

The importance of digital transformation in a fraudulent environment

Healthcare payment fraud increasingly gnaws into hospitals' and hospital systems' bottom lines. For example, the U.S. government expects to recover more than \$3 billion in fraudulent payments from 2023, and the American Hospital Association recently warned of a sophisticated scheme in which fraudsters are stealing the identities of revenue cycle employees to redirect payments into their own accounts.

In addition to the typical approaches to payment fraud, the rise in AI technologies means there are even more ways for criminals to defraud hospital payment systems. In a recent survey conducted by HFMA and sponsored by GHX, more than 85% of responding hospital financial executives said they are somewhat concerned (65.96%) or very concerned (19.15%) about potential AI-influenced fraud, including account takeovers and eventually payment fraud.

As healthcare institutions continually grapple with the threat of fraud, effective digital transformation can be a powerful weapon in the fight. Not only can digital transformation streamline workflows and cut costs, but it can also help protect against fraud by reducing manual processes.

Digital transformation delays

In many cases, delays in digital transformation could make it easier for fraud to go undetected. And over the past few years, digital transformation has been delayed in many hospitals as a result of market conditions and compressed margins.

"During the pandemic, there were massive queues of IT work that were postponed," said Nate Smith, vice president, commercial leader invoice & payment at GHX. Some hospitals may have been able to get through the backlog of the queue and reprioritize automation needs, but they were faced with added pressure such as higher cost of goods due to inflation, increased cost of labor, high cost of capital and cyberattacks.

"Macroeconomic pressure on the healthcare industry created headwinds for hospitals and hospital systems, impacting margins and net operating income," Smith said. "Digital transformation hasn't stopped; it just hasn't gone as fast as the industry would like given the operating environment."

For example, 63% of respondents to the survey said that factors such as inflation, interest rates and investment performance have very negatively affected or somewhat negatively affected their organizations' management of working capital. With less working capital available, plans for digital transformation have been delayed in many healthcare facilities, potentially leaving them more vulnerable to payment fraud.

Increase in M&A activity

In addition to digital transformation delays, mergers and acquisitions (M&A) also play a role in increasing the risk of payment fraud. When various organizations come together, they merge different processes — and even

if one hospital has mitigated fraud by automating its payment processes, merging with another hospital that uses manual processes increases its vulnerability.

The survey showed that M&A activity is expected to continue at a frantic pace. For example, almost one-third (29.6%) of respondents said their organizations have been affected by M&A over the past 12 to 18 months. More than half (52.6%) said they expect their organizations to be affected by M&A or industry consolidation within the next 12 to 18 months.

Industry refocusing on digital transformation

Despite the hurdles and because of the increasing risks, hospital and system leaders are now prioritizing digital transformation. While technology investment has always been important, today's economic realities have made it even more critical. Forty-three percent of hospital leaders surveyed said they are increasing technology investment specifically due to economic factors.

When asked what general technology areas they plan to invest in over the next one to two years, the largest share of survey respondents (42.2%) said digital transformation. Among those who are planning technology investments in the next one to two years, most commonly plan to invest in a new or upgraded EHR (28.3%), accounts receivable automation (26.79%) and accounts payable automation (AP) (23%).

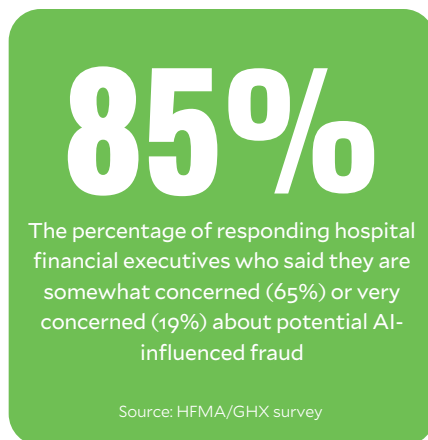
With rising payment fraud concerns, a focus on AP digital transformation and automated payment solutions is becoming more important.

AP digital transformation lessens fraud risks

An important part of digital transformation is finding ways to remove manual processes and paper-based work. Many organizations view this transformation in terms of streamlining workflows and cutting costs, but the same transformation can also help reduce the risk of fraud.

“When it comes to manual processes, there’s more room for error and fraud,” said Smith. “The Holy Grail for AP digital transformation is a touchless transaction from [purchase order] PO to invoice and payment. We’ve seen that when AP teams digitize, automate and guardrail workflows, they reduce exposure to costly errors and fraud.”

For example, at Northwestern Medicine, the 11-hospital health system affiliated with the Northwestern University Feinberg School of Medicine in Chicago, digitizing the procure-to-pay (P2P) system was crucial for eliminating manual processes and cutting costs. The new system did not just allow for standardizing information from each vendor, helping boost the collection of



rebates and discounts and processing invoices based on supplier-provided payment information. According to Northwestern, it also helped to drastically reduce fraud.

“It’s important for us to make sure we have a payment strategy that works for our organization as well as our suppliers,” said Amy Platis, director of finance at Northwestern Medicine. “It starts with supplier onboarding, so we can provide them with payment options. We have several options layered in that allows them to select the option that works for them as well as us, that offers the automation and the security built in.”

Northwestern hasn’t just lowered the risk of fraud by automating payment processes; it has also drastically improved supplier relationships, Platis said. Automated

payments allow suppliers to get fast payments in the modality they prefer and shows suppliers that the hospital is committed to a win-win partnership. At the same time, Northwestern has benefited from discounts and rebates, helping transform AP to a profit center rather than a cost center.

“Automated payments have more safeguards against fraud than paper checks,” Smith said. According to a 2023 payment fraud survey by the Association for Financial Professionals, check fraud remains the payment method most vulnerable to fraud. Sixty-three percent of respondents reported that their organizations faced fraudulent activity via checks.

As fraudsters become increasingly sophisticated, many hospitals and health systems are still relying on manual systems to process and pay invoices. That might include manually processing payments or managing exceptions, which requires significant employee time and effort, and typically requires multiple people to handle the invoices and the payments.

Through end-to-end automation of AP processes, hospitals and health systems can leverage modern digital technologies to create economies of scale, which helps reduce fraud. ■



Building on decades of collaboration between providers, manufacturers, distributors and other industry stakeholders, Global Healthcare Exchange, LLC (GHX) is helping organizations run the new business of healthcare. By automating key business processes and translating evidence-based analytics

and data into meaningful action, GHX is helping the healthcare ecosystem to move faster, operate more intelligently and achieve greater outcomes. With the support of GHX, healthcare organizations have removed billions of dollars of wasteful healthcare spend. For more information on GHX’s suite of cloud-based supply chain and pharmacy solutions, visit www.ghx.com and The Healthcare Hub.

This published piece is provided solely for informational purposes. HFMA does not endorse the published material or warrant or guarantee its accuracy. The statements and opinions by participants are those of the participants and not those of HFMA. References to commercial manufacturers, vendors, products, or services that may appear do not constitute endorsements by HFMA.