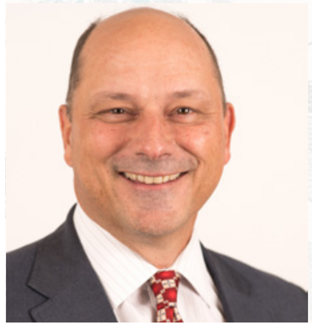
# 5 Financial Challenges Healthcare Organizations Face Today

## How to thrive amid a changing environment

Key



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**James Fasone** | Senior Vice President, National Healthcare Practice Leader
Key Insurance and Benefits Services


Cybersecurity 101: How to respond to a data breach

# Many factors are driving change in the delivery of healthcare services

Today's healthcare organizations face myriad financial and other challenges because of both threats from the outside, including cyberattacks, 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. Cyberattackers are causing mass chaos with ransomware and other attacks. 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 ACA, even as institutions are still trying to figure out how to run their business 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 for consumers since consumer payments now represent a sizeable portion of their receivables.

"Today's healthcare firms are certainly facing new challenges, but with the right focus, whether it's cybersecurity programs, or solutions for technology financing or payment, they can not only survive, but also thrive in this environment," said James Fasone, Senior Vice President and National Healthcare Practice Leader for Key Insurance and Benefits Services.

Those providers who thrive will be the ones that bring a strategic eye to dealing with five key challenges: cyberthreats, regulatory uncertainty, industry disruption, payment solutions and financing.

*"Healthcare organizations spend a fraction of what companies like Amazon and Facebook spend on cybersecurity."*

**Arnold Torres** | Senior Vice President, National Healthcare Sales Manager
Enterprise Commercial Payments


**Healthcare Cybersecurity:** Banks as Partners in the Healthcare Ecosystem, Part 4


**Healthcare Cybersecurity:** Security Best Practices Checklist, Part 5


**Healthcare Cybersecurity:** Business Associate Agreement Requirements and Best Practices Part 6

# Facing down cyberthreats

"Healthcare organizations spend a fraction of what companies like Amazon and Facebook spend on cybersecurity," said Arnold Torres, Senior Vice President and National Healthcare Sales Manager for KeyBank's Enterprise Commercial Payments division. Organizations need a complete cybersecurity plan in place, which comprises:

**Securing payment data:** Too many hospitals are keeping patients' financial information in-house. "This information should never be kept on a hospital's server. Instead, you need a partner that is PCI Level 1 certified and a Validated P2PE solution provider. This transfers the risk away from the healthcare provider," Torres said, noting that KeyBank provides this service.

**Fostering better communication with the C-suite:** Breaches often happen because employees unwittingly allow hackers to invade the network. "For example, if someone in HR 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," Torres advised. This may seem obvious, but oftentimes, the email recipient doesn't do it, 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 cyberattacks make headlines, 43 percent of all attacks target small businesses, at a cost of nearly $2 million, according to a recent survey. The cyber liability 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 cyberattacks, over half of them do not allocate appropriate funds for risk mitigation or adequate insurance coverage," Fasone said. "Regardless of your industry or underlying exposure to cyber risks, cyber liability insurance should be a key part of your organization's overall risk transfer strategy."

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**James Fasone**


**Healthcare Services Monthly:** A High-level Overview of the Healthcare Industry, Including High Yield and Investment Grade Debt Capital Markets Detail.

# Focusing amid 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. "The administration's stance on value-based care seems to be a moving target," observed Henry Powderly, Editor-in-Chief for Healthcare Finance News. "New HHS leadership seems to have softened its focus, but health systems have already begun investing heavily in value-based."

Shortly after the Affordable Care Act (ACA) of 2010, there was great momentum to invest and/or join accountable care organizations (ACOs). "The idea is that these ACOs were going to come together and provide more comprehensive care for an entire community. Many have formed, but very few are willing to take financial risks. Their risk tolerance is still quite low until they better understand their true cost and quality in a new value-based reimbursement model," Fasone said.

The problem, he pointed out, 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 actually identify with their true cost of performing specific services or procedures across the enterprise," he said.

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," Fasone said. "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."

