How Insurance Carriers Can Shred the Cost of Sending Paper Checks

Leveraging the Financial Advantages of Virtual Cards and Push-to-Debit Solutions

ONE INC

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The Insurance Industry’s Shift to Digital

The insurance sector is undergoing a seismic shift toward digital payments as an increasing number of carriers — from small to large — phase out paper checks for claim disbursements.

For insurers of all sizes, keeping up with industry’s payment evolution is no longer optional. Per Datos Insights (formerly AiteNovarica), the total number of payments is quickly increasing, and within that increase, the adoption of electronic payments and faster payments is surging much higher than legacy payment options.[1]

This report will help uncover the hidden costs and risks of sending paper checks for claim payments.

It also features in-depth insights into two modern payment options, virtual cards and push-to-debit transactions, and explores new payout methods on the horizon.

The Dying Decree of Checks

In the enduring duel between paper checks and digital disbursements, the former is slowly losing its stronghold. While checks represent about 33% of business-to-business (B2B) payments in the U.S. and Canada, according to the Association for Financial Professionals,[2] the total number of checks issued each year has decreased significantly.

Per the Federal Reserve’s most recent payments study, checks have fallen at a rate of more than 7% per year since 2018, dropping to 11.2 billion in 2021[3] — down from 14.5 billion just three years earlier.[4]

To further illustrate the check’s fading dominance, there were 41.9 billion check payments in 2000,[5] representing a 73% overall reduction.

Despite these shrinking figures, checks are still one of the payment methods most susceptible to fraud. In a 2023 Association of Financial Professionals survey, 63% of respondents said their organizations had faced fraudulent activity via checks.[6] Continuing to rely on this legacy payment method carries a latent risk for insurers, from both a financial and operational standpoint.

73% **reduction in check payments since 2000**

63% **of organizations have faced check fraud**

Issues with Checks

Cost Inefficiencies

Checks are often more expensive than going digital. Respondents in RPMG's 2022 Virtual Card Benchmark Survey reported that a check's end-to-end average cost is $38.[7] Survey participants were asked to estimate transaction costs inclusive of all invoice and payment processing activities, beginning at initiation and concluding at post-payment record-keeping and bank reconciliation.

Problematic Processes

The sluggish nature of paper-based transactions often leads to delayed payments, lengthening the claims cycle.

> A default reliance on mailed checks amid recent United States Postal Service (USPS) delays[8] and a rise in mail theft-related check fraud[9] further compounds the issue.

The Financial Crimes Enforcement Network (FinCEN) wrote in a 2023 alert that criminals will generally steal all types of checks from the USPS as part of a mail theft scheme, but business checks may be more valuable because business accounts are often well-funded. FinCEN states it may also take longer for the victim to notice the fraud.[10]

Reconciliation Woes

Manual check processing can be time-consuming and prone to delays, especially if approval processes are lengthy or checks require multiple signatures. Paper checks also increase the likelihood of errors, involve time-consuming reconciliations, and have a higher potential for unnoticed discrepancies.

Virtual Cards: Streamlining Claim Payments

Although a vast majority of organizations, 92%, continue to process checks,[11] the use of digital methods is projected to grow significantly. In fact, virtual card adoption is expected to increase by 44% between 2022 and 2025, according to RPMG research.[12] This continued growth and transition to virtual cards represents the next chapter in digital disbursements.

> Virtual cards act as direct, card-based payments sent straight to the payee's inbox, alleviating the issues endemic to check transactions.

These digital representations of payment cards can only be used for approved expenses or purchases related to the corresponding insurance claim. Once received, the payee enters the card information into their point-of-sale (POS) device by keying in the 16-digit number with the CVV for the exact amount indicated in the virtual card's detailed electronic remittance data.

Virtual cards are an ideal solution for insurers wanting to improve cost efficiency while paying claims quickly and securely.

