



TESTIMONY
SENATE HOUSE POLICY COMMITTEE
APRIL 16, 2008

Mr. Chairman and members of the Committee. Thank you for the opportunity to speak today on House Bills 5284 and 5285. My name is Teri Morante. I represent Citizens Insurance Company of America and its affiliates in The Hanover Insurance Group.

Citizens is a Michigan-born company with headquarters in Howell. We were formed in 1915 as the first auto insurer in the state. Since our small beginnings as a single-line carrier, we have grown to be one of the largest property-casualty writers in Michigan, writing around \$800 million in premium and employing more than 900 Michigan residents.

We are proud to be a Michigan company and are committed to doing our part to maintain our state's vibrant, competitive insurance market. That's why I'm before you today.

Obviously, there have been many changes since 1915, and as our company has grown we've adapted to the changing environment. We've grown through 36 insurance commissioners and some significant market changes such as no-fault auto insurance, workers compensation reform, and the Essential Insurance Act, to name just a

few of the more recent ones. And whenever changes such as these were going through the Legislature, Citizens was there, an active participant in the discussions, debate and negotiations. It was an open and deliberative process in which all affected parties were brought together, many times if necessary, and given a chance to be heard.

While it didn't always turn out the way we would have liked, we found a way to make it work in the best way possible. Our incentive to do so was the fact that all companies found themselves in the same situation. Our ability to compete was in our hands – all we had to do was figure out how to adapt to the changes at least as well as, preferably better than, our competitors.

The legislation we're here to talk about today, however, puts us at a disadvantage that our creativity alone cannot overcome.

Blue Cross Blue Shield was granted tax-exempt status by the state as a charitable, non-profit special purpose organization to ensure that all Michigan citizens had access to health care. Under this special charter, they have gained a near-monopoly share of the health benefits market and billions of dollars in reserves.

The size of the Blue Cross coffers allowed them to outbid all others in the purchase of The Accident Fund from the state of Michigan more than a decade ago. At that time, however, the legislature

recognized the potential for unfair competition and attempted to put safeguards in place, not the least of which limited The Accident Fund to writing only workers compensation insurance.

Now, the Blues want to renege on that agreement and extend their reach into all lines of insurance...to use their substantial reserves, contracts, networks and general monopoly leverage to compete with companies like ours. To allow them to step outside their charitable mission, keep their tax-exempt status, and use their tax-exempt resources to compete with tax-paying businesses gives them an extremely unfair advantage and sends the wrong message to the Michigan market.

It's been said that the insurers in the coalition against these bills simply don't want more competition. Let me be clear...we have no problem competing on a level playing field. We do it every day. This is the type of competition that benefits consumers.

However, to allow an unfair advantage to companies owned by a state-created entity with a state-granted tax exemption will disrupt that playing field and have a chilling effect on the Michigan market.

You are to be commended for the deliberate process you are using to consider the significant changes being proposed in the health market. House Bills 5284 and 5285, while touted as part of the individual market reform effort, have nothing to do with the health

market. It is our hope that you will give these bills at least as much scrutiny as you have given to the other two. If you plan to move the individual market changes in the near future, please consider taking these two bills out of the mix. They don't impact the health market, but they have a significant impact on the property/casualty market, and deserve further discussion.

Thank you.

