

Revenue Cycle Management and Bundled Payments in India

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ABSTRACT

Revenue is the most important element for the survival of any entity. Therefore, Revenue Cycle Management (RCM) is a growing concept and industry by itself. The economic sector that uses this concept the most is the health care sector. With the involvement of huge volumes of insurance claims to be redeemed by health care units, RCM becomes all the more important for them. The probability for disallowance by insurance providers is always on the higher side. The revenue is generally blocked in the form of receivables, which are highly prone to disallowances, and affects the revenue cycle management massively. This research paper while taking into consideration these insurance claims and probability of insurance disallowance, will be trying to formulate a ratio that describes the tolerable level of rejections that a unit can suffer at different levels of revenue. The other area focused under the study would be the viability of Bundled Payment System in India. The bundle payment system is where the patient is asked to make payment of a certain amount, upfront for all the episodes of care. The major concern for the acceptance of such a system in India would be the psychological factors amongst Indians.

1. Introduction

Revenue is the blood and life of any business. For any activity to be undertaken, the first and foremost factor required is funds. Though in the beginning these funds can be arranged from external parties, in the long run the business on its own will have to start generating revenue for its continued sustenance and growth. Giving regard to the fact that revenue is such an important element, Revenue Cycle Management is an area that is gaining importance in many fields in the economy. Starting from retail industry to healthcare industry, RCM is now being popularized. In fact, RCM on its own is a separate industry altogether. Therefore, there are entities that have formed a separate division for Revenue Cycle Management that consists of the personnel imposed with the duty of proper management of revenue, find loopholes in the system and rectify the same. On the other hand, there are entities that prefer outsourcing the whole process of RCM. RCM in healthcare sector is the focus point in this research. The paper will evaluate the pitfalls or the shortcomings of the existing RCM system that is followed and how to efficiently overcome these hurdles.

Payer mix is another important element that requires focus. Payer mix is the percentage of revenue flowing from government insurance versus private insurance versus self-paying individuals. Amongst this, the problems and risk that insurance poses is on a higher end. Thus, this research will be dealing with insurance claims, its rejections and how to close the loopholes in rejections through better administration. Moreover, this paper tries to formulate a ratio that relates the tolerable rejection rates to various levels of revenue. It is equally important for health centers to manage receivables, as it is to manage their direct over-the-counter cash payments. So, it becomes all the more crucial for them to know the level of acceptable disallowance rate that can be tolerated by the entity so as to function efficiently and effectively. For this

purpose, the team approached Vaatsalya Healthcare Solutions Private Limited to collect the adequate data.

Another aspect that would be covered is the effective usage of Bundled Payment system in India. Bundled Payment System is a system wherein the provider of services is paid with a lump-sum amount for a particular episode of care. An episode of care is a carefully formed process that begins right from the registration of the patient at the hospital to the post discharge care that is required. Although mostly used in the United States of America, this system is being used in India with slight variations. A full force application of the system could bring a change in the way a healthcare provider functions.

2. Review of literature

a) REVENUE CYCLE MANAGEMENT

Revenue Cycle Management is the financial process of billing for the total episode of care provided to the patient, beginning from the patient registration to the receipt of payments. It involves front-end tasks like patient registration, insurance verification, etc., core tasks of providing the service and medical documentation and the final back-end task of billing, claim processing, claim submission, etc. A revenue management team, who frames policies and procedures to ensure optimum cash flow in the organization, manages the process of Revenue Cycle Management. (Berger Steven, 2018)

b) HEALTHCARE SECTOR

Revenue Cycle Management as a means for regulating the cash flows of an organization is popularly practiced in the healthcare industry, as there is an essential need for managing revenue in the sector due to increasing rates of claim rejections and revenue losses. (Simone, 2010)

c) PROBLEMS FACED

One of the critical problems in Revenue Cycle Management is the rejection of claims due to errors like improper coding or missing items in patient charts. The rate of rejections are high inspite of incorporating follow up and denial management in the revenue cycle management structure. (Rauscher Simone; Wheeler John R C, 2008)

d) INSURANCE CLAIM REJECTION

As mentioned above, the major reason for loss of revenue is the claim rejections from the insurance service provider. The claim submissions are often done periodically. Hence, there is a high probability of rejected claims of the previous claim submissions being ignored in the process of filing the current period claims which are usually in large numbers. This leads to the loss of accounts receivable for the organization. (Rauscher Simone, 2010)

e) IMPROVING REVENUE INFLOW THROUGH BUNDLED PAYMENTS

Bundled Payments is an alternate payment method wherein the funds required for the treatment will be estimated in the beginning of the revenue cycle process subsequent to the patient registration. The patient is required to make the total payment of the complete treatment package in a single installment. Bundled Payments are not a prevalent practice in India. The research aims to study the scope of the implementation of Bundled Payments as a mode of payment in the Indian scenario. (Blumenthal David; Squires David, 2016)