*“Consumerism will push those firms who are really good at specific services to get even better, and to ultimately demand greater reimbursements for those higher quality services.”*

**James Fasone**

Learn from other industry disruptors:


# Taking a lesson from industry disruptors

“One major concern for traditional healthcare service firms is new, disruptive models that can provide more immediate, community-oriented care,” Fasone said. He pointed to the recent move of CVS to buy Aetna as an example of how things may change, 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 you have the potential for an efficient, consumer-focused healthcare organization that can leverage costs and efficiencies close to their customers.

This disruption is just beginning, Fasone predicted. 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,” he said. 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 your doorstep at a lower cost than traditional providers.

Currently, the healthcare system doesn’t operate efficiently in a consumer-friendly manner, nor provide full transparency on the actual cost and quality of specific services. Fasone predicted this will change – and soon. “Transparency is being driven by consumers. Consumerism will push those firms who are really good at specific services to get even better, and to ultimately demand greater reimbursements for those higher quality services,” he said.

*"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**


Automation to Optimize Receivables in a Changing Payment Landscape


Healthcare Payment Solutions

# Adopting more 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.

"Up until the last five years, providers and hospitals weren't accustomed to handling this many retail transactions," Torres said. "But now, 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."

However, hospitals have contracts negotiated with insurance companies, but not with consumers. That's why they need to make sure they have a payment assurance strategy in place. "We sit down with hospitals and practices, and we look at what happens pre-admission, at the point of service and after the visit," Torres explained. Deploying a payment assurance strategy does three key things for hospitals:

- 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.
- Helps hospitals with their cash forecast, so they have fewer spikes and drops.
- 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 is very expensive," Torres said.

Torres and his team are working with healthcare organizations to establish the concept of a payment assurance strategy and a virtual wallet – much like many retailers have. "It will result in more money collected and a better patient experience," he said.

*“New technology solutions may increase operating efficiencies, add new service lines or improve patient outcomes.”*

**Mark E. Hoffman** | Senior Vice President | Key Equipment Finance


Healthcare Equipment and Software Financing

# Financing technology solutions

Hospitals continually 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, they have a war chest. But when things are tough, they look to operating earnings — which, for many hospitals, have taken a hit lately. Bank or vendor financing is typically where they look next,” said Mark E. Hoffman, Senior Vice President for Key Equipment Finance. “Equipment financing allows you to keep monthly payments small and manage them for the life of the equipment.”

However, 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. “The focus is not just on equipment acquisition but also on financing new technology solutions. For healthcare institutions, new technology solutions may increase operating efficiencies, add new service lines or improve patient outcomes,” he said.

More and more, it’s about offering hospitals managed solutions. For example, Hoffman said, if a clinical department manager wants a new piece of equipment, the C-suite is going to ask how the new equipment either improves patient outcomes, adds a new revenue line or increases operating efficiencies. “We can work with a hospital to provide a comprehensive managed solution and answer those questions, to bridge the gap between the clinical side and the financial side.”

*"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."*

**James Fasone**

# Looking ahead

There are likely more risks ahead for healthcare service providers, Fasone, the Key Insurance and Benefits Services executive, predicted. "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," he said.

Healthcare reform may also add new challenges. Regardless of what happens, certain things are likely to continue, including:

- the shift from volume to value-based reimbursement;
- disruptors entering the marketplace;
- patients becoming true consumers demanding higher quality at a lower cost;
- further consolidation to control the patient dollar; and
- demand for new equipment and the latest technology.

Hospitals and other healthcare organizations should focus both their capital and their leadership on how they will deal with these challenges 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," Fasone said. "But that is exactly what will be required."

**To learn more about KeyBank's offerings in the healthcare industry, click here.**

**About KeyBank:**

Key Healthcare® applies the full resources of KeyBank to help nearly 10,000 healthcare organizations, practices and facilities across the U.S. stay competitive while delivering the highest quality care. Combining a holistic approach with deep industry expertise, we generate ideas to help your practice grow. We deliver tailored, strategic solutions that can strengthen your organization, streamline your processes and enhance the financial well-being of both you and your staff.