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Solution overcomes traditional hurdles to automating insurance claims payments

For many insurers, claims disbursement processes are paper-driven, manual and time consuming. As a result, they use extensive resources but often still fall short of meeting their policyholders' need for timely, accurate claims payments.

Now, however, there's a unique solution — Paysurance® powered by U.S. Bank and Enservio — that allows insurers to automate the disbursement process for most property, casualty and auto claims payments, including in situations where payments need to be sent to multiple parties. This patented technology accelerates the processing, distribution and reconciling of these payments, while keeping customers' financial information secure. Insurers reduce costs and save time, while customers — and, in certain scenarios, their vendors — receive funds more quickly.

Checks remain popular for claims disbursement

Even as electronic payments have become standard in numerous types of transactions, many insurers have continued using checks to disburse most claims payments. Several reasons account for this. One is history; most insurers have been working with checks for decades and have instituted the necessary processes and systems to efficiently disburse payments with checks.

In addition, checks are portable. Insurance agents working in the field can carry and write out checks, before simply handing them to claimants. Through tools like positive pay reconciliation, checks can be authenticated by the bank, reducing the risk that a payment ends up going to the wrong party.

Also, until recently, checks were the only practical option for accommodating disbursements that must be split among multiple parties. When disbursements for a claim needed to go to different parties, the insurer simply wrote and delivered multiple checks.

While checks have remained the most common way to handle claims disbursements, processing checks is time-consuming and costly. When more than one person needs to sign off on a check, even more time is added to the process as this non-digital instrument is passed between endorsees.

Checks also can be stolen if not properly stored and safeguarded, and secure storage becomes difficult when field agents must carry stacks of checks with them to the scene of a disaster, for instance. Also, if a check is fraudulently endorsed, insurers can spend a great deal of time and money trying to resolve the situation and ensure their actual policyholder receives proper payment.

Many insurers have been looking for an electronic claims disbursement option. However, several challenges have held them back. For one thing, not all claimants will accept electronic payments, and even those who will must be able to provide information, such as their bank routing and account numbers, that isn't always handy. Furthermore, few insurers want to develop the infrastructure needed to securely collect and store their customers' banking information. And, finally, technology hasn't offered a good solution for cases involving multiparty payments in which each beneficiary has to provide a signature.

Introducing a solution

Through a partnership with Enservio, a leading provider of software and payment solutions for property insurers, U.S. Bank has begun offering a service that addresses these challenges. Particularly well-suited for disbursement of property, casualty and auto claims, Paysurance powered by U.S. Bank and Enservio accommodates multiparty claims payments. It also allows for selection of preferred payment type and, when there are multiple payments for the same claim, offers the ability to choose a different payment instrument for each one. So, if a claim payment will be split between a homeowner and a home repair firm, and the homeowner prefers a prepaid card payment while the repair firm chooses to receive an Automated Clearing House (ACH) payment, the solution can accommodate both.

The solution also can be efficiently integrated with insurers' systems. Because the system collects claimants' financial information, insurers don't need to safeguard that data. What's more, insurers can connect to and share information with their claims management system, and can seamlessly integrate the technology with their own, so users don't need to visit different websites or learn additional user names and passwords.

How the process works

The insurer follows its normal process for receiving, reviewing and approving a claim. Once a claim is ready to be disbursed, Paysurance powered by U.S. Bank and Enservio initiates the payment process.

For ACH payments, claimants will need to provide their bank routing and transit information, relieving the insurer of the responsibility of maintaining its customers' sensitive bank data.

Prepaid cards — another option available through the solution — enable insurers to efficiently distribute payments to policyholders who lack bank accounts.

Policyholders who elect to receive the solution's electronic payments will receive their payment much faster than if they were paid by check. All information is encrypted and securely provided to the bank to initiate the payments.

Once the bank receives a file saying a payment is approved, it electronically issues the payment.

