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AGAINST THE ODDS: PIAA AND THE CHANGING FACE OF MEDICINE

REMARKS PREPARED FOR DELIVERY
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It's an honor to be here today. I'm not a physician or an expert on medical professional liability. But I know something about the Physicians Insurance Association and the challenges that created it. I also know that the challenges didn't end there – in fact, you've had to face them regularly to this very day, as you confront fundamental changes in the way health care is delivered in America.

What I am is a businessperson and CEO. I've worked in two industries that have also faced fundamental challenges over the years – financial services and insurance brokerage. And the businesses I manage today, Willis and Willis Re, do a significant amount of work in support of PIAA members – in fact, I'm proud to say Willis Re is the leading reinsurance broker to PIAA companies. So I hope that I can offer a perspective that will be at least enlightening – and at best helpful as you move forward.

As you know, most physicians in the U.S. buy their medical professional liability insurance from your member companies. And *all* of your members share physicians MPL as their driving line of business.

In other words, you are an organization **of** physicians... **by** physicians... **for** physicians...

Now if that language sounds a little exalted, it's for a reason: It's because I see the practice of medicine not as a career, but as a calling... and I see the PIAA and its members not as an industry, but as a **movement**.

In fact, I would submit that you have more in common with the environmental or tax protest movement, for example, than with the Financial Services Roundtable.

You were not created to protect special privileges or power... to consolidate gains made over the decades... or to preserve or extend some kind of competitive advantage.

Not at all.

You were created for the common good... **to save a profession** – some would say, myself included, **the most noble profession** – the practice of medicine.

Your movement was born of crisis – it formed almost spontaneously in response to the malpractice insurance crisis of the 1970s.

More than anyone else involved in this crisis – the politicians, the public, the insurance companies, the lawyers – **physicians** saw what was at stake, probably because physicians know the unique gifts of modern medicine better than anyone.

So you organized yourselves, created your own insurance companies, lobbied for changes in public policy, including tort reform, improved your approach to high-risk procedures, and much more.

And it worked! You not only saved the day – you kept costs lower than they might have been… you prevented a flood of doctors from leaving the profession – and hundreds of millions of Americans are better off because of you.

In 1977, you banded together to form the PIAA, formally recognizing that your interests were different from those of the broad commercial market. You were dedicated to providing affordable, dependable medical liability insurance – a goal shared by the commercial market, to be sure, along with many other goals – the PIAA, on the other hand, has the luxury of being able to focus on a single goal, and that has served you very well in a dynamically changing industry.

It served you well again in the 1980s, with the second affordability crisis.

But the biggest test was yet to come. As you know, over the next two decades, St. Paul was the dominant writer of physician MPL in the U.S., with most PIAA member companies carving out smaller market shares in your own or contiguous states. However, after the market turn in all insurance lines in the wake of September 11, 2001, St. Paul withdrew completely from US MPL – overnight.

If you had asked your local doctor at the time whether he or she believed that the PIAA could absorb all the unprofitable business St. Paul was leaving on the table **and** successfully transform it into an amazingly profitable portfolio – there would have been plenty of doubt.

But this is exactly what you did… and Medical Professional Liability – with the PIAA being the main segment of that market – has now outperformed the overall P&C industry for the last **six years**.

That's a **stunning** achievement – and I applaud you for it.

TODAY'S CHALLENGE

That brings us to today. With the ongoing legislative and structural changes in U.S. health care delivery, you're facing another huge challenge. Hospitals are buying physician practices, physicians are grouping together at an ever-increasing pace, and smaller clinics are combining to form larger entities. This all means that there are fewer and fewer independent physicians in the U.S.

In fact, this trend is visible, not only in publications like the American Medical Management Association report in 2010, it's also visible on the small screen in our homes.

Once upon a time, television featured independent doctors like Marcus Welby to balance out the Ben Caseys and James Kildares working in hospitals. Today, after decades of highly successful medical dramas, such as St. Elsewhere, ER, and House, there is hardly an independent doctor on television.

While there are still plenty of independent physicians in real life, this demographic – traditionally the backbone of the PIAA movement – is shrinking. And so is its share of practices.

Three years ago, 70% of clinics and practices were doctor-owned… today, 50% are owned by corporate entities.

Many reasons have been cited for this trend:

- The largest purchaser of health care services in America is the U.S. government. That gives it a measure of control over the industry – and the government favors consolidation and larger providers, for reasons you and I may not agree with, but which are occurring nevertheless.

- Some also cite a generational shift… Where prior generations aspired more to independent practice and were willing to trade the long hours and economic uncertainty for the freedom to control their own destiny – today, it's said, America has been "corporatized" and there is a preference for the steady salary, predictable hours, vacations, and other perks offered by larger institutions.

- Whether you buy into that theory or not, one thing you **can** say is that the profitability of private practice has become more limited, at the same time that the cost of entry has increased exponentially by the price of real estate and new equipment – and not only the equipment required to treat patients, but also that required to maintain records electronically. Few graduates emerging from med school can afford to start a practice from scratch.

