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# A Patented Approach to Organizing, Valuing, and Improving Medical Receivables Performance

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## An hfm Web Extra

In May 2011, TriCap Technology Group received a federal patent for its processes for organizing the medical receivables market, determining receivables portfolio market value, and establishing the process by which healthcare organizations award portfolios to receivables management firms. It is unclear what effect the patent will have on health care systems and other companies that manage portions of this process in ways covered by TriCap's patent. "Presently, the patent portfolio affords us an exclusive right to the above core recovery processes when they collectively come together in an approach to managing and performing on medical receivables," says Jim Zadoorian, PhD, president and COO, TriCap Technology Group, New York.

In this interview, Zadoorian discusses the potential that hospitals have to increase revenue by putting their receivables on the open market exchange and what TriCap's patent portfolio means for organizing and evaluating medical receivables for the healthcare industry.

### Q. What is the potential for hospitals health systems to improve their margins through an open-market exchange approach to managing medical receivables?

A. One of the main value propositions that is emerging with our system is our ability to help health systems improve their margins. Consider a typical case example involving a 300-bed health system that has \$250 million in net patient revenue and a margin of about \$2.5 million, or 1 percent. Such systems carry about \$96 million in inventory debt for more than a year, which presently has almost zero expectation of performance. This type of asset minimally trades in the open market for about 60 basis points, or \$576,000, which drops to the bottom line. On a monthly basis, this system carries about \$1.85 million in self-pay receivables and may net about 6 percent from conventional recovery efforts (or about \$1.33 million over a 12-month period). The open exchange system generally increases the net recovery by 15 percent, or in this example, by about \$200,000 over 12 months.

Additionally, our data cleansing and analytics processes lead to another 2 percent in insurance recapture opportunity--claims that inadvertently slipped into self-pay referral pools that still have valid insurance, which translates into about \$37,000 per month or \$440,000 over 12 months toward the bottom line.

In this case example, the open market process has the potential to deliver an approximate lift to the health system's margin of \$1.2 million, an increase of about 50 percent over the organization's current margin. When we factor in fees for our work, the net percentage is around 40 percent, which is still significant.

The point is there are very few revenue cycle solutions and options for CFOs to improve margins by 40 percent. It's unheard of using today's conventional practices. Additionally, our system provides guaranteed performance and accelerated payment plans for healthcare providers.

This type of value proposition is emerging as one of the biggest advantages

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of using an open market exchange for working medical receivables.

**Q. Could you comment on the patent portfolio your company has received for its approach to managing medical receivables, and what this means for the industry?**

A: When we first built our product and complementary solutions suite—the ARxChange®—we realized that the processes for receivables performance and open market mechanics were terribly undefined. We undertook an effort to develop certain defined processes for the organization of these receivables, the valuation of the asset, the bidding of receivables, and the awarding of contracts to manage and perform upon those assets. Our patent portfolio includes the exclusive rights to the above four processes, which are embedded in the ARxChange® (shorthand for the accounts receivables exchange) that uses market-based trading and exchange mechanics to convert unrealized medical receivables into recognized cash and guaranteed returns.

That being said, our objective was not to unnecessarily create road barriers for market participation. That's not the point of this. Our goal was to create an expression of our intellectual property to help protect our core business. But what has happened now is that a lot of folks are saying, "Wait a minute. You guys now have a patent on the way that the medical receivables market works, which means that you have the exclusive right to that process." And the implications of that, quite frankly, could be staggering. In all honesty, we don't know the full implications as yet. There have been two recent Supreme Court rulings supporting patents in our class over the past year alone. We're getting inundated with questions about what all of this means. What we know today is that we have a valid patent that gives us exclusionary rights to the collective process within our intellectual property portfolio, and will work to protect the rights of our intellectual property.

**Q. Is there anything else you'd like to add?**

A: Well, a couple of things. We didn't invent the ARxChange® as a way to just add another product into the market. We built this product with a vision of offering hospitals a viable alternative to today's receivables management and performance processes. We wanted to provide hospitals with a viable, evidence-based performance option to exit the receivables management business altogether—by offering them an option to liquidate their receivables in real time for equal or better performance than if they held on and performed on them using conventional practices.

We asked ourselves, "What if CFOs had access to the market's full array of performance options to bring better efficiencies into this process, in the same way that group purchasing initiatives and other competitive market-based initiatives have done?" In the open market, for instance, instead of measuring cash outstanding in "days," the open market measure could be hours and minutes.

Most CFOs are pretty entrepreneurial. But they've been limited in terms of how to express that entrepreneurship to help move their organizations forward regarding receivables performance. These same health care executives have proven creative when it comes to deploying financing options and doing what they need to do to help a hospital's bottom line. However, they have not always had an open-market option to accelerate receivables liquidation and performance. So what we have done is to create a vehicle that can help finance the clinical missions of hospitals and health systems by giving CFOs an entrepreneurial performance option on all asset classes of receivables. It's an option as sound as any other financing vehicle and/financial performance pathways.

Our message is pretty simple: "The open market is not a place where you can express and capture performance innovation in a way that you otherwise may not be able to do by working within the current bounds and confines of your organization." It is a "core business play" as well. Receivables performance and management is not the core business of hospitals. So, why not use those in the market whose core business it is, in the same way you'd seek out clinical specialists when the generalist simply cannot perform as well." This is a very powerful option for CFOs who now have access to the full potential of the market and an entrepreneurial avenue that they did not have access to before.

For more information, see "[Jim Zadoorian: A New Approach to Receivables Performance](#)", *hfm*, September 2011

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