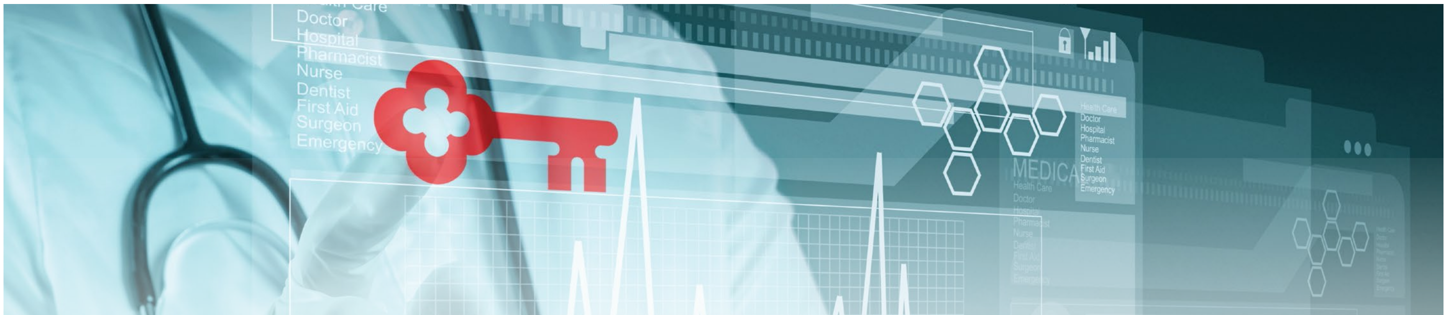


# How to survive five financial challenges faced by healthcare organizations

Today's healthcare organizations face myriad financial and other challenges because of threats from the outside, including cyber-attacks, as well as threats from within—such as consumers' shifting expectations of what healthcare should be.

Healthcare service firms are feeling squeezed from every angle. Cyber-attackers are causing mass chaos with ransomware and other incidents. Industry disruptors want to change the way healthcare is delivered altogether, bringing streamlined retail models to consumers. In the U.S., legislative bodies continue to argue about the ACA, even as institutions are still trying to figure out how to run their businesses as they transition to value-based care. Yet with integrated delivery systems focused so heavily on mergers and acquisitions, they haven't come much closer to understanding their own costs in delivering care. Finally, providers are struggling to figure out new payment solutions, since consumer payments now represent a sizeable portion of their receivables.

**Healthcare providers that thrive will bring a strategic eye to addressing five key challenges:**

**1. Cyberthreats**

**2. Regulatory uncertainty**

**3. Industry disruption**

**4. Payment solutions**

**5. Financing**

## Key takeaways

Investment is essential to protect against costly cyberthreats.

Patients are becoming consumers who demand higher quality at a lower cost.

Payment options for out-of-pocket healthcare expenses should mirror retail settings.

Equipment financing can turn acquisition costs into increased care revenue.

## 1. Cyberthreats

Healthcare organizations spend a fraction of what companies like Amazon and Facebook spend on cybersecurity. However, organizations are best served by investing in a complete cybersecurity plan, which includes:

**Securing payment data**
Too many hospitals are keeping patients' financial information in-house. Instead, a partner that is PCI Level 1 certified and a Validated P2PE solution provider is a safer option.

**Fostering better communication with the C-suite**
Breaches often happen because employees unwittingly allow hackers to invade the network. For example, if a human resources employee gets an email from a senior executive asking for employee information in bulk, the email recipient should pick up the phone and call the executive to confirm that the request is genuine and not an attack. This may seem obvious, but oftentimes the email recipient doesn't place that call because the company culture doesn't encourage it. Hackers are now using more psychological strategies, playing on the fact that lower-level employees are not encouraged to communicate directly with senior executives.

**Buying cyber-insurance**
While large company cyber-attacks make headlines, 43 percent of all attacks target small businesses, according to a recent survey. The cyberliability insurance marketplace continues to evolve with additional coverage features, including crisis response, which is critical at the time of an attack. While most businesses express concerns about cyber-attacks, over half do not allocate appropriate funds for risk mitigation or adequate insurance coverage. Regardless of industry or underlying exposure to cyber-risks, cyberliability insurance should be a key part of an organization's overall risk-transfer strategy.

## 2. Regulatory uncertainty

Hospitals have long relied on volume to increase profitability in a fee-for-service environment. But with healthcare reform and the move to value-based care, many are working hard to move away from relying on volume alone.

Shortly after the ACA of 2010, there was great momentum to invest and/or join accountable care organizations (ACOs) in order to provide more comprehensive care for an entire community. Many have formed, but their risk tolerance will remain low until they can better understand their true cost and quality in a new value-based reimbursement model.

