



# Assessing the Benefits of an End-to-End Card Processor in the Consumer Directed Healthcare Market

When considering an account-linked payment card for employer benefits, TPAs must find a solution that provides improved security, accountability, and flexibility for all parties involved in the transaction.

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## Introduction

The rise of consumer directed healthcare (CDH) during the past decade has led many employers to seek new methods to incent plan enrollment and enable employees to access their funds. Today one of the 'must-have' perks for most employer-sponsored benefits packages is an account-linked debit card. While the debit card makes it much easier for the account holder to use available moneys, the journey that a payment takes from card processor to merchant or medical provider can be inundated with complications and delays. Third party administrators (TPAs) manage the supporting documentation and administer their clients' accounts, but typically outsource the financial obligations to a payment solutions company. Often, the payment solutions company is just a program manager who turns around and hires a card processor to actually fulfill the payments.

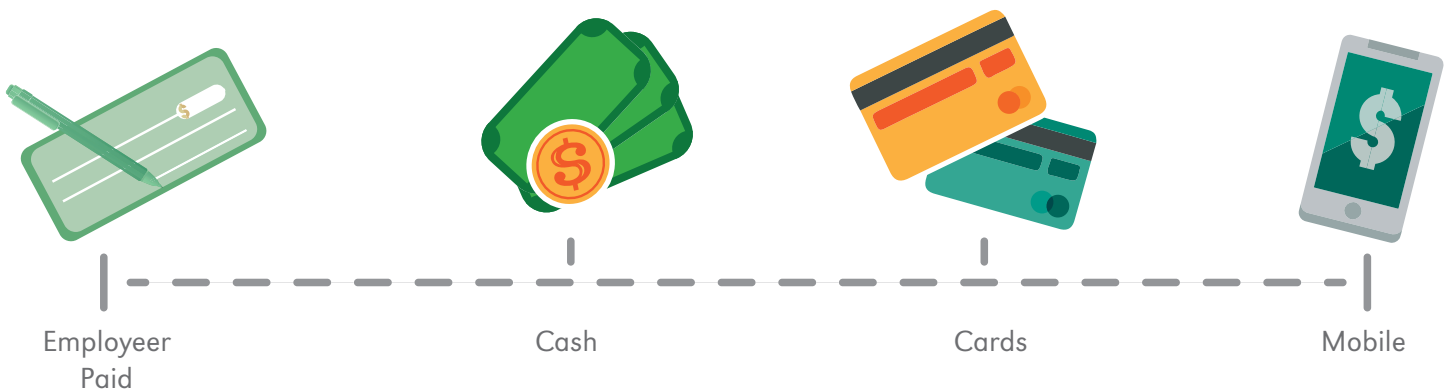
This tangled web of commercial handoffs makes the entire payment process problematic, especially when there is a breakdown in the system; identifying the underlying issue and providing accountability can lead to frustration all-around. Utilizing a single payment solution company that oversees the process from beginning to end offers increased support, greater accountability, and enhanced security.

## History

A payment transaction, in its simplest form, has three main participants: account holder, merchant/provider, and card processor. The account holder pays the merchant for goods and services rendered, and the card processor ensures that the merchant receives payment. Other parties are merely brokers in the process.

### Past Payment Methods:

During the late 1800s through the mid-1900s, large employers paid for physicians on staff to provide medical care and attention to their workforce. The transaction was a simple two part process: first, the company paid the physician, and then, employees saw the provider as needed. As healthcare needs changed in the mid-20th century, there was a shift toward defined benefit plans which employers continued to fund, at an uncertain cost, and employees were free to choose their own physicians within plan guidelines. Then in the 1970s through the 1990s, employers implemented reimbursement arrangements as an additional benefit to pay for expenses that were not covered by insurance. However, to receive reimbursement, employees had to pay out of pocket up front with cash or check, then file and submit a paper claim, often waiting weeks to replenish their personal accounts.



## Current and Future Payment Methods:

Healthcare payments are trending toward faster service with better value, and the shift toward consumer directed healthcare means that employees need a quick, secure way to pay for health-related expenses. Both account holders and merchants alike (providers included) are looking for an efficient, secure payment process because payments made by check are costly, vulnerable to fraud, and can require weeks for processing. Additionally, consumers are relying less and less on cash, especially for large expenses.

In the early 2000s, Congress and the US Treasury approved the use of credit and debit cards for healthcare expenses, and in 2007, the Special Interest Group for IAS Standards (SIGIS) was formed to better help consumers and retailers with authorized inventory and auto-substantiation of expenses. While the rise of mobile payments and digital wallets (i.e. Apple Pay, Android Pay) within the consumer industry indicates a possible shift toward virtual payment methods, this technology is complicated by the need for enhanced security and vigilant HIPAA compliance.

## Identifying the Fundamental Issues

Over the past decade, CDH accounts with account-linked debit cards have seen a sharp increase in popularity. Conversely, the issues associated with the payment process have exponentially increased as well. One example is the formation of specialized companies that shoehorn their way into the transaction process, marketing themselves as solutions to the large volume and complexity of these sensitive transactions. The reality is, however, that each company within the larger transaction compounds the process' flaws with its own logistical and budgetary considerations.



**Multi-Party Participation** – Banks, card processors, merchants, TPAs: all have a stake in the process. From the time a purchase is completed to the time the payment is processed and delivered, data and dollars change hands multiple times.



