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FROM: Robert Lufrano *RL* AT: 20T

SUBJECT: **PRESIDENT'S 1993 ANNUAL ACHIEVEMENT AWARDS SPEECH**

The attached remarks were delivered by William E. Flaherty at the 1993 Annual Achievement Awards banquet.

These remarks reflect the theme for this year's event, "*BCBSF at 50: Still Leading, Growing, Caring,*" and emphasize that BCBSF is: a leader in the health care industry; financially strong and growing; and committed to the human values that emphasize the "care" in health care.

I hope you will find these remarks useful in reaffirming these key messages with your staff.

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## BCBSF AT 50: STILL LEADING, GROWING, CARING

*[Editor's Note: The following remarks were delivered by BCBSF President William E. Flaherty on March 8, 1994, at the Annual Achievement Awards banquet in Jacksonville.]*

Thank you for taking the time to join this extended family event. It is our 50th anniversary. When the company started in 1944 with four employees, it was called the Florida Hospital Service Corporation. We have grown to our current size surrounded by great accomplishments and with a challenging future. We have much to be proud of and much to look forward to.

Today, we are a company that is controlling medical costs and providing quality care through innovative managed care products.

Tomorrow's products are really impossible to predict. They will change frequently. We must improve our current products and develop new ones.

Today as I look out at this audience and toward the future, I see a company that has become Florida's leading health care company, and I see a company whose employees are committed to excellence with a strong sense of community spirit and responsibility.

The future holds challenges, but they are really opportunities. We can tackle them and seize the opportunities. We can make our company more efficient, more effective, and more competitive.

I would like to talk about our role as a leader in the health care industry, our company's growth,

and the commitment of our people to emphasize the "care" in health care. Then I will focus on what is ahead for us and our company.

There is a revolution occurring in the marketplace. Some of it is due to the health care reform that is occurring in the legislative process, but beyond that, there is truly a revolution under way.

And while our core business demands virtually all of our energies to adapt to changes that we already know and understand, there will be still more changes. We will have to respond to those as well.

### *Public Policy*

As I have said, the overarching issue is the revolution in the marketplace. However, nothing at the moment so challenges us, or has the potential to keep us from our mission, as does health care reform on both the state and national level.

In Tallahassee, the state Legislature is in the middle of another session where health care reform is a major agenda item. The governor is proposing to add new programs, regulations, and substantial regulatory authority as well as revise last year's reforms before they have even been implemented.

At the national level, both the President and Mrs. Clinton have been speaking out often and forcibly in support of their plan.

However, considerable opposition has surfaced over the feasibility and cost of their program. The opposition comes from both

Republicans and Democrats in Congress and from such groups as the Chamber of Commerce, the Business Roundtable, the National Association of Manufacturers and others who oppose the program.

As a leader in the health care industry, we are actively involved in shaping our own future. This includes health care reform.

We are working with state agencies and individual legislators to ensure that Florida's health care system evolves in a positive way.

On the national level, we are working with congressional committee staff and Florida's delegation of congressmen.

We are working with our allies in the business community to build support for our positions.

And, we are proactively communicating with and educating the legislature, the media, and the general public.

We are also doing our part to implement the laws that have already passed in Florida; this is putting a very heavy burden on some of our most talented people.

Fundamentally, BCBSF believes it is necessary for our society — government, business, providers, consumers — to work together to improve access to cost-effective and quality health care. And we believe the best way to achieve this goal is through private sector reforms that increase and improve competition and innovation.

We have recommended that the government look at its own Federal Employee Health Benefit Plan,

because it demonstrates how well the private system can work when government fosters an environment that allows private companies to compete on their ability to deliver quality, affordable care.

Ironically, the President's proposal would abolish this program even though, in his State of the Union address, he referred to the program as a "terrific health care benefit at reasonable cost."

In a *New York Times* article, Michael Porter, a leading spokesperson for competition, focused on how innovation is medicine's best cost containment tool.

Porter pointed out that many industries have shown that the only real way to substantially lower costs is through innovation. It was innovation that drove down the price of the average long distance phone call by more than 50 percent between 1984 and 1992 while raising quality as well. And although the first PC cost \$50,000, innovation has reduced the cost so much that today a PC machine that outperforms the original model can be purchased for less than \$3,000.

The first step in successful health care reform is to recognize the central importance of innovation. Regulatory processes do not support innovation. They impede it.

Our industry is complex, and there are no simple solutions. But if we combine the spirit of success and private market innovation with appropriate government involvement, we can build a better system that makes the best health care in the world available to everyone.

