Better Provider Data Management Could Save Health Plans Millions Per Year

Data acquisition and costs due to errors are out of control

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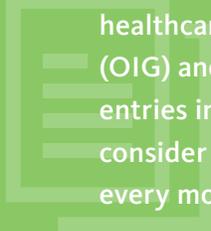
Inaccurate information about providers has long been a problem for the healthcare industry. According to studies by the Office of the Inspector General (OIG) and the American Medical Association (AMA), as many as 50 percent of entries in provider directories are inaccurate. This isn't surprising when you consider that approximately three percent of a health plan's network changes every month.

These inaccuracies drive administrative costs up, but health plans don't realize how much of their costs are associated with bad data because "fixing inaccurate provider data" isn't a line item on the balance sheet. Instead, these costs are often spread across the enterprise and are categorized as credentialing or relationship management expenses.

Credentialing represents a significant cost to health plans. The National Committee of Quality Assurance recommends that health plans re-credential their providers every three years, and some plans opt to do it more often. Many credentialing services charge hundreds of dollars per physician, which can quickly add up to $1 million annually or more for a large plan.
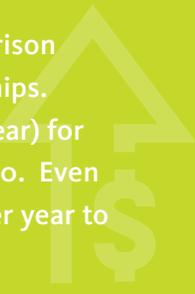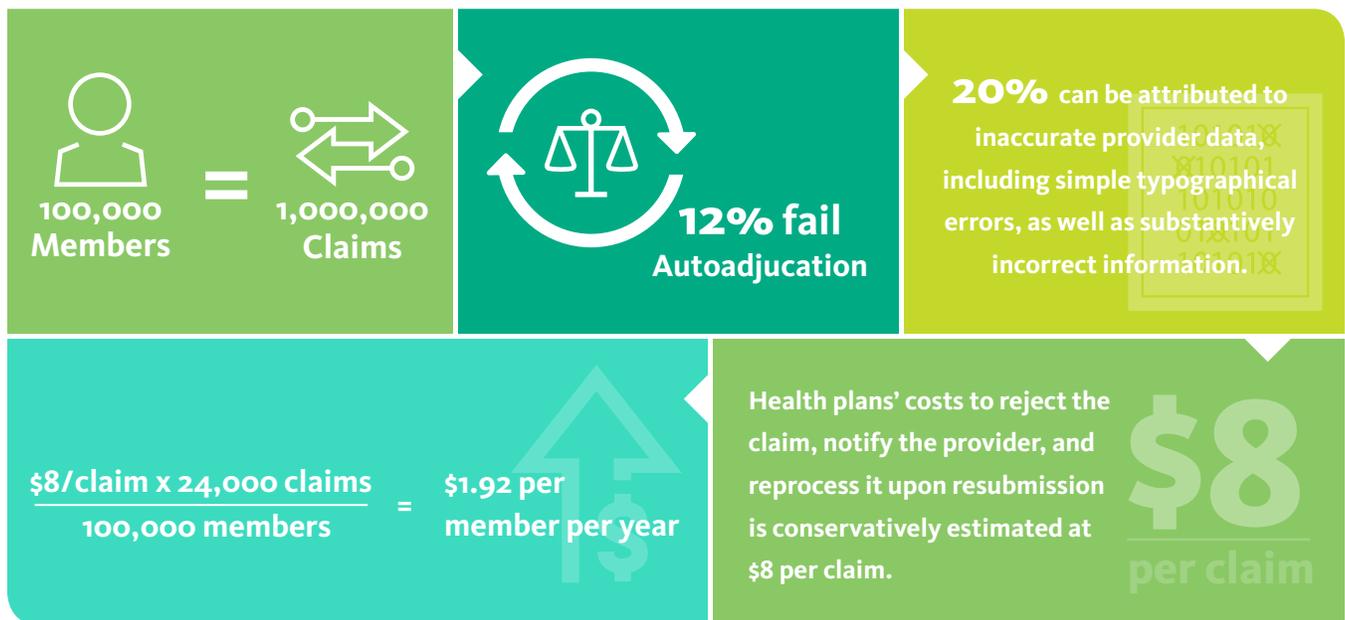
But a hundred dollars per physician every three years pales in comparison to what plans pay to accumulate data and manage provider relationships. According to Sherlock Company, plans spent less (per member, per year) for provider management and relations in 2015 than in any year since 2010. Even with that decline, the plans are spending up to $4600 per provider per year to establish and manage the provider-plan relationships.

[1] Sherlock, Douglas. "Independent / Provider - Sponsored Administrative Costs: A Review of 2014 Results," (retrieved from http://www.sherlockco.com/docs/presentations/Transcript%20of%20IPS%20Review%202015.pdf)

In addition to the direct hard costs, there are indirect medical and administrative costs, which are harder to quantify because of the different processes and systems that are involved. For example, many factors affect administrative costs associated with processing claims, including the accuracy of provider data. Isolating how the data affects specific processes enables calculations that demonstrate those effects. Based on research from Lexis Nexis and Optum, inaccurate provider data adds about $2 per member per year to the cost of claims processing. This number is derived from the following formula:

Excess Costs From Claims Failures Due to Provider Data Errors

100,000 Members = **1,000,000 Claims**

12% fail Autoadjucation

20% can be attributed to inaccurate provider data, including simple typographical errors, as well as substantively incorrect information.

$$\frac{\$8/\text{claim} \times 24{,}000 \text{ claims}}{100{,}000 \text{ members}} = \$1.92 \text{ per member per year}$$

Health plans' costs to reject the claim, notify the provider, and reprocess it upon resubmission is conservatively estimated at $8 per claim.

$8 per claim

Isolating other processes affected by provider data accuracy will likely reveal additional opportunities to reduce administrative expenses.

The administrative savings are significant, but so too are the potential savings from reduced medical costs. If payers and providers had immediate access to accurate information and effective ways to share that information, it could cut down on many unnecessary tests and procedures. It's difficult to quantify exactly how much could be saved, but even a minor reduction here could represent a healthy return on investment.

The bottom line is that the accuracy of your provider data affects *your* bottom line. Some of the effects are easy to quantify, like claims administrative costs. Others will take sophisticated analysis of the processes that rely on accurate, timely provider information. The potential payoff is significant, as more-effective use of more-accurate provider data will reduce administrative and medical costs, and improve member care in the process.

Learn more about effective management of provider data at Availity.com/pdm

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