> ”
>
> Many firms are starting to recognize where they excel and are creating affiliations or other agreements where another firm is providing better outcomes.
>
> **– James Fasone, Senior Vice President, National Healthcare Practice Leader, Key Insurance and Benefits Services**

The problem is that the focus has been on increasing market share through mergers and acquisitions and the ensuing integration challenges—not necessarily efforts associated with getting to the most effective means of measuring cost and quality. Currently, many healthcare organizations are hard pressed to identify their true cost of performing specific services or procedures across the enterprise.

Without more accurate data, some organizations believe their patient quality is higher than is actually the case for some procedures. Better data utilization that pinpoints which service lines are strong and which ones are not would help support their broader market strategy. Many firms are starting to recognize where they excel and are seeking affiliations or other agreements where another firm can provide better outcomes. Healthcare organizations need significant capital to invest in technology to better measure their data, and own the results of that data to better understand where their strengths and weaknesses are.

## 3. Industry disruptors

One major concern for traditional healthcare service firms is new, disruptive models that can provide more immediate, community-oriented care. An example is the recent move by CVS to buy Aetna, with most likely others soon to be announced. A retail pharmacy could now move beyond basic care to more extensive patient services. Add a diverse health organization such as Aetna, which has an incredible amount of data, and the potential for an efficient, consumer-focused healthcare organization that can leverage costs and efficiencies close to their customers is born.

It seems that this disruption is just beginning. If non-healthcare innovators such as Amazon, Apple and Google, which have a proven brand and market reach, find ways to get into the healthcare game, change will be dramatic. Younger consumers of healthcare have a higher expectation in this digital age; they want to be able to have a simplified, technology-focused delivery mechanism through their smart device that works the first time.

Non-critical, low-cost healthcare services will have to move in this direction to serve this tech-savvy population and begin to arrive at their doorstep at a lower cost than traditional providers. Currently, the healthcare system doesn't operate efficiently in a consumer-friendly manner, nor does it provide full transparency on the actual cost and quality of specific services. This is likely to change—and soon. Consumers are driving transparency, which will push firms that excel at specific services to get even better and ultimately demand greater reimbursements for those higher-quality services.

## 4. Consumer-friendly payment solutions

Hospitals and physician practices are still getting accustomed to the idea that they are retailers—and that consumers want to pay for healthcare the same way they shop. High-deductible plans have only increased, leaving more consumers paying out-of-pocket for certain services. Consumer payments can account for 10 to 20 percent of some providers' net patient revenues, a figure that has risen dramatically over the past five years. This means healthcare organizations need to think of the consumer as the new payer.

> Consumer payments can account for 10 to 20 percent of some providers' net patient revenues. That means healthcare organizations need to think of the consumer as the new payer.
>
> **– Arnold Torres, Senior Vice President, National Healthcare Sales Manager, Commercial Payments**

However, hospitals have contracts negotiated with insurance companies, but not with consumers. That means it's essential for hospitals to have a payment assurance strategy in place, which does **three key things:**

1. It increases consumer satisfaction because the patient isn't getting an unexpected bill weeks or months after his or her hospital or doctor's visit. With hospitals measuring patient satisfaction and using those metrics as differentiators in the marketplace, this has never been more important.
2. It helps hospitals with their cash forecast, so they have fewer spikes and drops.
3. It reduces patient refunds. Providers spend countless hours and resources trying to collect what is owed to them, so having to turn around and spend additional resources to refund patients can be very expensive.

## 5. Financing technology solutions

Ideally, hospitals need to have the latest and most sophisticated equipment to keep up. But with cuts in reimbursement and other financial challenges, finding the capital is often a struggle. The first place hospitals usually look is investment earnings. When the market is doing well and institutions have invested well, there may be enough to fund upgrades. But when things are tough, they look to operating earnings—which, for many hospitals, have taken a hit lately, so bank or vendor financing is typically the next option. Equipment financing allows organizations to keep monthly payments small and manage them for the life of the equipment.

> New technology solutions may increase operating efficiencies, add new service lines or improve patient outcomes.
>
> **– Mark E. Hoffman, Senior Vice President, Key Equipment Finance**

Today's equipment finance offerings are far more strategic. In fact, the Equipment Leasing and Finance Association lists innovation in equipment finance as one of the top 10 equipment acquisition trends of 2017. For healthcare institutions, new technology solutions may increase operating efficiencies, add new service lines or improve patient outcomes. More and more, hospitals will benefit from comprehensive managed solutions that bridge the gap between the clinical side and the financial side.

## Conclusion

There are likely more risks ahead for healthcare service providers. As consumers and service organizations get more comfortable with the convenience of online transactions, the opportunities and associated risks will only be compounded in the future. We will most likely see ransomware activities increase beyond the healthcare industry, as these attacks are efficient to deploy and difficult to prevent. Healthcare reform will continue to add new challenges.

Hospitals and other healthcare organizations should focus both their capital and their leadership on addressing these known issues moving forward. Some challenges simply require a bit of fine-tuning, while others may require a major shift in strategy and culture. It can be difficult for large organizations to move quickly and be nimble, but that may be required.

To learn more about KeyBank's offerings in the healthcare industry, visit **key.com/healthcare.**