

*"We're looking for other means of supporting the surplus while we go out and do our main business – and that's health insurance."*

—Kent Clapp, Medical Mutual president and chief executive



Kent W. Clapp, president and chief executive of Medical Mutual of Ohio, is expanding the insurer's acquisitions to states with growing populations.

# Insurer expands market

## Medical Mutual, second largest in Ohio, turns to new states

By Cheryl Powell  
Beacon Journal medical writer

One of Northeast Ohio's dominant health insurers is trying to bring new life to its business by expanding product lines and venturing into growth markets outside the state.

Though the majority of its business is in Ohio, Medical Mutual President and Chief Executive Kent W. Clapp envisions a day when 50 percent of clients are in other states with growing economies.

To jump-start that transition, the insurer has bought health plans in Georgia and South Carolina in recent years and set up a team to look for other acquisition opportunities nationwide.

"The market in Ohio is a very, very competitive market in the health business, and the commercial business is shrinking," Clapp said. "... We knew we had to go someplace, with a competitive market and shrinking business."

### ABOUT MEDICAL MUTUAL OF OHIO

**Headquarters:** Cleveland.

**President and chief executive:** Kent Clapp.

**Employment:** 2,800.

**2007 revenue:** About \$2 billion.

**Health insurance enrollment statewide:** 1.6 million.

**Major Akron-area customers:** FirstEnergy, Summit County, city of Akron, University of Akron and FirstMerit Corp.

Sources: Medical Mutual of Ohio, Ohio Department of Insurance

A dozen years ago, it seemed questionable whether the Cleveland-based insurer would survive, let alone expand.

In 1996, the Blue Cross & Blue Shield Association stripped the company of its affiliation, a move that some industry watchers predicted would cripple the insurer.

At the time, the company previously known as Blue Cross &

Blue Shield of Ohio was trying to recover from a failed, controversial merger with the former Columbia/HCA Healthcare Corp. and subsequent financial problems that left the insurer under state supervision.

But these days, Medical Mutual is the second-largest insurer in the state, with about 1.6 million enrollees.

Last year, Medical Mutual

collected \$93.1 million more in premiums than it spent on medical claims and other administrative costs, according to filings with the Ohio Department of Insurance. In 2007, the insurer's total premium revenue was nearly \$2 billion.

In its latest review, Fitch Ratings gave the insurer a rating of "Aq," or "Strong."

Anthem, the state's only remaining Blue Cross & Blue Shield affiliate, is the market leader, with 3.2 million enrollees in Ohio.

Anthem Regional Vice President Frank Bloomquist acknowledged that maintaining the highly recognized Blue Cross & Blue Shield branding has been a "stability factor" that helped Anthem grow.

The 1990s saw a lot of turbulence in the local medical industry, with "a lot of consolidation and mergers," said Michael McMillan, executive director of managed care for the Cleveland Clinic Health System.

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# Insurer

## Medical Mutual back with life insurance, too

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"We watched everything" closely, including the struggles of Medical Mutual, which is one of the clinic's five-largest private payers, McMillan said.

The fact that the company kept a strong local presence with local ownership by its policyholders is important, he said. Many of the other big insurers in Northeast Ohio are part of national, publicly traded companies.

"There's a mix of players in the local marketplace," he said. "Having an important, locally owned and governed health plan creates a better mix in the marketplace as far as the health plans are concerned."

Perhaps the most telling sign of Medical Mutual's return to prosperity is its quiet relaunch this year of its group life insurance products - a line of business that the company dropped a decade ago during the height of its troubles.

After being stripped of its Blue Cross & Blue Shield affiliation, Medical Mutual sold its life insurance business in 1997 to Fort Dearborn Life Insurance Co., which is owned by a Blue Cross & Blue Shield affiliate in Illinois.

For many years, Medical Mutual partnered with Fort Dearborn Life so customers with Medical Mutual health insurance could get group life insurance for employees with just one bill.

But in recent years, that agreement fell apart, Clapp said.

When a 10-year noncompete clause expired at the beginning of this year, Medical Mutual reentered the business, Clapp said.

In February, Fort Dearborn Life sued in U.S. District Court, seeking a court order barring Medical Mutual from transferring clients from Fort Dearborn Life to the new insurance plan.

But Judge James S. Gwin ruled in favor of Medical Mutual in April and dismissed the case.

For now, the Ohio market accounts for the vast majority of Medical Mutual's revenue in all product lines.

Clapp estimates current annual revenue totals about \$2.3 billion, with roughly \$300 million coming from premiums paid by clients in other states.

In recent years, Medical Mutual has found itself fighting with Anthem and United-Healthcare for a shrinking enrollment base in the state.

So about five years ago, Medical Mutual started the geographic expansion effort by acquiring Consumers Life Insurance Co., a shell company licensed to sell insurance in 38 states.

The company since has been acquiring all or part ownership of troubled provider-owned health insurance plans in other states to roll under the Consumers Life umbrella.

Among the key moves: the acquisition last year of Carolina Care Plan Inc., a managed-care company in South Carolina with about 60,000 enrollees, for about \$11.2 million; and the acquisition of majority ownership in 2006 of 1st Medical Network LLC of Georgia, which serves more than 200,000 members.

From 2000 to 2007, the popu-

lations of Georgia and South Carolina increased about 16 percent and 10 percent, respectively, compared to less than a 1 percent growth rate in Ohio, according to U.S. Census estimates.

Government contracts have been one of the insurer's strengths in Ohio. Now Medical Mutual's subsidiary in Georgia is bidding on a state contract to become one of two health insurers for about 700,000 state employees.

"There was a lot of competition for a shrinking market," Clapp said. "We decided we had to start chasing where the young people were going."

The insurer also does business now in Indiana, Michigan, Pennsylvania, West Virginia and Wisconsin.

Medical Mutual completed the acquisitions without debt financing, according to Jared Chaney, the company's chief communications officer.

In addition, the company has added or expanded other product lines in recent years, including insurance brokerage support, third-party administration for self-insured businesses and computer services and claims processing for other insurers.

"We're looking for other means of supporting the surplus while we go out and do our main business - and that's health insurance," Clapp said.

Medical Mutual's approach of marketing its back-office, support services to other insurers "is a very bright strategy," said J.B. Silvers, director of research at Case Western Reserve University's Health Systems Management Center in Cleveland.

"They process claims for everybody all over the place," Silvers said. "There's no risk,

and there's no capital expenditures, because you've already made them. . . . They've played it very smart."

Ultimately, Clapp said, Medical Mutual's expansion into new products and new geography is good for Northeast Ohio.

Clapp estimates 75 jobs have been created in Northeast Ohio in recent years to support Medical Mutual's expansion into new states. Claims processing, customer service, computer support and other administrative functions are handled by Cleveland-area offices.

The insurer employs about 2,800 people, mostly in Northeast Ohio.

"The jobs, most of them, come right here," Clapp said. "We're one of the few companies that can say that."

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