

**HEALTHCARE WORKERS' COMPENSATION
SELF INSURANCE FUND
(HWCF)**

MEMBERS' MEETING

MAY 21, 2008

Presentation By:

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Opening

Good Morning, Mr. Chairman, Board Members, Members, Staff and Guest – on behalf of the Fund management, I welcome you to the 2008 Members' meeting of the Healthcare Workers' Compensation Self Insurance Fund (hereinafter I will call it HWCF). The purpose of my presentation today will be to advise you about the current status of HWCF, explain the environment that is affecting our operations and present an overview of where management is leading the Fund.

I recently saw a list of 'Ponderisms' on the internet that I found to be thought provoking. Let me share a few of these with you.

1. How important does a person have to be before they are considered assassinated instead of just murdered?
2. If corn oil is made from corn, and vegetable oil is made from vegetables, what is baby oil made from?
3. Do the 'alphabet song' and 'twinkle, twinkle little star' have the same tune?
 - a. Why did you just try singing the two songs above?
4. And as a last ponderism, did you ever notice that when you blow in a dog's face, he gets mad at you, but when you take him for a car ride, he sticks his head out the window.

Now I have truly given you something to think about. And, I apologize if you are still pondering some of these tomorrow.

We may ponder these thoughts. But, one thing for certain is that HWCF has been in business for 5 successful years. For those that pondered on whether HWCF would

“make it”. The clear, emphatic answer is yes. Not only did it “make it”, HWCF is financially sound and ready to go into the future in grand style.

2007 Results

I am privileged to be able to tell you that 2007 was a profitable year for HWCF. And, I feel even more privileged to tell you that this is the fifth (5th) consecutive year that HWCF has operated at a profit.

During 2007, HWCF took in \$12.8 million of “Gross contributions earned” and \$1.6 million of “Net investment income” for a total income of \$14.4 million. Expenses, including reinsurance, operational expenses and claims cost are subtracted from this figure giving HWCF an “Income Before Income Taxes” of \$1.5 million. After the dividend and taxes were paid the “Net Income” was \$820 thousand. That is a successful year.

Activity Report

During last years members’ meeting, I presented 3 projects as our “Plans For The Coming Year”. The following is an update on the status of each of these projects.

1. Profit Return Program. We are currently waiting on the development of a second proposed distribution program. Once received, we will have analysis performed by appropriate legal and financial professionals. The strengths and weaknesses of each program will then be reviewed and presented to the Board for their review and action. In the meantime, the Board declared a dividend in November, 2007, based on a profitable 2006, that was paid in March of this year.

The Board has given management general guidelines for calculating the amount of profit to be returned. This process involves several steps: First, the calculation should be based on the amount of “Net Income” shown in the most recent audited financial statement. If this figure is positive, we can proceed with the calculation. If it is negative, no profit is available to be returned. Second, the first priority for use of profits is to maintain an adequate level of Members’ Equity in the Fund. Members’ Equity is a key indicator of an insurance facility’s financial strength. Therefore, a primary step will be to analyze the Fund’s level of Members’ Equity and determine what amount of additional Members’ Equity is needed to put the Fund in the position that it wants. Third, the remaining profit will be available for return to members. Management is to annually perform this analysis and bring a recommendation to the Board for review and final action. This is what happened in the dividend paid earlier this year.

2. Member Claim Reports. The updated and enhanced claim reports have been developed using our warehouse system as the source. The feedback that we have received is that these reports are well received and felt to be very helpful in analyzing and understanding the loss experience members are experiencing.
3. Board of Trustee Transition. Last year I reported that for the third year in a row we replaced a Board Member. Board member transition at that rate challenged us to educate and facilitate the new Board members. I would like to thank the new Board members for their extra efforts over the last year in coming up to speed. This year, in your election a few minutes ago, you elected two Board members that are returning to the Board following the expiration of their first terms.

Another project which involved a significant effort last year was the development of a strategic plan for the organization. This effort was brought into focus during a two day session facilitated by a professional, outside facilitator and attended by the Board Members of HWCF, CIRRG and CIS plus the staff officers. The product of this two day session was a five year strategic map, showing key areas to be addressed and developed over this period. An important benefit of this map is that the Board Members and officers are in agreement with where the organization needs to proceed in its efforts to move forward.