There are things we need to do if we are going to innovate. We

must be focused on the external, rather than the internal. We must provide superior technical know-how in data analysis, problem solving, and special innovations and ideas — a process of creative learning as we find new and better ways to do things.

In the auto industry ten years ago, people said they couldn't find ways to lower operating costs. But they did — by reengineering and redesigning cars.

For example, the front end assembly of a car that might have required nearly 200 parts a few years ago, today may represent only 110 parts. Yet, it still provides the same value that the old assembly did. This not only reduces costs but actually adds value. Those opportunities are available to us in the medical system as well.

As we move forward in this rapidly changing environment, it is important that we continue to talk to each other to keep ourselves informed. We need to share ideas with our customers and providers and keep them informed.

We also need to understand that great ideas can come from anywhere within the organization as all of us continue to learn and grow through new experiences.

### ***Success in 1993***

If we have completed 50 years, surely 1993 was the highlight year. We accomplished so much.

### **Financial Results**

In 1993, we had a net income of \$112 million, and we increased our

policyholders' equity, or surplus, to \$491 million.

Policyholders' equity is important because it is a measure of our ability to meet our obligations through difficult times, or when the government would step in with unwise regulations. It also helps fund new development, new products, and new programs — which during revolutionary periods are absolutely critical.

It is also possible that as a result of health care reform, we can be required, on short notice, to make major changes that could require significant investments. A strong financial position takes care of the unexpected such as a medical usage fluctuation, but it also takes care of development for the future.

In 1993, our strategy of providing managed care products, programs, and excellent services — combined with our strong local presence in the regions and a deeper understanding of our customers' needs and expectations — continued to produce success.

We enhanced our ability to manage medical costs while focusing on the quality of care and excellent service. And, we continued to achieve excellent customer retention rates of more than 90 percent.

The key is to have costs that are below the competition. We believe our programs provide this, and we will continue to innovate to maintain that position.

We are also keeping an eye on the next generation of managed care products. We have completed the preliminary design of the first of these products.

Called "Care Manager" and scheduled to be available January 1995, it combines features of an HMO with features of traditional insurance.

### Marketing Effectiveness

Looking at marketing effectiveness overall, we made outstanding progress. Net contract gain in 1993 was about 88,000 contracts, almost an eight percent increase over 1992. This translates into 1.2 percent market share gain.

New sales totaled more than 140,000 contracts, and our overall retention rate continues to be in the 90 percent range.

The HMO performed especially well. More than 40,000 contracts of the year-end gain were in the HMO, a 31 percent year-over-year increase. More than 95 percent of our HMO customers stayed with us.

The growth of our HMO increases our ability to manage medical costs. Just to give you a reference point, the average premium increase for our HMO customers in 1993 was 2.6 percent. This is less than the general rate of inflation and less than one-third the national HMO inflation rate.

Let me take a moment to focus in a little more closely on marketing results for 1993.

Among large groups, the following were sold: Florida Power and Light, Honeywell, Pasco County, Bayfront Medical Center, the City of Gainesville, Grumman, Marion County School Board, Buckeye Florida, the Grand Cypress Resort, a significant new portion of the GTE account, and more recently, Tropicana and Florida

Rock. These have been sold in a variety of teaming and group efforts through-out the year. In addition, all the jumbo accounts assigned to the corporate department were renewed for 1994.

The State Employee Program provides an interesting performance statistic. The cost per employee for medical costs for the state account *dropped* by four percent last year. You may remember that this follows on the heels of very small increases. Truly an excellent result.

In the FEP enrollment, we almost reached 125,000 contracts, making us the second largest of all the Blue plans.

In direct marketing, there were a series of successes.

We expanded Advantage65 Select — the Medicare PPO — into five new cities.

We completed preliminary work on an expansion of our Medicare HMO called Medicare & More, which will be offered in the Jacksonville area during the second quarter of 1994.

We gained market share in all the direct market segments, with market share leadership established in both the Senior and the Individual markets.

In fact, Senior Markets had its best year ever, with new sales exceeding 60,000. We are the only company to offer multiple managed care options for our senior customers. This is another example of understanding the customer's needs and creating value.

Turning from the private markets to government programs, let me note that they have been operating in a particularly difficult

and demanding environment for some years. There have been severe pressures on this industry, not just in Florida, but across the country.

In fiscal 1993, our Medicare Part A and Part B staffs processed 50 million claims, an increase of about three million over the prior year.

In the independent contractor performance evaluation program, otherwise known as CPEP, we received a perfect score of 100 for Medicare Part A, Medicare Part B, and the Common Working File. This represents continued improvement over the last number of years and is a well-deserved recognition for their remarkable performance.

