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Beefing Up Payment Systems

Health benefits administrator SHPS streamlined its systems just before rising unemployment caused a spike in its payments volume.

By Richard Gamble | From the July/August 2011 Issue



High U.S. unemployment brought a surge in the incoming payments handled by SHPS, a benefits administrator in Louisville, Ky. Fortunately, the company had streamlined its systems with state-of-the-art banking products before the wave hit and was prepared to handle higher volumes and provide quick turnarounds to keep last-minute payers insured.

“The economic collapse did impact us,” says Kevin Scarborough, vice president of finance at SHPS. “It brought us new clients and more volume from existing clients as more participants went on COBRA. We hated to see more people unemployed, but we welcomed the

additional business.

“We were lucky that we had improved our operations, because that allowed us to take on more volume without increasing our costs substantially,” Scarborough adds. “We made the changes to improve internal operations, but it turned out to give us a business advantage.”

SHPS contracts with corporations to manage health benefits for former employees covered under COBRA or retiree health programs. It collects approximately 60,000 premium payments a month from former employees and makes about 1,000 payments a month to the insurers that provide the coverage. That payment volume is up from 50,000 in January 2010, Scarborough reports. Annual revenue at privately held SHPS is “hundreds of millions of dollars,” he says.

All SHPS payments now come through two channels: JP Morgan Chase’s Pay Connexion system or a Wells Fargo electronic lock-box. Pay Connexion accepts recurring and one-time payments that originate online or by phone. If a participant calls SHPS to pay by phone, the call center routes the call to Pay Connexion.

“We hand it off right away to a bank employee,” Scarborough says. “We don’t want people in our call center getting a participant’s confidential banking information.”

Prior to 2008, SHPS used two Websites to collect payments. The move to JP Morgan was driven both by efficiency and perceived security.

“If you want people to pay online, a trusted site is important,” Scarborough explains. “If people aren’t sure they trust the site, they’ll mail in a check instead.” He credits the trust factor for growth of more than 50% in SHPS’ online payments from 2008 to 2011. “After we converted one of our COBRA systems to Pay Connexion in November 2008, we went from receiving 1,500 to 2,000 online payments a month to over 6,000,” he says.

There were other benefits as well. “We were paying our vendor 92 cents per payment

before. Now we're paying 45 cents," Scarborough reports. "One vendor was moving the price for an e-mail confirming the payment to \$1.30. Now the confirmations are bundled into the transaction price.

"We also saw a decrease in our operating costs because we don't have nearly as many calls coming into our call center, and we don't have all those exceptions from the lockbox to research," he says.

Making the payment process quick, flexible and automatic helps the people SHPS collects from, some of whom are squeezed financially and may need to make just-in-time payments. "COBRA participants likely are now unemployed," Scarborough says. "They've lost their paychecks. They've lost the 50% to 80% subsidy that their employer paid for their health insurance while they were employed.

"They are now paying anywhere from \$250 to \$1,000 a month, and some have chronic medical conditions that make it important for them to continue coverage," he explains. "They need a system that lets participants make last-minute payments in a safe, secure way and notifies the carriers so that coverage continues."

To cut down on checks arriving in the mail, SHPS uses an electronic lockbox service from Wells Fargo. Ironically, the most challenging paper-based payments originate electronically, at online bill-pay sites. After the payer goes online to authorize the payment, the provider generates a paper check and mails it. If payers write and mail their own checks, they usually include the coupon that lets the lockbox identify the payer and the bill being paid, but the bill-pay service doesn't see the coupon and often sends checks with inadequate remittance information, making it harder to post payments, explains Greg Hansen, senior vice president of product management for e-commerce products at Wells Fargo.

There are ways to combat that problem. "The bank reaches out to the electronic bill-pay consolidators and grabs all the payments that are due to SHPS," Scarborough says. "They are usually able to get them in about two days, which is better than waiting for a paper check to arrive at the lockbox. We're able to post the payments sooner now." The online and pay-by-phone payments coming through Pay Connexion already have the information needed for them to post automatically, and now the hit rate through the lockbox is up to 99%.

"We may get a few money orders that we can't apply," Scarborough says. "Those go to our call center, where someone calls the payer to get the information we need."

SHPS still mails out paper bills, but fixing that is next on Scarborough's agenda. "We're still working on our system so that participants can manage their accounts with us online and view their invoices or print them out as they choose," he says. "We hope to deploy that solution next year."

Scarborough hopes to get 30% to 40% of participants to use the online solution. "The only limit is consumer acceptance, not presentment technology," he says.

While SHPS' payment automation is a tactical victory in process efficiency, the finance operation has a strategic mindset apparent in the study group Scarborough organized. The finance team meets weekly for an hour, the first half of which is a typical staff meeting and the second half reserved for book presentations. Scarborough makes the assignments and each staff member teaches one chapter.

"There is not always money in the budget to send people to conferences these days," Scarborough notes. "Reading a book together gives you an outside perspective and something to chew on.

"At the time we were considering how to streamline our collection of payments, we were reading *Hope Is Not a Method*, written by an ex-military guy about what business can learn from the military," he says. "His point is that 'real change requires real change.'"

“We got encouragement from the book,” Scarborough says. “It spurred us to take action. When you’re talking to banks, going to vendor presentations and reviewing RFP submissions, you’re just getting ready to act. The real challenge is to turn that knowledge into action at the right time in the right way.”

For a look at the improvements occurring in wire transfers, see [Wires Get Smarter](#).

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