



Open Road

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Bankers have learned a thing or two over the years about missed opportunities.

Remember when 401(k)s first emerged as a supplement to employer-provided pensions? The conventional wisdom among bankers was they wouldn't catch on with people accustomed to defined benefit plans. Eventually, of course, Americans' adoption of 401(k)s changed not only retirement planning but the psyche of America itself.

Fast forward to today's rise of consumer-driven health care, a movement that requires consumers to take financial control of a benefit that had long been on autopilot. "A lot of bankers said 401(k)s were too confusing to explain, and that's why Fidelity is sitting on \$1 trillion today. But bankers are smart enough not to sit this one out," says Allen Pease, who worked for years at Bank of America and is today svp, financial industry sales, at ConnectYourCare, a consumer-directed healthcare tools and administration provider.

Estimates on the growth of the consumer-driven health care market vary, but virtually all predict robust increases. Consumer-driven health care encompasses a number of accounts—flexible spending accounts (FSAs), health reimbursement accounts (HRAs), and health savings accounts (HSAs) — but it is the HSA that is getting the most buzz and has the highest growth expectations. Congressional analysts predict more than 40 million (HSAs) will be established in the next 10 years, while Celent forecasts 40 to 50 percent growth from 2008 until 2012, from about three million HSAs to 12.5 million by 2012. "This is a great opportunity, it's an underserved market and we want in," says Joe Ready, head of Wachovia Retirement Services, which went live with its new HSA program in mid-December.

Concurrent with the rise of consumer-driven healthcare are growing opportunities for banks around business-to-business healthcare payments; specifically, by bringing efficiencies to the "revenue cycle" between insurance companies, third-party administrators, employers, doctors, hospitals and patients. This interchange of payment and coverage information is notoriously fragmented and without technology standards; as a result, long delays in adjudication of claims and remittances creates uncertainty on both sides of the transaction. Not only that, it is still a highly manual, paper-based process for the most part, making it expensive. By offering technology solutions that tie data, adjudication and payments together, some leading banks see an opportunity to drive efficiencies in and costs out for an industry desperate to trim costs.

But wait, haven't we been down this road before? Weren't HSAs the next big thing in 2004? Yes, but there are convincing arguments that the time is indeed nigh for these financial products to take off. Number one is the continued crushing cost of healthcare and the desperation of employers to control costs that year after year grow faster than inflation.

HSAs allow an employer to shift some of the responsibility to the employee. Here's how it works: The employer offers employees a high-deductible health plan (HDHP) policy as part of its benefits package, which is much less expensive for the employer. In conjunction with this the consumer creates an HSA, a tax-exempt account to pay for qualified medical expenses that the individual owns like an IRA. The maximum annual contribution to a HSA is \$2,850 for a single and \$5,650 for a family and is often at least partially funded by the employer. Even so, the cost to the employer is much less than a typical insurance policy.

The second reason people argue that HSAs are poised for widespread adoption is that insurers are finally offering a wide selection of high-deductible health plans. Back in 2004, even though HSAs rules mandated they be established in conjunction with a HDHP policy, very few existed. That's not really surprising. The reason the HDHP/HSA union is so appealing to employers is exactly the reason it's not appealing to insurance companies. All those healthy employees with very expensive insurance policies were a cash cow for insurers. Switching healthy people to HDHP takes money right out of insurers' pockets.

But as employers face overwhelming healthcare costs they are demanding that insurers offer HDHPs. And it doesn't hurt that these accounts' tax advantages are particularly desirable for senior executives who can afford to fully fund them every year and grow the account substantially since accumulated assets can be directed into mutual funds and other investments. Grudgingly, the insurers have begun to fall in line and offer HDHPs, aware that the alternative is losing customers to others who will offer these policies. "Insurance companies were consciously not offering the plans," says John DiMichele, president and CEO of Community Business Bank in Sacramento, because the commissions were less. "But highly compensated people love these plans, and guess what? They're also the decision makers at companies" for what carrier to choose.

The third reason HSAs are poised to grow experts argue is that banks have grasped that consumer-driven health care is still a relatively underserved market that offers a vast opportunity for true organic growth. As Ready of Wachovia recalls, "every time we visited a retirement client they asked us about it." Unlike most new products that either cannibalize accounts from within, or seek to grab marketshare from competitors, HSA funds come from outside the industry, specifically from insurers, eliminating in-house conflicts and the tough work of peeling away a customer from another bank.

