

Subrogation Payment Processing: Are You Using The Most Efficient Method?

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The exchange of recovery dollars in the subrogation industry is primarily still in the dark ages. Up until credit cards and Automated Clearing House (ACH), the only option for collecting recovery dollars from carriers or uninsured motorists was good, old paper checks. However, thanks to advances in technology, additional options for accepting payments are available - ranging from credits and electronic funds transfer (EFT) to check conversion and ACH to Check 21 (business checks, money orders).

Before delving into the different types of instant payment options, let's talk a little bit about the current subrogation payment lifecycle and how many of you may be handling your payment processing and payment options today.

If you take a look at the types of payments that come into your subrogation department today, the breakdown would likely be 80% carrier-to-carrier payments and 20% uninsured motorist payments. No matter the type, the process remains the same.

The beginning of the cycle begins with the subro professional settling a claim and documenting the agreement. A majority of the time, this documentation is being handled via a note in a claims log. Once the check arrives, the envelope is opened; the check may or may not be copied/ imaged, at which time, the copy is handed off to either the subro professional or a processor to verify the accuracy of the payment. This is typically accomplished by reviewing the log notes. Once this is accomplished, the payment is then applied against the different indemnity types. If the check is for a partial payment, the employee will need to determine against which indemnity the payment is to be made. The last step is for the employee to determine the amount of the deductible to be returned to the policyholder and request the reimbursement. Once the checks are applied to the claims system, the check is forwarded to the accounting where the deposits are balanced and placed in the "magical green bag" and deposited at the carrier's financial institution. This is a very labor-intensive practice.

At some point in a subrogation department's best practices, analysis has been done to determine how incoming payments will be deposited. Are you going to deposit first and ask questions later or, validate each payment before you deposit and accept it? Both practices are currently being done across the industry and there are pros and cons of each, but we'll leave that discussion point as it relates to cost-savings for another article.

Once you've decided on your best practice for deposits, you will spend man-hours validating the payments either before or after the deposit is made. In either scenario, the manual validation of payment dollars and applying those funds to your claims system is a very time-consuming responsibility. If, by chance, credit cards are being processed, typically there is a completely separate process and system for that as well. This brings training issues, a higher propensity for error and a financial department that is pulling multiple statements to then feed your accounts receivable system and/or general ledger, into the picture. The cumbersome work involved happens to be one of the main reasons credit cards are not used today in the recovery process for payment.

How Can Technology Improve Your Bottom Line?

What's Available?

First, let's talk about what technology advances have been made in the payment processing sector. Credit cards hit the scene in the 1920's but are not highly used in the subrogation industry today. This is due to several reasons, including the fact that only 25% of all subrogation payments are initially eligible. Additional hard costs and fees are associated with credit card payments. Typically, this process is not integrated with internal systems; therefore, reliance on a third party to process these payments is necessary. Manual application of these payments to your claims and financial systems is required.

In the 1970s, EFT and ACH hit the scene. Here you have little costs to accept and process payments, but with a higher rate of NSF and/or transactional denials (the positive aspect is that notification is accomplished much faster than traditional check processing). Once again, unless you are a large company that has made integrating ACH into your current payment options, you are relying on a third party to accept ACH and EFT transactions. This incurs in another system, which still requires manual work to apply the funds to your internal claims/subrogation system, and may involve your accounting area in another capacity.

On March 12, 2007, the National Automated Clearing House Association (NACHA) passed a new standard, opening up the process of back office conversion (BOC) for conversion of paper checks to digital deposits. What does this mean? This means the process that banks currently utilize to process payments with the Federal Reserve and other banks is now open to non-financial institutions. This allows for different remote check capture products to now be available to everyone and to expedite the remittance process.

Cost Improvement

This is all great technology, but how can they be utilized to improve your department or company's bottom line? I recommend having as many payment options as possible in order to give your staff multiple options for payment recovery. Although each option has a different rate of recovery failure, providing more options will allow for the recovery and remittance of more dollars. Still, there are probably more cons than pros to credit cards and EFTs by themselves without a global solution to payment processing. BOC, on the other hand, has more pros. BOC, by itself, is literally the conversion of paper checks to an electronic deposit directly to your bank. This alone can save you hundreds of thousands of dollars a year.

Let's look at what that means to your loaded operational costs. First, daily deposits are now being sent to a bank as an electronic file instead of via the magical green bag. No more courier costs. By sending an electronic deposit, the transaction now takes priority over all paper transactions. This means the money is available to a company quicker and with less NSFs. Think about how much it costs your company to process an NSF payment. This alone would be a multiple departmental cost savings. Finally, unlike an account credit, which is typically what you get the next day with your paper deposit, your funds are truly available the next morning.

Where's Your Bottom Line?

By accepting the advances in technology and implementing a payment solution encompassing these new technologies, your subrogation operation can take advantage of the efficiencies gained through these new avenues of payment processing, now available to all of us. If implementing a payment solution encompassing all of the solutions is not an option, choosing any one or a combination can also make a drastic impact.

Change that improves efficiency, decreases operational and transactional costs and allows you to free up valuable time to spend on the important tasks of your operation is well worth the effort. These are the kinds of initiatives you want to be a part of when looking to improve your remittance process.