**Increased Security Risks** – Every time a purchase takes place, money and sensitive information, such as account numbers and addresses, travels through numerous parties, leaving it vulnerable to fraud with each transmission. The need for security in storing and transmitting data is obvious: 62% of financial professionals reported being targeted with payment fraud in 2014<sup>1</sup>. Additionally, 54% of data breaches in 2014 were related to identity theft<sup>2</sup>. Moreover, with multiple parties involved, trying to identify a breakdown in the system becomes complicated. Add in the possibility of mergers and acquisitions and the security risks multiply.



**Limitless Bureaucracy** – Each individual organization has its own corporate processes and procedures which are generally kept private and are insulated from outside

influence. This can create a bureaucratic nightmare that erodes effective communication and accountability. Additionally, with each company providing its own reporting (in its own format), the process of generating quality, relevant analytics for decision making purposes becomes near impossible.



**Eroding Profitability** – The reality is that each entity is trying to make a profit. However, given that each entity also has its own overhead and operational expenses, the overall cost of doing business goes up as the number of parties to the transaction increases, resulting in a smaller piece of the pie for each associated bank, merchant, processor, and administrator. Consider, too, the high cost of fraud-related theft (totaling \$18 billion in 2013<sup>3</sup>) which causes profits to dwindle rapidly and affects multiple parties.



**Slower Payment Processing** – With multiple parties involved in a single transaction, the process goes through one handoff after another. This results in a slower processing speed, leaving the merchant waiting longer to receive the final adjudicated payment.

<sup>1</sup>2015 AFP Payments Fraud and Control Survey

<sup>2</sup>Credit Card and ID Theft Statistics, Nasdaq.com

<sup>3</sup>2014 Identity Fraud Study, Javelin Strategy & Research

## Creating a Real World Solution

The multitude of issues created by having numerous parties involved in the card payment process requires a real world solution that can streamline, enhance security, increase profits, and speed up the payment process. That solution is an end-to-end card process run by a single company.



**Dedicated Support and Increased Accountability** – A single point of contact reduces the onslaught of organizational inefficiencies and enables TPAs to have greater visibility into the workflow and status of a payment. With an end-to-end card processor, there are fewer points for potential failure, and if a problem arises, there is only one number to call in order to resolve the issue.



**Enhanced Security** – An end-to-end card processor maintains a relationship with the TPA and the bank, which means complying with each of the associated regulatory stipulations, HIPAA, and PCI DSS. Furthermore, the inclusion of MCC restrictions and IAS integrations help prevent benefit fraud. Finally, simplifying the transaction chain results in a decreased risk of exposure, making protected information far less vulnerable to breach.



**Increased Flexibility** – A single entity with only one set of corporate protocols to navigate offers increased flexibility. The single end-to-end card processor can customize its processes based on individual client and account holder needs. Plus, a change in product offerings can be integrated quickly and seamlessly.



**Stronger Banking Relationships** – Since an end-to-end processor owns the entire process from card issuance to payment delivery, it must be certified by the banking industry to hold and disburse funds. The close relationship of an end-to-end processor to the bank increases security, flexibility, and processing speed.



**Quicker Payment Delivery** – Reducing the amount of ‘middle men’ in the transaction chain increases payment delivery speed, resulting in higher satisfaction among merchants.



**Higher Profit Margins** – Utilizing a single, end-to-end card processor can greatly reduce the overall costs associated with payment processing. With less overhead and operational costs to account for, the profit margins among the fewer involved entities will increase per transaction.

A single end-to-end card processor should handle all facets of the payment process, from card issuance and funding to payment delivery. It is a tangible, practical solution that can overcome the challenges presented by the multi-party card payment process.

## Selecting an End-to-End Card Processor for Your Benefits Administration

Consider the following questions when evaluating the debit card payment process used by your benefits platform:

1. What are the company's security and compliance standards, and what measures do they employ to ensure them?
2. What is the relationship between the program manager, card processor, bank and TPA?
3. How flexible is the current processor? Is the company prepared to adapt to unforeseen changes?
4. What analytics does the current processor report on? How in-depth and useful are those reports for your specific needs?
5. How many cards does the company process/has it issued? Of what type?
6. What are the existing internal overhead costs associated with the processor's card payment solution (i.e. software systems, salary and postage)?
7. What costs are associated with the current contract? How significantly are those expenses affected by the administrative fees of all parties involved in the transaction chain?

Today's consumer climate requires an efficient, secure card payment process for merchants, TPAs, and account holders. Knowing the true cost of transaction partnerships from administrative costs, salary and infrastructure is crucial. In addition, developing a trusted business relationship by knowing the security, processes, and procedures in those partnerships is achievable when the right processes are in place.

## End-to-End Card Processing for Today and Tomorrow

The card payment industry is riddled with issues that arise from having multiple parties involved in a single payment transaction. With each entity demanding a piece of the pie, costs can quickly get out of control and the transmission of sensitive data becomes even more vulnerable to fraud with each handoff. The end result is an inefficient payment process system that leaves merchants, TPAs, and account holders wanting more. In comparison, employing a single end-to-end card processor is a simpler, fundamentally sound approach that streamlines, speeds up, and secures the payment process and results in higher satisfaction across the board.

### *About the Author and Company:*

*Bo Armstrong is the Director of Marketing at DataPath, Inc., a Little Rock-based company that provides technology solutions for employer benefits administration. He holds a bachelor's degree from Texas A&M University and a master's degree from Liberty University and possesses 15 years of marketing leadership experience. Founded in 1984, DataPath has been a market leader in card payment solutions since 2002 and is an end-to-end card processor, offering account-linked debit cards for employer-sponsored benefits accounts and workers' compensation payments. Learn more about DataPath at [www.dpath.com](http://www.dpath.com) or call (800) 633-3841.*

