



Practices That Set The Standard

Testimony of Laura Kline, Vice President of American Physicians Assurance Corporation to the Senate Health Policy Committee Meeting on April 16, 2008.

Senator George, I want to thank you and the committee for allowing the Michigan property and casualty insurers to speak today on House Bills 5284 and 5285, otherwise known as the Blue Cross and Accident Fund expansion bills.

My name is Laura Kline. I am a Vice President of American Physicians Assurance Corporation headquartered in East Lansing, Michigan. We are a small, niche company with a 130 employees in the Lansing area specializing in medical malpractice insurance for physicians. Our company was created more than 30 years ago by the Michigan State Medical Society when most, if not all, of the commercial insurers left the market and physicians had no where to go for their liability insurance protection.

The shortage of malpractice insurance in the mid-70's was so severe that our founding physicians applied for an exemption to securities regulations so doctors could go door to door to their colleagues and raise capital, via surplus notes, to start our company. Their efforts paid off and to this day we remain the largest insurer of physicians in Michigan. Even as the largest insurer of physicians in the state, we have only 19% market share of companies admitted and authorized to write coverage in Michigan. We only sell one product -- medical malpractice insurance to doctors. We don't offer other types of insurance coverage. We don't write workers' compensation insurance, we

don't write home and auto insurance, we don't write business owners coverage, or health insurance, and we don't sell claims adjusting services for a fee. Our fortunes are tied solely to the profits and losses of medical malpractice insurance. Our company is able to prosper as a monoline insurer and we don't have a parent company with \$3 billion dollars of surplus like the Accident Fund does with Blue Cross to help us. If we can make it selling only one product, why can't the Accident Fund?

Passage of House Bills 5284 and 5285 would give Blue Cross free reign to monopolize the medical malpractice insurance market in the state of Michigan. Blue Cross has provider contracts with approximately 90% of practicing physicians in the state and wields enormous power and control with these doctors. American Physicians and all other medical malpractice insurers writing in this state would exit the market if Blue Cross decided to use their \$3 billion of tax exempt surplus to undercut our malpractice insurance rates simply to gain marketshare. We would be unable and unwilling to compete against a tax exempt organization the size of Blue Cross. With a monopoly, Blue Cross could then dictate how much to charge physicians for their medical malpractice insurance and, through the underwriting process, decide which physicians are even allowed to practice medicine in the State. The scenario has far reaching implications for patient access to care in an environment like ours that is facing a physician shortage.

House bills 5284 and 5285 have nothing to do with Individual Market Reform. Blue Cross bought the Accident Fund from the state knowing full well they would be limited to writing workers' compensation insurance and nothing else. How can small companies like ours compete with a tax exempt insurer like Blue Cross? It's impossible! There are no firewalls in the bill to prevent down streaming of Blue Cross surplus to buy other

insurance companies or invest in selling other types of insurance. There are no provisions in the bill to prevent product bundling or tying the sale of one Blue Cross subsidiary insurance product to another. And, there is nothing in the bills to prevent Blue Cross from providing only its subsidiaries with access to the contract, networks and other monopoly benefits they have amassed with their special, tax-exempt charter.

If the Senate chooses to proceed with House Bills 5284 and 5285, the only just solutions to level the playing field would be to require Blue Cross to sell the Accident Fund or privatize Blue Cross and create a tax paying entity. Dr. Wolfram estimates the proceeds from a Blue Cross sale would generate at least \$6 billion for the state of Michigan. While we appreciate Senator George's starting price of a \$100 million entry fee to allow the Accident Fund to compete with companies like ours it is pocket change to an organization like Blue Cross. They will gladly pay it knowing full well they can pass on the cost to their policyholders.

In conclusion, there are more than 1,500 insurance companies selling insurance in this state. Many of them are small companies like ours. Allowing Blue Cross to unfairly compete in the market place with us will not create any more jobs or economic activity. It will just make Blue Cross bigger, the market less competitive, and in the long run charge everyone with higher prices. It is only on a level playing field, which this legislation does not offer, that our company and other property & casualty companies can hope to compete. Thank you very much for your time.

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