3. Research Design**a) STATEMENT OF PROBLEM**

The main issue that is being addressed here is the inability of hospitals to recover costs for the services they have rendered. As a result, their revenues are mostly blocked in receivables, which have a decent probability of rejection. With the growing rate of insurance disallowance or rejection the actual inflow of revenue of hospitals is always doubtful or uncertain. The reasons for rejection of claims can be anything ranging from incorrect information, gap in renewal, policy wording to grave administrative issues from the end of the hospital. So, it becomes all the more important to make the administration of such claims more efficient.

Bundled Payment is a concept that has not been explored much by Indian healthcare providers. We need to find out whether patients are comfortable paying an amount upfront regardless of the services rendered to them. For this the mentality of patients' or potential patients' needs to be studied. It is important to focus on these small elements that have such a great impact on the very survival of a healthcare provider.

b) SOURCES OF DATA

The research study includes collection of both primary and secondary data.

Secondary Data: The secondary data includes:

1. Data containing the amount for which insurance claims are registered in the financial year on a

monthly basis for the years – 2015-16, 2016-17, 2017-18.

2. Financial statements for the years – 2015-16, 2016-17, 2017-18.
3. Insurance claim registered, amount disallowed, amount carried forward and amounts written off
4. Primary Data: The primary data includes:
5. Interview of industrial experts in healthcare and insurance sectors
6. Questionnaire relating to the preferability of a bundle payment system over the traditional payment methods.

Data type: The research includes both qualitative and quantitative data. Qualitative data includes the interview with the industrial experts. The secondary data obtained is quantitative in nature.

c) EXPECTED OUTCOME

Conduct a study on the revenue cycle management system in place to understand it's working and analyze the reasons behind the uncertainty in ensuring revenue in the hospital sector. Further, to understand the pitfalls in the system in order to devise methods to overcome the shortcomings in the existing model. Insurance claim disallowance can happen because of several reasons ranging from a late filing of claims to diagnosis and procedure coding errors and omissions. Studying the frequency in the disallowances due to reasons that can be controlled by the finance team to ensure a better cash flow by ensuring efficient management of the claim filing and related procedures.

Apart from this, there is an inherent loss due to insurance disallowance that a hospital will need to suffer which will only be reduced and not completely eliminated by improved functioning of the revenue management team. The research aims to formulate a ratio to estimate a tolerable level of revenue loss each hospital should provide for correlating it with their revenue flow. This ratio is intended to protect the unanticipated losses accruing to the hospital and maintain the principle of conservatism.

Analyzing the scope of Bundle Payments in the Indian scenario as a means of revenue management after conducting the survey to understand the extent to which people are aware of this concept, introducing the concept and analyzing the response of the people towards it.

d) LIMITATIONS

The scope for revenue cycle management is limited to larger hospitals, as the small-scale hospitals do not resort to structured means of revenue management due to insufficiency of funds to maintain a separate team for revenue cycle management. The data collected is of a hospital that falls in the mid-cap which does not always have funds for an extravagant Revenue Cycle Management System. Also this mid-cap hospital has a low turnover considering the industry average and which does not focus on keen specialization in the administrative and finance aspects. Most of the small and mid-size hospitals run under loss due to varied reason. Hence the research would be focusing on reducing losses. The absence

of data of other size hospitals is a limitation as an evenly spread approach or result may not be possible to ascertain. There are difficulties in the adoption of bundle payments in India due to unawareness and psychological resistance of the general public. The practical implementation is restricted due to the existence of a highly populated middle class and lower class income earning section in the country. They generally would not be financially equipped to avail services beyond their earning capacity. The ratio could produce a zero tolerance level, which might not be a practical implication as there is always an inherent rejection possibility.

4. Data analysis and interpretation

The main data collected for the purpose of this research paper includes :

- a. Insurance data and revenue data of Vaatsalya Healthcare Private Limited
- b. The mindset regarding the acceptance of Bundled Payment System amongst the Indians

The insurance and revenue data has been collected for the creation a formula. This formula will let us analyze how much of insurance claim rejection can the healthcare unit suffer or tolerate in a particular year with regards to the revenue earned that year. Matters taken into consideration for the formulation are profit margins, normal cost, nature of miscellaneous and unexpected expenses, insurance claims and rejections. Through such a formula we can identify a safety net against which the business can fall regarding the insurance rejections. It will help us interpret the impact of the disallowances on the running of the business. It will also allow us understand if there is a specific level at which the business must be cautious so as to achieve further rejections from insurance companies. Apart from these, the data is going to pave ways for the major reasons for the rejection of claims such as absence of medication history, not using appropriate standard claim form, overutilization of laboratory investigations and so on.

