The Financial Liberation of U.S. Health Systems

By James A. Zadoorian, PhD

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Some of the most revolutionary advances taking place in today's healthcare environment are occurring within the revenue cycle. The cycle evolves and continues to evolve; but as in nature, some functions and processes that were once necessary for survival are now just evolutionary baggage, or worse, the financial equivalent of modern disease. Today, Type-I diabetes is a scourge; however, some scientists believe it may have been a genetic advantage during the Ice Age, keeping blood sugar high and thereby lowering blood's freezing point. So, too, the modern revenue cycle has its own genetic baggage that rather than enabling it to run efficiently and effectively has instead created a debilitating financial illness.

Jim Zadoorian, PhD, is president and COO of TriCap Technology Group. TriCap designed, patented, owns, and operates the ARxChange® (shorthand for "accounts receivable exchange) -- the nation's market exchange for receivable disposition, with over $9 billion in listings.

The ARxChange system takes the "cycle" out of the revenue cycle. Hospitals and health systems using the system receive immediate compensation or performance guarantees on all receivables classes, rather than waiting on payment for days, months, and years into the revenue cycle.

TriCap's patent portfolio protects its ARxChange trading and analytics system and affords it exclusive rights to the organization, sorting, ranking, valuing and posting of debt and receivables across all US markets, including healthcare.

Our modern revenue cycle "worked" a quarter-century ago, a time when size and complexity mattered more than speed and agility. Bulk was an advantage as it insulated the healthcare organization against the onslaught of receivables and provided internal locomotion to process them. Yet as the process grew, it lessened performance visibility and eroded control along with its integrity. This led to leakage, added bureaucracy, vendor dependency, and a slow metabolic rate with respect to the asset-to-cash conversion process.

Today performance diversification and the rate and timeliness at which it occurs are distinctive features associated with evolutionary success. In nature, trait and behavioral diversification deter predators, improve fitness, and reduce risk. Yet within the revenue cycle, bulk and complexity make is slow to adapt despite today's known susceptibility to value and performance imbalances that commonly lead to financial losses. As such, the system orients to a traditional band of performance options to prevent against loss (or perceived loss). In doing so, it disproportionally retains risk even though in today's environment its survival chances improve materially by diversifying, hedging, or even arbitraging against such risk.

Seeded within the revenue cycle's DNA are instructional sets that ascribe to the notion that external innovations cannot be effectively operationalized or monetized in

healthcare in a comparable way. As such, hybridization with outside or open-market performance alternatives tends to engender internal discomfort. It is a process of favoring ideas and solutions that emanate from internal value continuums and their generally accepted thought networks. Today however, this process has led to carrying recessive traits associated with drawing from predominately insular performance options; and along with them, the overall lessening of competitive fitness within an increasingly dynamic open-market context.

Alternative 21st Century Evolutionary Pathways

Looking ahead, the revenue cycle, as currently configured, has hit its upper limit within its adaptive evolutionary range. Every future attempted gain is generally offset by neutralizing factors and performance tradeoffs. Gains in performance that a generation ago had been secured by way of revenue cycle's size and complexity are now offset by losses in revenue visibility and integrity, with a commensurate increase in back-in costs to correct for these inefficiencies.

Along its current track, the revenue cycle grinds along at a slow-and-steady pace. Change is regulated by how quickly health systems can assimilate the interconnected modifications needed for structural adaptation to what's being thrown at them. It is a largely reactive process and one that never really gets ahead of the curve. This landscape resembles a sort of revenue cycle purgatory where health systems are perpetually catching up, and doing so without long-term performance visibility or the ability to react to what comes next. As a result, most healthcare systems are losing money and have negative cash flows, and are finding it harder and harder to meet the financial requirements necessary to maintain their clinical and charitable missions.

The fundamental question is thus, why are health systems holding onto a fundamentally broken revenue cycle when advances used successfully in other industries are available? The approaches enable leading performance techniques such as performance synchrony, value indexing, asset management, competitive price discovery, diversification, and market-wide cross-sectional risk sharing. Similarly, as other industries have crossbred internal and external practices to ignite a transformation, healthcare's revenue cycle now has similar catalysts at is disposal and is positioned for an evolutionary leap.