"It's a big play for banks in terms of asset accumulation, fee income and interchange revenues," explains Pease of ConnectYourCare, which was acquired by Express Scripts, Inc., one of the nation's leading pharmacy benefit managers. IRS rules dictate that an HSA must be housed at a federally chartered bank, which removes most insurance companies from the day-to-day routine around medical payments and inserts banks into that active role. "Trillions of dollars will be shifting control from insurers to consumers," Pease adds, and the banks have an opportunity to own those accounts.

The fourth driver behind adoption today is that banks, insurers and employers are getting better at educating consumers about the various consumer-driven healthcare options. And, the fact is, consumers must get comfortable with the new concept, and that takes time. There is a natural period of adjustment. "Employers are getting it," says Alenka Grealish of Celent, "and they're conveying it through education." That said, the industry's job of education is far from done. The Financial Research Corp. released a statement in January that said only a minority of firms—including JPMorgan Chase and UMB—were doing a good job of HSA promotion by creating "destination Web sites or co-marketing the accounts with HSA providers." The study found that most top-tier FIs have been slow to match the product support of the small providers.

Finally, those who argue that HSAs are on the verge of major adoption in 2008 point to a legislative element; there's a natural lag time between new laws and market response since employers tend to make benefit decisions once a year. And, since Congress enabled HSAs, it has continued to refine them and make them more attractive. For instance, Dennis Triplett, president of UMB healthcare services, argues that a big boost came with legislative action at the end of 2006 that simplified the contribution rules to an HSA, decoupling the contribution limit from the amount of the deductible and creating a standard limit. "The decoupling of contributions limits from the deductible further enhances the appeal of HSAs," says Triplett, who noted that UMB recently topped \$100 million in HSA assets. "But the legislation was done so late that no employer could react for 2007. But now in 2008 there's more of a buzz this enrollment period."

Even though there's considerable momentum behind HSAs and consumer-driven healthcare in general, and the advantage to tapping the market clear, banks still face tough issues around the business model: What technology should the bank put in place? Should the bank build or buy the technology? If the decision is to build, can an internal platform be used, or does a new one need to be created? If the decision is to buy, who's the best technology partner? What's my distribution strategy going to be? Will I reach consumers through their employers? Or reach employers through insurance companies? Or reach consumers through bank branches?

A good starting point, according to bankers, is realizing that the HSA is a unique product that can't just be tacked onto an existing platform. When the product first emerged many bankers thought HSAs could run off the demand deposit account platform. But these lacked an investment aspect. The other popular platform alternative, the 401(k), was designed for infrequent large trades, not for someone spending it down in small increments. In fact, many first generation bank adopters now find they can't service the accounts properly and are now searching for "second generation technology," according to Pease, who adds that ConnectYourCare recently got one bank up and running in 60 days.

In fact, says Ready of Wachovia, when the bank began its platform assessment the expectation was it could modify one of its existing platforms to accommodate HSAs; but the more they looked at it "the more it looked like we were trying to fit a square peg into a legacy platform." The big catch was marrying the bank's competencies around asset management, card payments, distribution and FDIC insurance, with record keeping associated with HIPAA; HIPAA is the Health Insurance Portability Accountability Act of 1996 and is intended to protect a patient's privacy and rights regarding their confidential

health information. In the end, Wachovia chose to partner with Canopy, a provider of healthcare banking technologies.

Martha Beard, head of JPMorgan Chase's healthcare solutions business, explains that they also took a first look at their DDA and 401(k) platforms but quickly realized that they did not create a dynamic enough environment for HSAs. What they needed was something flexible, with real-time functionality, card capabilities, and a service oriented architecture that would allow the bank to plug in additional functionality in the future. JPMorgan chose to build a proprietary technology off its existing expertise around prepaid and stored value cards. "We made the investment so we can add Web tools and other services along the way so consumers can navigate on their own as they become more sophisticated."