As we scan the business, we also need to look at Florida Combined Life (FCL). During 1993, FCL increased premiums by 12 percent and contracts by 49,000. With more than a quarter million lives insured at the end of the year, FCL is now ranked among the top writers of group life in Florida.

### Information Systems

One of our key corporate strategies is to develop information systems capable of supporting excellent customer service through timely and accurate processing of data.

Part of our effort this past year centered around what we refer to as HCAP, or our Health Care Administration Project. HCAP designed a corporate approach with what is called business transformation, or large-scale change.

Some of you have remarked to me about this activity because it is so widely covered in the business literature today, frequently under the term reengineering.

Reengineering focuses on the design and redesign — or reengineering — of the processes we use to run our business. It also focuses on the use of information technology to optimize our performance in a future managed care environment.

Many of us are aware that the processes we use — such as claims, membership, and billing — have remained essentially unchanged for 50 years. Computers have made the processes more efficient and more accurate, but the processes remains the same.

The challenge of reengineering is to look across a company and find new and better ways to cluster its business activities. Ways that are focused on serving the customer and achieving significant performance improvement.

When companies have done this, on average, they have reported achieving up to a 50 percent savings in their undertakings. They do it by redesigning the company. It is not a short-term effort.

So, we have an opportunity to grow the business and redesign it at the same time, thus meeting two important needs — to become more efficient and to provide challenges for our employees so that there is an economic opportunity to existing employee groups.

In another area, our Health Options Task Force helped install the Managed Healthcare System known as MHS in the Central and Northwest Regions in 1993.

MHS provides the opportunity to improve service to our customers and represents a significant

improvement in our ability to manage care.

We worked on Electronic Data Interchange, or EDI — an important vehicle to improve our competitive position by providing greater value to customers and providers. Our efforts in 1993 focused on increasing automated claims submission and strengthening capabilities necessary to support EDI.

Another very important program involving systems is what is known as Interplan Teleprocessing Service, or ITS. This really connects us directly to other plans around the country. ITS is scheduled to be implemented over the next couple of years. It will allow us to use our managed care programs more efficiently for national customers.

All of the programs I have mentioned are essential to success. We have dedicated staff and management working in all of these areas, and the progress they are making is very encouraging.

#### Organizational Effectiveness

It is clear to me that you and your Blue Cross colleagues across the state have made significant strides in the past year, developing the skills necessary for high-performing teams.

A company is only as good as its people, and I am proud of the commitment to professionalism and individual development I see among my fellow employees.

Whenever I meet groups of employees, I am always struck by the high priority they give to their personal development. It is a solid vote of support for the success of the company when everyone

recognizes that the name of the game is continuous development for all of us.

With your help and support, we will continue our efforts to build and maintain a highly-effective organization and to make the training that is the next logical step in our schedule of continuous improvement available to all employees.

It also is clear that we need to harness the energy that is now evident throughout the company by continuously improving our own performance.

This means: training for all levels of the organization. It means continuing to improve two-way communication between and among all levels of the organization. And, it means that even when we are under great stress, we must listen to and respond to others, so that we will make the best, high-quality decisions.

#### *BCBSF Employees Make a Difference*

A striking characteristic of this company is the evidence of caring for others. In addition to the commitment and dedication that our employees bring to their jobs, they have also undertaken many community projects.

I tried to select just a few of them, beginning with our United Way campaign. Last year, Blue Cross raised \$573,000. We had the largest increase of any company in North Florida; our total pledges increased by 33%.

Employees responded to the Freedom from Hunger campaign by bringing in thousands of pounds of

food and contributing money. A total of 61,400 pounds of food was donated by those who care and work for this company.

In yet another effort, the BCBSF family walked for some 3,000 miles in the March of Dimes Walk America event, raising \$30,000.

Also, hundreds of our employees helped brighten the holidays for countless Floridians through their involvement in Thanksgiving and Christmas community efforts across the state.

Another and different way we help fellow Floridians is through our case management programs — such as the one developed for Health Options members in the Southern Region who have tested positive for HIV virus. As a team, the patient, physician, and case manager work together to keep members as healthy as possible and improve the quality of their lives.

Thanks to your efforts and those of our colleagues throughout the organization, Blue Cross has been able to demonstrate what the word caring means in terms of being a corporate citizen.

It takes quality, motivated people to produce these marvelous results. It is these same people who are responsible for our business success, including our high level of customer satisfaction.

### *Looking Ahead — 1994*

Now, let's briefly look ahead at 1994. Challenges and opportunities — those words seem to be synonymous.