- Finally, although we all suspect this will change at some point soon, claim frequency is at an all-time low – losses are simply not there. This has accelerated the creation of an increasing number of self-insured captives. Many are arguably under-funded – but because the losses aren't there, the capitalization levels are not being tested.

So as I see it, the PIAA today is faced with a choice: You can accept a diminished role, for reasons that have very little to do with *you* – the forces driving doctors into larger groupings and institutions are powerful and impersonal.

Or you could apply the tremendous courage, knowledge, and commitment that have characterized this very special movement, and figure out how you're going to follow your traditional client base into this new arena.

Anyone want to guess which approach I favor?

I personally love going against the odds. Let's leave the medical profession for a while and take a look at some "moments of truth" faced by other industries and movements that might offer a parallel.

Some examples of where, against common belief and against the odds, challenges have been overcome – with great results.

There are three industries that have been near and dear to me in my life – Wall Street, baseball, and insurance. Each went through a life-changing experience at some point during the same time period we're discussing.

First, Wall Street.

The New York Stock Exchange traces its founding to the Buttonwood Agreement, signed under a tree in lower Manhattan on May 17, 1792.

The parties to the Agreement promised to "not buy or sell from this day for any person whatsoever, any kind of Public Stock at a less rate than one-quarter per cent Commission."

And from that date forward, fixed commissions were a way of life in the American brokerage industry. They provided a rich source of income at a guaranteed level – since no broker was allowed to charge less.

They could compete on other things, but not on price.

With the rise of institutional investors in the 1960s, it became difficult to maintain the practice. These large investors worked around the system by getting hidden rebates from brokerage firms... buying in the over-the-counter market... going to regional exchanges... and even trading among themselves.

The New York Stock Exchange fought tooth and nail to preserve fixed commissions through the 1960s and into the 1970s. It argued that abolition would decrease the incentive to join the NYSE, weaken its self-regulation, reduce the level of investor protection, lead to market fragmentation and the internalization of order flow, result in destructive competition in the brokerage industry, produce industry concentration, drive smaller firms out of business, result in price discrimination to the disadvantage of individual investors, and decrease the incentive of brokerage firms to provide research and related services.

They said everything except, "The end of the world is coming."

Once the U.S. Congress got involved, the writing was on the wall. The SEC ordered a transition to fully negotiable commissions on May 1, 1975 – still referred to as "May Day" on the Street – and the Buttonwood Agreement of 1792 finally came to an end.

What's happened to Wall Street since then? It has grown incredibly... financial profits as a proportion of corporate profits have grown tremendously... and investors have flooded into the market – in 1980, one out of 16 U.S. households was invested in the market, directly or indirectly – today that's one out of two. And I'm not sure what the Dow opened at this morning, but it was a heck of a lot more than May Day's open: 821.

Second example: Major League Baseball.

How many of you remember the strike of 1994-1995? It was one of the saddest years of my life.

Baseball and I go back a long way – all the way back to my grandfather, who came here on a boat from Sicily – if you've ever seen "The Godfather Part II," it was just like that: Ellis Island, the lines of people, the whole thing.

My grandfather figured that the best way to become an American was to do American things. So he pursued an unlikely career in baseball: with a thousand dollars he recruited Babe Ruth and Lou Gehrig to barnstorm the country inspiring kids at every stop.

This immigrant with a vision went on to own the Trenton Giants, a team Willie Mays played for on his way to the Big Leagues.

Then Trenton went without a pro baseball team for over 40 years, until my father, Samuel, reignited my grandfather's vision.

Dad was 80 years old, just getting over quintuple bypass surgery, when he said to me, "I want to bring baseball back to Trenton." He told me we should raise $16 million to buy the team, move it to New Jersey, and rejuvenate the town. He won that argument with me.

And he won over the community. He won over the press. He won over the politicians. At a point in life when many people are confined to watching games on their sofas, he was helping to build a ballpark – a monument to his vision that still stands today as the home of the Trenton Thunder, the Triple A Affiliate of the New York Yankees.

So you understand why the baseball strike broke my heart. The owners were worried about declining profits and wanted a salary cap – the players refused and went on strike.

It was a watershed moment for Major League Baseball. Nobody knew what the outcome would be – would it be the end of baseball as we know it?

They canceled 940 games. There was no postseason, no World Series. In fact, baseball was the first professional sport to lose its entire postseason.

After the strike ended, the fans were very upset with both the players and the owners. Attendance sank, TV ratings plummeted, with fans often booing during games.

And yet, look at Major League Baseball today. Not only were the fears of owners, players, and fans unfounded – baseball has become more successful than ever, franchises are worth more than ever, television rights are worth more than ever, and salaries are better than ever.

A final example of an institution that faced a threat to its survival comes from the industry I work in – the Lloyd's of London Crisis of the late 1980s and early 1990s.

