Bracing for Healthcare Reform

Excerpted with permission from the *Treasury & Risk* article [Making Strides with the Help of Technology]() by Susan Kelly, April 2016

Bracing for Healthcare Reform

Health Care Service Corp., a Chicago-based mutually owned insurance company that is the fourth-largest health insurer in the U.S., has leveraged a new treasury management system it implemented to improve its cash forecasting.

When the enactment of the Affordable Care Act pointed to big changes coming ahead for the health care industry, HCSC decided it was time to reengineer its treasury operations. The insurer, which has more than 150 bank accounts, 14 bank portals, and 70 investment accounts, had used a treasury system but still relied heavily on spreadsheets and the manual keying in of data. It wanted to centralize its information and automate the treasury's routine tasks to free staff members up to provide consulting to the rest of the organization.

And with the requirements of the ACA expected to create stress on HCSC's balance sheet, the insurer wanted to improve its forecasting so that it could manage its working capital better and improve the returns on its $10 billion investment portfolio.

HCSC selected Kyriba's system and put in place a custom solution that integrates 13-week operating and investing forecasts. The company worked with its custodian to come up with a forecast of investment maturities and investment income, using custom BAI codes to aid in the reporting of investment activity. At the same time, HCSC built a regression model in-house to forecast operating cash flows, which it is currently moving into Kyriba.

"We created a better forecasting platform, and what that allowed us to do was shrink the cushion we had in our working capital and put that money to better use by investing it," said David Deranek, senior manager of treasury corporate cash and control at HCSC. "We had better clarity to what our working capital needs were on a day-to-day basis."

The improved cash forecasting allowed HCSC to shrink its working capital band from $500 million to $200 million, Deranek said. And just last month it announced that it will shrink working capital even more, down to the $50 million to $100 million range, he said.

The company estimates that investing some funds over a longer term provided additional investment income of $140 million.

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