A critical consideration for banks as they design their HSA platforms is appealing to employers. Whether the banks are working directly with employers, or indirectly through insurance partners in conjunction with the insurer's HDHP, satisfying the employer is key. After all, landing a single one could mean thousands of HSA accounts. Foremost among employer concerns is that the benefits solution is easy to understand. Education should be relatively brief and the information easy to grasp. Then, once in use, the service must be top notch and manage a wide array of functions: eligibility, enrollment, expense tracking, payroll deductions, debit card management, real-time authorization, record keeping, balance and customer-service interfaces, like Web portals, to name a few. Bad service anywhere along the way by the banks is going to quickly get read back to employers.

Finally, employers want interoperable solutions and one administrator for all their consumer-driven health care needs. Remember, besides HSAs the consumer-driven healthcare universe includes FSAs and HRAs. Coping with all these can be tricky since there are real differences. HSAs are a financial product, owned by the consumer, while the FSAs and HRAs are use-it-or-lose-it employer benefit products controlled by the employer and paid out to the consumer on a per purchase basis, explains Vik Kashyap, founder of Canopy.

The main operative difference here is the reimbursement component to FSA and HRA accounts that doesn't exist with HSAs. With HSAs, since the consumer owns and controls the account the employer has no obligation to track how the HSA funds are spent. As Kashyap puts it, "that's between you, God and the IRS." But for FSAs and HRAs the reimbursement component is the most vexing part for employers; they or a third-party administrator must deal with reams of paper receipts and forms from employees seeking reimbursement for every little purchase.

An emerging solution to this problem is bank-issued debit cards tied to an employee's FSA or HRA account that can accept or deny a purchase at the point of sale, eliminating all the paperwork. This evolution to an electronic environment recently got a big boost from the IRS. As of January 1, 2008, the IRS requires non-healthcare retailers, such as supermarkets, discount stores, warehouse clubs, and mail-order merchants, which sell medical goods and services to maintain a point-of-sale solution that identifies eligible transactions when consumers use FSA and HRA debit cards. As of January 1, 2009, the IRS requires most pharmacy retailers to operate the same way, though many of these

merchants have already done so or plan to be compliant well before the IRS deadline. This rule is a boon for employers, and a major opportunity for banks with card expertise.

Red Gillen, an analyst at Celent, estimates that about one-third of FSA accounts are card enabled in this fashion, the remaining two-thirds still require the manual and expensive process of submitting receipts and cutting checks. He expects the push for card-enabled FSA accounts will be significant now as a way to quickly push costs out of the system. This kind of P.O.S. intelligence for FSAs can be applied to HSAs, though it doesn't have to be. Indeed, it's the kind of added benefits that might help win the business of an employer.

John Reynolds, president of Metavante Healthcare Payment Solutions, says, "Banks need to offer additional benefits to entice employers. If a financial institution is going to sell an HSA, it needs a linked FSA. You can't underestimate the level of commitment to be successful in health pay." For instance, Metavante supports single-card, multi-account electronic access to benefit accounts and auto-substantiation of benefit account transactions, and not just for FSAs, HSAs, and HRAs, but also transit/parking and dependent care accounts. Just last month Metavante announced its purchase of BenSoft for its RepayMe software, to help individuals easily obtain reimbursement for eligible expenses covered by benefit plans, and helps administrators reduce costs, improve operational efficiency and minimize execution risk.

In the case of JPMorgan Chase, the pursuit of a HSA solution spurred interest in the business-to-business side. A world of new possibilities opened up to them and, best of all, they realized they were already in the middle of the transaction. After taking a close look at its treasury and payments business, JPMorgan realized that if it could electronically tie remittance information (the "explanation of benefits" or EOB) with the payment information they were already providing there was a huge opportunity to speed claim reimbursement. Usually the EOB flows separately from the payments, making the claim reimbursement process lengthy and cumbersome.

Not only does this electronification speed the process, it adds more certainty at the point of sales for both parties. This is especially critical, says Beard, as consumers use HSA and FSA debit cards at hospitals and doctors offices. To this end, JPMorgan bought FisaCure last year, a provider of electronic remittance services, and folded it into the healthcare solutions business of JPMorgan Chase's Treasury Services unit.

Beard explains that JPMorgan's combined moves on the consumer and the B2B sides are helping to create an "ecosystem" that ties insurers, employers, hospitals and patients into a more efficient environment with better services. Insurers want to be more efficient, she says, because it makes them more attractive to hospitals and employers. And the three working together make the customer experience better, increasing adoption and lowering costs all around. "It's been our deliberate strategy to get in the middle," Beard says.

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