From Revenue Cycle to Asset Management

The leap involves understanding hospitals as more than clinical enterprises. It requires viewing them as financial institutions with billions of dollars in assets under management. It involves treating receivables as financial instruments that carry a defined value. In today's financial milieu, it's been troublesome to learn those in charge of those assets did not necessarily have command of them, understand their value and how to best translate that value into performance. Similarly within healthcare, asset performance is illusive because the mechanisms and quality controls within the revenue cycle make it near impossible to determine. Under today's system, hospitals attempt to perform absent the tools needed. And when they fall short, they turn to collection agencies; and do so without value measures to assign or gauge or performance.

Valuing the Debt Asset

Asset valuation is the centerpiece of the open-market receivables exchange system. Among the most progressive techniques involves the data indexing systems discussed here. These approaches align receivables and value so assets convert with greater accuracy and efficacy. The net effect allows CFOs to more transparently manage their assets similarly as their fund and money-manger counterparts in other sectors do. It let's them diversify risk by identifying and correcting dilutive performance factors.

Collectively, accurate valuation reduces variable performance and allows for receivables to be converted into bankable and defined dollars in the open-market system.

Alternatively, today's financial analysts use sophisticated tools to rate asset performance . They use these tools to prioritize work effort and to mitigate risk. The better the analytical tools, the higher the margins. But what if, a health care organization applied similar analytical tools to its receivables and produced its own investment-grade determination of value and performance? And what if it then used this information to command the value of the asset in real-time, rather than "loaning" assets to servicing agencies with the hope they hit expected returns?

And the biggest leap of all, what if CFOs had a direct, real-time conduit to the nation's leading servicing agencies? If so, assets could flow along an open-market architecture that adds a third dimension to today's contemporary system where hospitals internally process their receivables or ostensibly act as creditors by lending them to vendors under variable performance terms and rates. This design opens an additional lane for receivables performance -- a fast-track or superhighway of sorts. It takes the form of a centrally organized market for exchanging any type of active receivable or bad debt for more immediate and guaranteed returns under hospital sanctioned and safeguarded servicing terms. Here, exchange activity occurs on a continuous and on-going guaranteed performance basis between health systems and their pre-qualified and designated servicing entities; all of whom meet eligibility standards prior to their participation.

Moving Assets to the Open Market

Before any receivable asset can move to an open market, the data behind must undergo a four-step process to maximize its value.

1. Data Integrity Indexing

Data integrity within the open-market architecture is a core driver of value. Receivable portfolios that fall off uniformly accepted market exchange index rates are subject to being downgraded. To lessen this potentiality, algorithms are injected into receivable pools prior to their placement within the market exchange system. By design, they discover and qualify value, enhance core guarantor attributes, and correct corrupt or inaccurate variables. The improved file is assigned a data integrity index score such that it can be objectively graded against open-market exchange standards.

2. Asset Value Indexing
Improved data integrity brings with it a second tool that's used within the open-market architecture; i.e., asset value indexing. Today, value indexing is ostensibly retrospective in that it comes after internal and external servicing sector success. Throughout this process, there's less-than optimal visibility across asset pools with respect to their current net present values or the pace at which these assets can convert to cash. Performance on the part of any asset class is therefore less immediately obvious, which can present complex asset management challenges. Comparably, receivable values within the exchange system are algorithmically indexed. Thus, they are peer-rated along their historical performance tracks. This process helps steady the market's hand such that it extends performance visibility by stabilizing and balancing value in more uniformly understood net present terms.

3. Performance Curve and Liquidity Indexing
Closely affiliated with the above value index is a sister liquidity metric which projects the expected rate by which asset classes are likely to convert to cash. Today, performance curve and liquidity indexing revolves around historical returns. Under the open-market architecture, the process looks forward. Here, algorithms forecast likely repeatable performance behaviors based on data integrity, value indexing, and comparable transactional returns on similar asset classes. Next, regression techniques couple with actuarial modeling to narrow variable future return scenarios. Lastly, alternative performance vectors run their course until confidence models top-out in terms of expected return rates and pacing. When complete, asset pools are indexed to their expected performance continuums thereby readying them for full and active open-market exchange participation.