Policyholders benefit in multiple ways. For instance, if there is any sort of claims disbursement issue or question that must be resolved, claimants can use the simple, efficient online portal, reducing the need for multiple phones calls and emails. Among other capabilities, claimants can check the status of their claims disbursements through the portal.

In addition, Paysurance powered by U.S. Bank and Enservio cuts insurers' costs to process claims by as much as 80 percent and reduces the risks inherent in handling and mailing physical checks. Potential claimants must use unique identifiers and be authenticated before they can access the claims disbursement portal. This reduces the chances of an unauthorized person entering the portal and fraudulently directing a payment to someone other than the rightful claimant. By requiring electronic signatures from all parties, the application further reduces the risk of fraud and its associated costs.

Insurers that choose to issue virtual card payments using the service have an opportunity to earn a revenue share. Virtual cards are a secure B2B payment method that issues a unique single-use account number for each claim. The electronic solution also preserves transaction information so it's readily available should it be needed to research a claim.

Paysurance powered by U.S. Bank and Enservio will be able to scale and handle other types of claims, in addition to property, casualty and auto.

Securely automating claims disbursement saves time and money, which benefits both insurers and claimants. Insurers can reduce their expenses while also meeting claimants' desire for an efficient, user-friendly way to receive claims payments. Claimants and their vendors can receive payments more quickly and choose the method by which they will be paid.

Pat. No. US 8346665: Dual Activation 000100US; Pat. No. US 8694432: Asynchronous Dual Activation 000110US;
Pat. No. US 8762278: Virtual Card / EFT 000120US

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Strategies to overcome friction in B2B payments

Key points

- Businesses struggle to transform their collection and cash application processes to efficiently accommodate electronic payments.
- Business clients say that capturing remittance information through email and fax creates a significant amount of manual work to post and apply cash.
- There are turnkey bank solutions that capture remittance information received by email and fax and reassociate the details with the correct ACH payment to allow businesses to virtually eliminate manual effort and improve cash application.

For decades, companies have relied on checks and physical remittance documents to complete their order-to-cash cycle. Systems, processes and best practices were created and reengineered over time to drive efficiency in a predominately paper-based accounts receivable (A/R) function. Many companies continue to rely on this proven means to accept and apply payments from trading partners.

Why businesses still use checks

For the most part, checks are considered an antiquated means to transfer value, yet billions of checks still exist. Overall check volume has declined during the past 20 years as payment innovation has accelerated. The Internet, advances in mobile technologies and changes in regulation have allowed payers to adopt new forms of payment.

In spite of these changes, many businesses still prefer to receive checks. Why is this the case?

Efforts to eradicate checks

The industry has attempted to eradicate business-to-business (B2B) checks, with modest success. In the 1980s, electronic data interchange (EDI) emerged, but adoption was somewhat limited. Many companies could not justify the up-front expense to adopt EDI. To drive participation, large billers often exerted pressure on their smaller trading partners. This strategy was short-lived as relationships suffered and billers acquiesced. Other initiatives such as electronic invoice presentment and payment (EIPP), biller directories and ACH CTX have failed to crack the code of B2B payments and have languished because they are inherently difficult to implement and support. While all of these options can deliver the information the biller needs to post, why do billers still continue to receive paper checks?

Challenges posed by electronic payments

Although considered to be more efficient, electronic payments can pose challenges to billers for a number of reasons. The remittance information is vital for a biller to determine who, what, where, when and why of a payment. For billers that use an open account posting process, this may not be an issue. But for those who rely on specific data in order to apply cash, a mountain of work can arise when this information is not present, is incomplete or is delivered by another medium such as email or fax. In these cases, funds typically are posted to an exception account, and an accounts receivable clerk is required to contact the payer to gather more information and/or key a significant amount of data, which is manual and time consuming.

U.S. Bank conducted research into receivables management to validate where friction exists in B2B payments. The most significant finding was that billers prefer to receive paper checks. But how can this be?

Electronic payments are supposed to promote greater efficiency, speed and lower cost. While this is true for payers, billers rarely realize these benefits.