Advantages of Virtual Cards

Reduced Carrier Expense

A significant benefit of virtual cards for insurance companies is the potential for cost savings. Traditional payment methods, such as checks, involve numerous indirect expenses, including printing, mailing, and processing fees. According to the 2022 AFP Payments Cost Benchmarking Survey, the median per-transaction cost of a check ranges from $2.01 to $4.00.[13] The same survey found that digital payments offer a more cost-effective solution for insurers.

Improved Efficiency

As soon as a claim is approved and the adjuster initiates the payment, the virtual claims card is automatically delivered to the payee via email. This efficiency reduces the time and labor involved in managing claims, allowing insurance companies to reduce cycle times and focus on more strategic initiatives.

> Automation of payments through virtual cards reduces the likelihood of human error, ensuring accuracy and reliability.

Moreover, integrating virtual cards seamlessly with a carrier's current systems automates the reconciliation process to a remarkable degree. Some solutions can save up to an hour of manual effort per transaction.[14]

60 mins **time saved per transaction on reconciliation by integrating virtual cards into core system**

Enhanced Security

Virtual credit cards offer a higher level of security compared to traditional payment methods like paper checks. The unique number of each card significantly reduces the risk of fraud and unauthorized access. Digitally restricting the transaction type and limiting the amount used in each transaction are key security elements of virtual cards that checks simply can't offer.

These features are particularly crucial in the insurance industry, where sensitive financial information is frequently processed, making virtual cards an ideal solution for insurers wanting to pay claims securely.

Push-to-Debit Transactions: Disbursing Instantly

Also known as direct-to-card and push-to-account payments, this digital method involves claims disbursements being sent directly to an enabled debit card — providing security and efficiency in equal measure.

> When given an option, nearly two-thirds of consumers choose instant debit transfers over checks and ACH transactions.[15]

There is no need to search for bank account or routing numbers as policyholders can use the 16-digit debit card number and expiration date from their digital or physical wallet. The payee can then access the payout instantly using their debit card from wherever they may be.

There is also no need for the policyholder to wait for checks to clear or for funds to be transferred electronically to their bank account, which can take two to five business days to receive the settlement funds once a payment has been sent.[16]

Insurers stand to gain significantly from integrating push-to-debit technology into their claim disbursement processes, from enhancing the customer experience and reducing costs to improving security and automating reconciliation.

Benefits of Push-to-Debit Payments

Cost Effective

One of the most compelling advantages of push-to-debit payments is their cost-effectiveness. Sending payouts directly to debit cards eliminates the expenses associated with printing and mailing checks, ultimately saving insurers money.

Better Security

Push-to-debit transactions are guarded by robust security measures, including multi-factor authentication and Account Verification Services. These features reduce the risk of fraud and ensure that only authorized parties can manage accounts and receive payments.

MFA is a multi-step account login process that requires users to verify their identity by providing more information than just a password.[17] MFA ensures only a member of the payee's organization is allowed to manage accounts receivable.

AVS performs real-time card account checks with card issuers, including confirming an account is open and valid in addition to verifying the supplied postal code, billing address, and/or Card Verification Code (CVC or CVV).[18]

Optimized Processes

The efficiency of push-to-debit transactions streamlines reconciliation. Insurers can maintain clear records of payments, reducing the time and effort required for manual reconciliation. This automated approach allows accounts payable teams to focus on more strategic tasks, enhancing overall productivity.

The Impact of Instant Payments to Disbursements

Consumers and businesses in the U.S. now have access to instant payment services available 24/7, facilitated by the Federal Reserve's FedNow, launched in July 2023, and the Clearing House's RTP (Real-Time Payments) network, initiated in November 2017. This expansion has enabled instant payments to be leveraged for a variety of use cases.

> For disbursements, instant payments offer customers the ability to receive a large dollar amount payout any day and at any time.

Greater automation through ISO20022 offers expanded use of structured data that will simplify reconciliation processing. As with any new capability, insurers must assess their customers' needs while balancing costs and risks. A comprehensive digital payment strategy should offer multiple options to meet customer demands while driving out time-intensive, paper-based payments that are expensive and susceptible to fraud. Ultimately, it comes down to arming people and businesses with the choices they need to move their money safely and at the speed they need.

