

HEALTHCARE WORKERS' COMPENSATION SELF INSURANCE FUNHWCF

ANNUAL MEMBERS' MEETING MAY 18, 2005

**Presentation by:
Melvin L. Capell CPCU, MBA, ARM
President/CEO**

Opening

Good Morning. Mr. Chairman, Board Members, Fund Members, Staff and Guest – It is my privilege to have this opportunity to let you know the status of the Healthcare Workers' Compensation Self Insurance Fund (hereinafter called the Fund). Your interest, shown by your attendance at this meeting, is the heart of what has made the Fund successful. I thank you for your support and involvement.

2004 Results

As you have already heard from our Certified Public Accountants, the bottom line is that the Fund operated at a profit for the year 2004.

The "Member Equity" has grown to \$1.1 million, after starting at \$0 when the membership chose to start the Fund without any initial "Member Equity" contributions.

Due to the efforts of Wayne Averrett, the number of Fund Members continues to grow. And, this growth comes from all aspects of the healthcare industry in Alabama – hospitals, physicians' offices, allied healthcare operations and others.

A key issue for the Fund, and other risk taking entities, is the cost of claims. Our claims staff led by Dawn Adams and Shannon Cox has done an outstanding job over the past year. Their departments efforts to pay claims in a timely manner and prudently manage claims has had a major impact on the success of the Fund.

The financial reports you have seen this morning include both paid claims and claim reserves. The cost of paid claims is easy to calculate and book. The cost of claim reserves is quite another matter. Reserving is an art not a science. However, even though it is an art, the accuracy of reserving determines the long term financial strength or weakness of an insurance operation.

If the reserves are too high, it falsely appears that the company is losing money. This fosters a perception that there is a need for increases in rates. And, it attracts unwanted attention by regulators and tax personnel.

However, even worse, if the reserves are too low, it sets the company up for financial difficulties in the future which have sunk many a Workers' Compensation operation. The problem is that the shortfall of dollars to pay claims is not recognized for several years after the shortfall occurred.

Our reserves are the result of claims case reserves and adverse development reserves. We utilize professional, outside actuaries to assist us in developing appropriate, but conservative, reserve ranges making sure that we have reserved sufficient money to pay the claims for that exposure year. This analysis is done annually for each past year until all the claims in a year are closed – this is often more than 10 years.

The Fund's operating expenses are within the prepared budget figures. Control of expenses is a constant point of emphasis. Claim cost are managed. While, expenses are directly controlled.

Guiding Principles

I would now like to spend a few minutes discussing three key principles which weigh heavily into every decision being made about the operation of the Fund.

The first principle is that the Fund is currently in a transition from being a start-up company to being a mature company. As a start-up, we had lots of decisions to make about processing mechanisms and how to deal with certain issues. We must recognize now, that our decisions must take into account long term planning. What needs to be done now, so that the Fund will be in a position five years from now to be responsive to the Workers' Compensation needs of our Members five years from now.

The second principle is that there are specific, strategic business purposes for the Fund that must be identified and made a central aspect of every decision. The current identified business purposes are as follows:

1. To create a stable market for Workers' Compensation in the healthcare industry in Alabama. A stable market means that it will be here through the good times and the tough times. And, it means that pricing will remain consistent in soft markets and hard markets.
2. Provide a level of service to the Members that supports them fully in their efforts to prevent claims, manage claims and keep their employees comfortable that their employer cares about them.
3. Control the cost of Workers' Compensation. As previously noted this includes operating cost and claims cost.

4. Positively respond to the input of our Members concerning their need for Workers' Compensation services and products. This is not easy – we get comfortable with doing things the way that they have always been done.

The third principle is that our products, service and pricing must be competitive with the general market. We must be aware of what is happening at all levels of the market place. And, even though we do not want to blindly follow every turn and twist of the market place. We do want to be providing a Workers' Compensation program that is competitive.

Goals for 2005

Now that I have talked about the current situation, I would like to address some of the "Goals for 2005".

1. Smart Growth. We want to grow. But, we want to grow with Members that give us profitable results – like you.
2. Enhance Operational Controls. We are developing and refining operational measurements and control systems that enhance our ability to identify changes in claims and expenses in a timely manner. Plus, we must be building controls needed to comply with developing Fraud Control requirements and the Sarbanes-Oxley Law.
3. Build New Tools. We need to build tools needed to attract and service self insured clients. Large deductibles and SIRs are forms of self insurance. We need to be recognized as a viable provider of these products and support services.
4. Spread Fixed Cost. Many of the expenses of an insurance operation are relatively inflexible. If that cost can be spread over several programs, the cost to one program, such as the Fund, will be reduced.

Challenges

It is easier to talk about good news. However, you also deserve to know what our challenges are for the future.

1. Obtaining Growth. There are only a few hospitals in Alabama that can be considered serious prospects which are not currently insured by the Fund.
2. Potential Loss of Large Clients. The larger a client grows, the more attractive self insurance becomes. Through this process we could loose significant pieces of business.
3. Controlling Expenses. I doubt there is anyone in the room that does not have this as a challenge to their operations.
4. Identification of Enhanced Services. It is not sufficient for us to always say "me to" to new products and services developed by our competitors. To be successful, we must be developing and introducing products and services that cause our competition to follow our lead in new products and services.

Conclusion

Summarizing my comments, the Funds' strengths are its Members, its staff, its synergistic operating systems and its financial results. Based on these, the Fund is looking at a bright future with plenty of success. We can face our challenges with positive resolve that they are challenges and not insurmountable obstacles. That is what makes the Funds future so bright and positive.

Mr. Chairman that concludes my comments.