You may remember the outlines of the story: Unexpectedly large legal awards in U.S. courts for punitive damages led to large claims by insureds, specifically on asbestos, pollution, and health hazards – some of them dating as far back as 1940.

On top of that, Lloyd's was accused of trying to hide these claims until it could recruit enough investors to cover the claims – and of withholding the claims even from the new investors. Eleven U.S. states formally charged Lloyd's with improper conduct.

Lloyd's Names were left to pick up a huge unforeseen and unreserved tab. Many faced financial ruin. For the first time, large numbers of Names refused or were unable to pay.

There were serious doubts whether Lloyd's would survive – and even if it did, whether it could remain the pre-eminent insurance market.

The market was forced to restructure. In 1996, liability for all pre-1993 business was transferred into a special vehicle at a cost of more than $21 billion. Names took huge personal losses – but they managed to right the ship and get it back on course.

Today, Lloyds is the premier marketplace for both direct insurance and reinsurance and has a unique niche in unusual, specialist business, such as ransom, fine art, aviation, marine.

As an aside, the Lloyds market as a whole is among the largest reinsurers of PIAA companies, representing about 20% of total ceded premium.

All right – to come back to the PIAA and the choice you face: You're an organization that has stared down mortal threat after mortal threat over more than three decades, and has not only succeeded, but has actually become stronger, *more* successful, *more* profitable...

Let me correct that: I should say *most* profitable, because since you've been running it, MPL has been the *most* profitable of all the lines of business in U.S. Property & Casualty.

The naysayers will doubt you. You know, the people who use "Bed-Pan Mutuals" not as a term of endearment, but as a mark of relative unsophistication and small-mindedness.

We know better. You're not that. They underestimate your power. They fail to understand that you're a **movement**. They're ignorant of the fact that, as Dr. Martin Luther King, Jr. said, "Almost always, the creative dedicated minority has made the world better."

There are some facts we would *all* do well to remember:

- Your members, as a group, form the largest segment of MPL writers in the U.S.
- In fact, collectively you now represent more U.S. physicians – 60% of them – **than the American Medical Association**
- In each previous crisis you've faced, your market share and influence have grown, and the profitability of the industry has improved
- You have risen to every challenge so far – and continued to grow in relevance and in prominence
- As I said earlier, you've outperformed the overall P&C segment for the last five years
- And you now represent 55% of overall U.S. MPL premiums and your members – ranging from under $5 million in assets to more than $6 billion – are more sophisticated than ever

With the coming of U.S. Healthcare Reform and structural change, you're simply facing one more challenge. A big challenge, to be sure, but you're used to that. Is there any doubt about how this will turn out?

I don't know about other people... but with your record so far, my money's on the PIAA. And not just because of your past performance.

As the largest writer of MPL, no one is better placed to work out how to successfully insure MPL going forward, whether it's physician- or hospital-driven.

That's because you know the customer base better than anyone else – and you work harder for it.

And guess what? The statistics, according to the NAIC Annual Statements, already bear me out.

PIAA member companies have already begun to respond to market trends and are making a major move into the hospital arena. You are positioning yourselves for future growth in this space – in fact, if the trend continues, in five more years you'll have more than half the market!

There is every reason to believe the PIAA will succeed and you will achieve this transformation.

I've given you examples from your own history.

I've given you examples from other industries and times.

Let me give you one more example from *my* experience.

In Chicago, at 1,451 feet, you'll find the tallest building in the western hemisphere.

It used to be called the Sears Tower. Now it's called Willis Tower.

Changing the name of the Sears Tower didn't seem possible. But I have a premise in life – we all have a premise that we wake up with every morning – and mine happens to be "anything is possible."

This was 2009. Sears had been out of that tower for 20 years. A lot of other businesses were moving out, too. The economy was pretty grim. That half-empty tower was a big, skyline-sized reminder of the global collapse.

That old name was a reminder, too.

So naturally, I thought to myself... Anything is possible.

Willis had just completed the biggest-ever merger of insurance brokers. I had a lot of people in Chicago in the merged company who needed a home. I figured, why not put them in that tower, wipe the slate clean, and name it after the new operation moving in?

An economic recovery needs people to show confidence that there's prosperity up ahead.

Maybe it's just a new name, but a new name can help make a new start, and a new start reminds people that no matter how entrenched the old ways are....

Anything is possible.

And you know what people told me. "You're crazy. You can't rename the Sears Tower."

I've heard "no" before. Hasn't stopped me yet.

Today, they call that building Willis Tower.

In interviews and business circles, they all asked: "How were you able to rename a landmark?" "What was the magic?" they said.

There was no magic. The answer was simple. *I asked.* In the face of all the doubters, I asked because I believe deep in my heart that anything is possible.

It's true for me – it was true for Wall Street, Major League Baseball, and Lloyd's of London – and it's equally true for the PIAA.

Anything is possible. The PIAA will transform itself, as it's done before. And Willis will be at your side every step of the way. Thank you very much.