over 40% of AR greater than 120 days - Zavata helped HMC drastically lower their AR and achieved good success in converting AR to cash. This also helped improve HMC’s overall financial viability. (9)

**Offshoring Strategies**

So how does one actually offshore their RCM services?

**There are many options available:**

- 3rd Party Operations
- BOT
- Captive
- Intermediaries

**3rd Party Operations:**

In this industry 3rd party outsourcing is the most popular among all the other methodologies. There are many billing companies which are willing to take on the RC Management from the providers for a percent fee.

**BOT**

The Build Operate Transfer model allows the provider to have better control of the process and the offshore team, thus resulting in better management and efficient collections
Captive

Although the most expensive of all the methodologies, captives are the most effective. In RCM, a captive occurs when a hospital opens up its own billing center offshore and operates its own processes. Having a captive will ensure total control of the provider, control of quality assurance and operational processes. It also enables protection of intellectual property and ensures adherence to compliance and quality standards.

Intermediaries

Intermediaries are like brokers who get provider contracts to the 3rd party service provider. They operate on a small fee for each contract or a percent share in the billing office’s profits. They may also oversee vendor operations for as long as the contract stipulates.

Future

Total revenues from the RCM segment are estimated to reach USD 410 million by 2011

In the coming years it will come down to who is the expert. Who has the expertise and knowledge in the RCM space? Firms with a broader spectrum of specialized services and staff will emerge as market leaders in this industry. Along with process expertise, companies must start developing billing expertise in niche segments such as ED, Cardiology, Radiology, etc. Full service-cycle offshoring will be the solution to effective AR management billing and companies will have to start developing areas of excellence in full process specialization.

Hospitals have already started recognizing the benefits offered by such specialized firms and are more than keen to gain from their expertise.

While talking about the resistance from some to offshore such processes Dr. Robert Wachter comments “Think about the battles over globalization and protectionism surrounding manufacturing computers or automobiles. The debate over the ‘dis-location’ of healthcare will make those discussions look like a calm discussion over afternoon tea.” (11)
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Tholons is a Services Globalization and Investment Advisory firm that combines "Best of Breed" consulting experience with deep execution expertise and investment insights to deliver truly effective services to its clients. Tholons offers a detailed understanding of business processes and combines it with practical hands-on expertise in executing the strategy. Tholons draws upon the considerable experience of a hand-picked team, which has successfully formulated and executed globalization strategies to unlock value for Global Fortune 1000 companies. Service providers leverage Tholons expertise to optimize their global delivery model. Tholons advisors engage with government bodies to build compelling strategies for making countries attractive destination for outsourcing.

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