4. Evidenced-Based Performance
The above asset-based indexing system provides an ordered and evidenced-based performance platform. Its properties provide for structured asset management through predictive analytics, performance-based diversification and market-wide cross-sectional risk sharing. Together, these attributes lessen the need to pan for alternative return opportunities. Moreover, they align receivables performance with emerging value-based accountable care payment systems. Here, for example, asset value is assigned and converted with greater efficacy through uniformly structured performance pathways. As such, unnecessary expenditures are weeded from the system. Concurrently, days-in-cash outstanding become artifacts as the market exchange converts assets to cash in more real-time. Within this design, funds become more readily available for mission-based, accountable care initiatives like clinical excellence, quality outcomes, and patient satisfaction.

The Open Market Architecture
The open-market architecture stands on the above indexing systems, exchange-based performance standards and investment-grade criteria that are applied to receivables tranches. First, it standardizes and normalizes value across asset classes and thus lessens uncertainty about their performance. Second, it builds market confidence that each ensuing receivables pool will perform on par with the last. Third, it increases market participation

and performance integrity; which together allow receivables to move more immediately, transparently, and predictably through the servicing sector at pre-designated guaranteed performance terms. By harnessing the compounding effect of the above principles, health systems can leap over contemporary disposition obstacles and thereby accelerate the pace for full and fair-market recovery on all, or selected, asset classes.

Within the past several years, a closer connection between the above principles and a health system's ability to project their assets across the open-market have become much more developed. Sustained drops in net returns, liquidity, and access to capital have revealed open-market pathway towards a habitable 21st century receivables ecosystem. A revenue cycle landscape that brings with it the prospect of financial liberation from constraints within the current system -- not as a temporary departure, but rather as a structural transformation and lasting change.

Traditional Revenue Cycle versus Open Market Asset Management

Traditional revenue cycle		New model	
Healthcare organization	**Third-party collection vendor**	**Heathcare org**	**3RD party**
• Assumes all risk • No guaranteed outcomes • Restricted cash flow • Growing days outstanding • Limited visibility across performance • Illusive sense of value of assets • Variable liquidation • Limited control • Relies on multiple vendors to service paper	• Zero risk other than overhead • Works on contingency structure without defined performance accountability • Contingency fees de-incentive to work the entire debt portfolio • Without mutual accountability hold assets in interest-free basis and work at pleasure. • No objective basis to measure performance.	• Defined asset value • Direct conduit of asset to its disposition (weeks, months, become resolved in microseconds) • Higher order of integrity of data • Higher standard of performance • Guaranteed performance returns set on mutually derived benchmarks based on asset value • Full visibility on performance • Reduced costs • Guaranteed returns • Accelerated cash conversion	• Performance of agency measurable • Agency has accountability to benchmarks • Greater incentive to perform because agency assumes all risk for collecting debt

Open Market Platform
Developed by TriCap Technology Group, LLC, the open-exchange portal or ARxChange® -- shorthand for the accounts receivables exchange -- is accessible through an Internet browser interface. This web-based platform layers technologies such that automatically interface with health system's outbound receivables flows. In parallel, the network sequences incoming assets through data integrity and value indexing systems. The system than directs them into tranches commensurate with their performance curves and liquidity tracks. Once complete, assets are projected along evidenced-based pathways that are viewable for bid consideration by the revenue cycle servicing sector. Health systems can then select among the most desirable offers and lock-in guaranteed payment and performance terms.

On a forward basis, the architecture within the system is set to sequence each successive pool so that it is triaged similarly as the last. Each newly uploaded asset pool is segmented into predesignated performance buckets and then directed to the selected servicer; who is contractually bound by pre-agreed upon guaranteed pricing or net-return minimums for each asset class. Funds for each asset pool are transferred to the health system on a regular, predictable, and continuous basis (based on pre-negotiated payment terms).

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