Billers continue to rely on legacy systems and processes, as evolution typically requires investment, and dollars and resources are hard to come by.

Indeed, when billers are considering potential corporate investment, A/R reengineering tends to fall behind other priorities such as research and development, debt reduction, stock buyback, etc.

While much of the focus has been on billers' challenges, payers also find it difficult to electronically deliver remittance information. They too have antiquated systems that cannot generate remittance data that complies with industry standards without significant investment.

Payers have adopted a hybrid approach in which funds are sent through the ACH network and remittance information is delivered to the biller, outside of the payment. Often, a PDF of the paper remittance is emailed or faxed to the biller. While this can simplify the process for the payer, a host of issues emerge for the biller.

When an ACH payment posts to a biller's bank account, the biller must determine who paid and for what invoice, whether the amount paid was equal to the amount due, and if it wasn't why not. If an accounts receivable clerk finds no supporting remittance information in the bank reporting, the clerk must scan his email inbox. Once the email is found and printed, the A/R clerk must verify with which payment the emailed remittance data is associated. The clerk must then key all applicable data into the A/R system. This could include hundreds of invoice line items tied to one single ACH payment. The keying process is manual and time consuming.

Remittance reassociation offers a solution

Bank remittance reassociation services can solve these longstanding challenges related to migrating to electronic payments. Billers can direct payers to send the remittance information by email or fax to their bank, where the remittance information is captured. Received ACH transactions that lack remittance detail are fed to the bank's system and are queued awaiting a match. Advanced machine learning capabilities locate a match between the ACH payment and remittance data. The reassociated data is then transmitted to the biller to automate the cash application process.

As a result, staff are freed up from the very manual process of reviewing emailed remittance data, finding the corresponding payments and posting the information. This creates substantial labor savings and improves automated cash application rates, and the reduction in exceptions allows staff to be allocated to other essential activities.

Over time, new solutions will emerge to tackle the B2B payment challenge. Real-time payments soon will be introduced, and while the resulting settlement speed could be intriguing, it remains to be seen if companies will realize opportunities for improved data integration promised with this new payment rail.

Even as new solutions evolve, there will always be payers unwilling or unable to include remittance data with the payment. Until then, remittance reassociation can help bridge the divide.

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Case study: U.S. Bank and Veterans Trading Company

Veterans Trading Company, LLC (VTC) is a service-disabled veteran-owned small business founded in 2005. With headquarters in Ocala, Florida, and operations in nine states across the country, it provides supply chain solutions and procurement support programs to government contractors, including large defense firms.

As part of VTC's natural growth process, in 2015 the company began looking for a new bank. It reached out to U.S. Bank to obtain a line of credit to support its operational needs at more reasonable interest rates, and to seek a range of treasury management services. Ultimately, the company came away with all that plus an unexpected bonus: a commercial card program that today generates hundreds of thousands of dollars in annual rebate revenue.

Business model presents opportunity

VTC has a business model unlike most companies. As part of its supply chain and procurement services, the business makes inventory purchases for clients such as Lockheed Martin and Boeing, for which it is later reimbursed. "As a result, we are on both the accounts payable and accounts receivable sides of these transactions," explains Scott Roberts, vice president of finance and human resources. "For anyone on the outside, our business model can be quite confusing unless they really take the time to figure it out."

U.S. Bank did just that in June 2015 as part of its comprehensive Working Capital Engagement review of VTC's payables and receivables processes. Noting the company's large-dollar purchasing on behalf of clients, the bank's consultants saw an opportunity for VTC to increase disbursement efficiency as well as generate working capital through rebates. They suggested the company adopt a U.S. Bank (Visa) One Card program.

At the time, VTC had an American Express commercial card program it was using for travel and working capital purposes. An insufficient credit limit and lack of acceptance by some companies restricted annual card spend to about $5 million. The program offered no cash rebates.

