

What Really Makes Healthcare Collections Unique

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Regular readers of *The ARM Insider* may have noticed a headline recently assessing the market for healthcare collections: "Hospitals Working To Ease Collection Policies." Since this article was based in part on research conducted here at Kaulkin Ginsberg, I'm writing a few amplifications and clarifications.

It is true that healthcare providers and the receivables management companies that serve these creditors generally adopt a softer touch than is typically utilized in other types of collections. Why?

For one, hospitals tend to be much more community-centered than other types of creditors, and it is more important for these companies to have positive reputations in their local communities than, say, national credit card companies.

Also, healthcare providers frequently experience reasonable recoveries from patients that are covered by charity care and other government assistance programs. These companies want to see these patients back in the future, and may be more willing to forego payments in full for the sake of repeat customers.

Finally, bad debt problems at many U.S. healthcare companies are encouraging patient account managers nationwide to settle when possible, even if an account is not paid in full. These tradeoffs can be realistic and even profitable from the perspective of the creditor.

Thus the quote that the press has most frequently cited from our healthcare research: "Companies that emphasize more empathetic and patient-friendly collections processes, invest in collector-training programs and integrate legal compliance efforts thoroughly with collection operations turn regulatory compliance into a competitive advantage and are most likely to succeed in this market over time."

But -- stop the presses! -- healthcare collections is not all about hand holding and debt forgiveness. As we look at the reasons why healthcare collections is unique, let's include some more equally relevant points that may deserve even more of our attention.

First, the size of the healthcare debt problem is huge. Our research suggests that healthcare providers set aside \$129 billion every year to cover healthcare receivables. As healthcare providers strive to convert these allowances into bad debt, uncollectible receivables weigh mightily on their profitability. And although hospitals do have a charitable mission, these companies (at least the for-profit companies) are still in business to generate profits for shareholders.

Second, receivables management companies have a long history serving these clients by collecting debts in a responsible manner, and building their own businesses in the process. In fact, healthcare is the second largest sector of the accounts receivable management industry, behind credit card collections. We estimate that these companies generate roughly \$2.4 billion annually, strongly indicating that healthcare providers are working with their service providers to confront the problem of bad debt.



Third, the fragmented natures of both the healthcare and accounts receivable management industries suggest that relationships are struck in a broad variety of ways between receivables management companies clients and their healthcare clients. The largest purchaser of bad debt approaching the largest hospital chains and the smallest contingency agency working for a local doctor's office do business quite differently, but do so in equally important ways in the eyes of their clients.

So while it's true that healthcare collections is less likely to result in garnished wages and liens on a patient's home, it remains an important business function that takes place throughout the U.S. economy – one that is frequently misunderstood and the subject of some interesting research.

Kaulkin Ginsberg's Healthcare ARM Report, 2006 is available for purchase on the publications section of insideARM.com.

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About the Author

As Director at Kaulkin Ginsberg, the leading strategic advisory and research firm to the Accounts Receivable Management (ARM) industry, Paul oversees custom research projects and publications. He has spoken at numerous industry conferences and is frequently interviewed as an industry expert by the trade, financial, and consumer media.

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