One Inc: Pioneers in the Payments Frontier

As the payments landscape continues its transition from traditional checks to digital methods, understanding the advantages of modern insurance disbursements is paramount.

> One Inc focuses only on insurance and was ranked as 'Best-in-Class' for non-bank disbursements platforms by Datos Insights for its digital platform capabilities.

The company's platform reduces risk, increases data security, and safely stores tokenized data.

One Inc is propelling the industry forward through a unified and frictionless payment experience. By leveraging One Inc's modern payment platform, insurers large and small are eliminating paper-based workflows and paper checks. This next-generation technology drives a superior experience for not only carriers' customers but also their vendors, suppliers, and other third parties via accelerated payments.

The Value of a Vendor-Provider Network

A robust vendor-provider network can make all the difference for businesses keen on fully embracing modern B2B payment methods.

One Inc's Vendor-Provider Network is an innovative system that stores contact information and payment preferences, expediting payouts upon settlement from our large network of more than 770,000 vendors and providers.

One Inc makes the transition from paper checks to digital payments easy with full-service vendor onboarding, self-service tools, adjuster training and support, and a dedicated vendor call center. We take care of vendors so insurers can focus on their policyholders.

For a dynamic, secure, and swift way to receive disbursements, One Inc sets the benchmark with its Vendor-Provider Mastercard Express ClaimsCard.

One Inc's Mastercard Express ClaimsCard

As the industry standard in insurance disbursements, One Inc's Mastercard Express ClaimsCard automates processes, improves security, and helps insurers close claims faster.

Swift and Seamless

Virtual cards minimize errors and accelerate the overall disbursement process to reduce the claims cycle.

Fraud-Fighting Technology

Exceptional security measures preempt and outmaneuver potential threats, safeguarding insurers' financial interests.

Cost-Efficient Payments

By eliminating paper checks, insurers can save printing, mailing, and processing costs, plus reduce manual tasks.

On the Horizon: Straight Through Processing

Straight Through Processing (STP) is beginning to take the digitalization and automation of insurance payments to the next level. Today, this technology is increasingly empowering carriers by further streamlining routine tasks to boost efficiency.

STP allows businesses to receive the funds from multiple carriers in aggregate as a part of the merchant services settlement process, keeping bank statements cleaner.

 www.oneinc.com

Business Considerations and Next Steps

For insurance carriers, the conversion from checks to digital disbursements is not a fleeting trend but the future — replete with cost efficiencies, operational streamlining, and security enhancements.

Aligning with a forward-thinking payment provider like One Inc allows insurers to quickly and easily capitalize on the benefits of these modern methods. It's not merely about surviving change but thriving within it by leveraging technology to catalyze efficiency, protect revenue, and blaze a trail toward sustained success.

About Mastercard

Mastercard powers economies and empowers people in 200+ countries and territories worldwide. Together with our customers, we're building a sustainable economy where everyone can prosper. We support a wide range of digital payments choices, making transactions secure, simple, smart and accessible. Our technology and innovation, partnerships and networks combine to deliver a unique set of products and services that help people, businesses and governments realize their greatest potential.
www.mastercard.com

About One Inc

Founded in 2012 and focusing solely on insurance, One Inc provides next-generation technology to process claims and settlement payments. The company is one of the fastest-growing digital payments platforms in the insurance industry, facilitating both inbound and outbound payments. One Inc's comprehensive end-to-end digital solution provides expanded payment options, multi-channel digital communications, and rapid digital claim payments — even for the most complex insurance use cases. One Inc handles over $81 billion in payments a year for carriers such as Amica Mutual Insurance.

To discuss your digital payment needs,
please call **(833) 209-1688** or email inquiries@OneInc.com

 www.oneinc.com

Endnotes

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To Find Out More

Visit OneInc.com for more information and set up a personalized demo on how you can go digital today!

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