"I ran some numbers on our annual spend and confirmed that the rebate on the Visa card — with the better credit limit U.S. Bank was offering — would result in a major source of income to our business," Roberts says. "This was our 'aha' moment."

Supplier enablement

In the fall of 2015 VTC adopted the U.S. Bank One Card, programmed its ERP system to account for the new Visa payments it would be receiving, and began aggressively onboarding suppliers.

U.S. Bank supported supplier enablement by providing VTC with a list of the company's trading partners that were accepting Visa card payments from other businesses. "We prepared our normal weekly check run, but instead of printing the checks, we contacted every vendor on the list and offered to pay them with a Visa card," recalls Todd Allen, the company's comptroller.

"Then we contacted the rest of the vendors to learn if they accept Visa," Allen says. "That became our process over a two-to three-month period until we established a list of card accepting vendors."

With this approach, in just the first year of the program, VTC quickly ramped up to $20 million in Visa card spend, quadrupling the size of its previous card program. To grow the program beyond just those suppliers who represent the "lowhanging fruit," VTC adopted a number of proactive supplier enablement strategies, including:

- Working with major vendors that don't accept card payments to negotiate credit card terms benefiting both parties.
- Empowering the procurement team to give preference to vendors that agree to accept the One Card. Pricing and all other factors being equal, vendors that accept the One Card get "the nod" over vendors that don't.
- Providing the accounting team with an incentive to promote card acceptance. Team members who onboard vendors into the program earn a percentage of the resulting rebate.

Rebates and more

VTC has issued One Cards to about a dozen managers and administrators for travel and purchasing expenses, and its buyers across the country utilize Visa "virtual cards" to support procurement. In large part due to the supplier enablement strategies noted above, Roberts expects the company to surpass $30 million in card spend in the program's second year.

The company has gone from generating no rebate cash from its previous card program to projecting hundreds of thousands of dollars in rebates in 2017 from its new U.S. Bank One Card program.

In addition, the program has increased the efficiency of the company's disbursement efforts by cutting in half the number of checks it issues, thereby saving on check printing and mailing expenses, and reducing the need to initiate expensive wire transfers. "I ran some numbers on our annual spend and confirmed that the rebate on the Visa card — with the better credit limit U.S. Bank was offering — would result in a major source of income to our business. This was our 'aha' moment."

— Scott Roberts, Vice president of finance and human resources

Prior to launching its U.S. Bank One Card program, the company was initiating three or four Automated Clearing House (ACH) or wire transfers daily on behalf of just one of its major clients. "Now we're down to maybe one a week," Allen says.

What's more, the card program gives the company greater control over spending and fraud, particularly in comparison to check issuance; eliminates the need for employees to use their personal cards for business expenses; and provides ease of administration through the Access Online card management portal.

A promising partnership

In U.S. Bank, VTC found the financial partner it needed to support its next stage of growth.

"Our company has a strong relationship with U.S. Bank and has benefited from the level of attention and professionalism their entire team has demonstrated," Roberts says. "From our very first meeting, the bank team made a concerted effort to learn our unique business model and create a strategy for our treasury, line of credit and Visa card programs."

Following the Working Capital Engagement in 2015, the bank's consultants recommended, and VTC implemented, payables and receivables solutions ranging from check payables and positive pay fraud protection to credit sweeps and a more robust lockbox solution.

But the real game-changer has been the rebate-generating commercial card program that wasn't even on VTC's radar when U.S. Bank recommended it. "We were so in the weeds taking care of our thousands of daily transactions that the opportunity escaped our attention," Roberts says. "It took an outsider willing to get to know our business to point it out."

U.S. Bank One Card program benefits

- Increased annual rebates from zero to hundreds of thousands of dollars in 2017
- Reduced the number of checks being issued by 50 percent
- Significantly reduced volume of ACH and wire transfers
- Enhanced visibility into payment detail to proactively manage spend, monitor payment activity and mitigate fraud risk
- Provided ease of administration through the Access Online card management portal

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