The data related to the mindset regarding the acceptance of Bundled Payment System in India is collected via the usage of questionnaires wherein the definition of a bundled payment is broken down. The respondents are asked questions such as whether they would prefer to know the cost of treatment before hand, post-discharge healthcare preferences, etc. The questionnaire directed directly towards the mindset of respondents' preferences will help in interpreting the data collected to understand how well will the crowd accept or not accept the system. Through the interpretation of the data further recommendations can be made to the healthcare units.

5. Findings and suggestions

The review of the current system of revenue cycle management revealed the shortcomings of the existing system and helped in the development of ways to further improve the cash flow by maintaining a dedicated team related to claim procedures, daily cycle of filing insurance claims in the hospitals instead of accumulating it to weeks or months to considerably reduce the loss due to late filing of claims. Maintenance of a dedicated team in the case of a large hospital is justified by the cost benefit analysis. The team

would keep track of the rejections due to coding errors and omissions and conduct the procedure of re-filing of previous claims running parallel to the other regular activities of the team.

The research has developed a tolerance ratio to tackle the inherent loss bound to accrue to any hospital due to insurance claim disallowance. This ratio protects the hospital from major losses due to unforeseen losses. This ratio gives an estimate of the limit of disallowance a hospital can tolerate considering it's level of revenue and helps the hospital to plan it's operations better.

After analyzing the financial statements of Vaatsalya Healthcare Private Limited for 3 years along with the insurance claim disallowances for the same years, we have come to the conclusion that by increasing the revenue by say 0.5% and reducing the expense by say 0.5%, the entity can reduce the losses upto 7.56%. Hence a healthcare unit operating at the same level should not ideally allow more than 0.5% disallowance to expense ratio and 0.5% disallowance to revenue ratio.

The system of Bundle Payments is a more secure system of conducting operations from the hospital's point of view so implementation of the system will considerably reduce the losses accruing to the hospital due to non-payment of the expenses by the client and disallowances from the insurance companies. The questionnaire survey has revealed that there is a scope for this concept in the large-scale hospital industry catering to a population crowd of upper middle class and above. The research suggests that this concept should be more widely applied by the bigger hospitals to popularize the concept thereby reducing the psychological resistance among the general public. This study has shown that there is a scope of the implementation of Bundle Payments through a structured process but it is expected to take a considerable amount of time until this concept can be fully and widely used in the industry.

Upon analyzing the responses to the questionnaire, it was found that many people in India are not aware of the concept of bundle payments. However, they prefer bundle payment system in India. On further analysis, it was found that this is due to the growing health consciousness and increasing cases of chronic diseases. It was also observed that the respondents value both money and service equally which is one of the reasons why bundled payment system is suitable.

6. Conclusion

Healthcare market in India is one of the largest sectors operating in India- in terms of both revenue and employment. With the advent of Healthcare market, the allied services including insurance is on the rise, thus making for the rise in the revenue source of healthcare units from that of insurance. This places high emphasis on the Revenue Cycle Management of healthcare units as there are high chances of insurance rejections, which in turn has an impact on the working of the business as well. From this research paper, a tolerable level of insurance disallowance is to be found out so that the businesses can continue its operations without being

forced to curtail their scale of operation. For any business apart from ensuring a proper revenue-bringing customer base, it has to also ensure that revenue is being recovered from the intended sources. Although some part of disallowance is normal and inevitable, it must be kept under strict check so as to ensure that it does not exceed to unacceptable measures. This also helps to control the internal activities of the healthcare unit so that any deviations can be identified and corrected or even prevented from occurring at all.

Bundled Payment System, although practiced in different ways and models in the Indian scenario, has not been

implemented in full force. From the mentality of the respondents we will know how open they are into knowing the cost they will have to incur for particular episode of treatment along with packages that connect patients to other entities that provide post-discharge healthcare facilities. People in general would be more accepting of a situation if they are prepared beforehand or are aware of it earlier. In such a case, they would be ready to accept a Bundled Payment System, which in turn can help healthcare units to improve the quality of their service as well as meet the requirements of their customers, the patients.

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