The broadest challenge is the marketplace revolution. And, health

care reform is a catalyst as well as a direct cause of change within the revolution.

Our customers — employers — cannot stay where they are. They are going to continue to change and improve their managed care programs, or their employee benefit programs.

A large part of the market has not yet moved into managed care. We expect that they will move at an increasing rate.

No single model of success is considered best. The number of systems, across and within the specific markets, will be limited. And, as we go forward, choices need to be made.

In addition to health care reform, there is another pressure factor. Employers are realizing that in these days of low inflation, they simply cannot pass on to their customers the increased cost of employee benefits. Their determination to keep costs down is increasing and with that, a willingness to consider new products and approaches within managed care.

As we move forward, reengineering will be one of those opportunities within our company to improve our performance in support of the general range of managed care products that are required.

We also have to deepen our understanding of the customers' needs, values, and expectations.

As we look at this question of reengineering, we have to focus on the key things we do to create value for the customer. Seeking always to get even closer to our customers' needs and wants, but reevaluating a way to look at the business.

What does it take to win? How will we beat the competition today? Tomorrow? And most importantly, five years from now? How do we combine our business activities in a way that gives us a competitive advantage?

People used to say: "If it ain't broke don't fix it." Now they are saying: "If it's not perfect in the customers' eyes, you better fix it."

We feel reengineering is an opportunity to increase the value that is delivered to our customers and build our capabilities to make the company a more satisfying and fulfilling place to work.

On a corporate level, as part of our strategic planning process, we are analyzing potential industry and government changes and working to position ourselves to win in whatever markets ultimately emerge.

In the public policy arena, we are helping to shape reform so that the health care system we envision as best for the state and nation is understood, supported, and ultimately achieved.

Aside from dealing with reengineering and with health care reform, we need to continue to execute the strategy of the last five or ten years.

Within Marketing, we need to continue to strengthen the programs under way with particular emphasis on product strategy. We need to have highly-effective managed care programs and yet anticipate the changes that are coming.

We see competitors all around us buying physician practices and taking other actions to consolidate and combine themselves in what are known as integrated delivery

systems. We must have a response for that as well.

Diversification must be considered more carefully and more fully than at any time in the past.

We also need to re-address government programs as a marketplace. We have essentially been implementing ever more effectively existing contracts, but we need to try to more fully understand the direction the government markets are going and how we can compete on an integrated basis.

All these external initiatives — marketing, medical care management, diversification, government markets — will need to be supported by improved organizational effectiveness.

### *Changes In Other Blues Plans*

Looking across the nation, there are many changes occurring within the Blue Cross Blue Shield system.

The Illinois plan has recently announced that it is going to merge with the Iowa plan. Kentucky and Indiana have merged. Philadelphia Blue Cross has recently announced a merger with a hospital chain.

A large number of plans — approximately 70 percent — have indicated that they favor eliminating the legal restriction of being a nonprofit corporation.

Several plans have announced partnerships with hospitals. Most CEOs that I've talked to view these as just starting a process of change.

What are the key success factors and how will they apply in Florida? Clearly that is part of our challenge.

Looking again at the national arena, we have seen a rather

significant decline in plan cooperation and collaboration. Yet it is still important for us to work together, to be able to establish credit worthiness, to communicate concerning travelers and employees of each others' customers, and for joint collaboration such as the Federal Employee Program.

### *Conclusion*

Throughout the past 50 years, we have emerged as a leader in our industry. Our company has undergone significant growth and met a challenge to provide a rapidly-growing state with quality, affordable coverage. Our company has kept alive the all-important human touch that lets our customers and communities know that we care.

In my vision of the future, our company is continuing to lead the way in lowering health care costs, expanding access to more people, and providing caring and responsive service to our customers.

I believe we can successfully implement our strategies and grow in all of our private sector segments. Ultimately, I believe we can double the number of customers we currently serve with essentially the same set of employees we have now.

We can accomplish this by improving our efficiency and administration and significantly increasing our productivity — not by necessarily working harder but by redesigning and reconfiguring what it is we do. At the same time, I think we can bring even greater value to both our customers and providers.

My vision for the future also includes commitment to a management philosophy and strategy for organization effectiveness. It is important that our company provide an environment where everyone has the opportunity to grow and excel and where teamwork flourishes.

We can take great pride in our accomplishments and success, but we must not rest on our laurels because we can do better. By working together and continuing to learn and develop, we can realize even greater achievements. We can show that Blue Cross is leading, growing, and caring.

Thank you very much.