One area came out especially high on everyone's list of needed plans for the strategic plans – that area is “growth”. I would like to discuss that issue more fully.

Growth

The first question is - Why is growth so important? There are several reasons. One, is that new business provides a greater base to spread expenses, especially overhead expenses. A portion of every insurance dollar goes to pay claims, the rest goes to operating expenses and hopefully some profit. A second reason is that the addition of new accounts is needed to replace accounts that have left. Every fund experiences some attrition of business, HWCF is no different. Therefore, we need to be adding new members to keep from experiencing a decline. Third, greater numbers of members and larger amounts of expense dollars provide the capability to expand services. I want to be careful here, because we provide a very high level of service now. It is just a matter of numbers that with a larger base, you have more opportunities to provide even more services.

The second question is – How do we accomplish growth? Again I provide several answers to this question.

One, a classic method of growing business in any industry is to have the cheapest price. However, the insurance industry has a unique exposure as regards cheap prices. Insurance is a promise to pay future claims. Therefore, insureds pay their premium today, on the promise that when they have claims in the future the insurance entity will

be there to handle the claims. Unscrupulous insuring entities can reduce their premiums to offer fantastic deals. This leads to their rapid growth. However, the catch is that they do not have sufficient money to pay the claims that they will be presented in the future. And, the point needs to be made that the employer is still responsible for paying the claims even though the workers' compensation carrier is no longer around. This is a key reason for governmental regulation and oversight of funds and insurance companies.

So does this mean that our Fund cannot compete on price. No, that is not what this means. It is important for our Fund to offer competitive prices. However, in order to remain financially sound we must recognize when we reach the fiscally sound price level. Once reached the Fund cannot continue lowering prices even in response to competition.

Another opportunity to grow occurs when other funds and insurance companies withdraw from offering workers' compensation coverage. This creates a condition called "limited availability of insurance". HWCF is a specialist in writing workers' compensation for the healthcare industry in Alabama. We know the healthcare industry in Alabama and we are committed to serving the needs of the healthcare industry in Alabama. We will be providing a market when others have stopped writing. Right now, Alabama is experiencing abundant availability. Therefore, this opportunity is not available. However, history has shown that due to the "insurance cycle" this will change over time. HWCF must financially and operationally be preparing now to be able to write healthcare workers' compensation business being abandoned by other funds and insurance companies when that time comes.

Another important area of competition is service. This is a critical area of competition for HWCF. All funds and insurance companies tell their clients and potential clients that they have superior levels of service. However, all too frequently that level of service is 'big talk' and not the 'real walk'. HWCF has always placed a genuine emphasis on the services that we provide. It thus becomes our challenge to convince potential clients that we are the "real thing". Our message needs to communicate that we place a lot of emphasis on value. What do we mean by that? "Emphasis on value places the buyer, not the competition, at the center of strategic thinking; emphasis on innovation pushes managers to consider totally new ways of doing things".

Examples make this point clearer.

In underwriting, this means that we return phone calls in a timely manner. And, we either answer the question or get an answer in a timely manner. It also means that we listen to the client or potential client and truly hear what they are trying to tell us. Then taking that information, we analyze the situation and determine if there is a way to respond to the clients needs. Finding a way to say 'yes' is often harder than simply saying 'No'.

In claims, this means that we make an effort to talk with members and listen to their concerns. It means that we talk with injured employees about their claim – both the good and the bad points. And, it means that we provide loss runs when requested.

In risk management, this means that we want our members to call us with questions about how to best manage unusual hazards. It means that we are happy to provide classes for you and your employees that can help reduce risk. And, that we are sincerely pleased to assist you with your loss control program.

In accounting, this means that we want to be transparent. We want you to be comfortable with our financial situation. And, we want that comfort to be based on knowledge and trust, not on the basis of “we told you that we are in good condition”.

Summarizing, we want the members to be the center of our services. We want new clients coming to us because they recognize and value our level of service.

Plans For The Coming Year

Switching topics, I would like to address our “Plans For The Coming Year”.

1. Growth Initiatives. Follow through on the strategic map and develop specific programs that assist us in creating growth for the Fund.

2. Paperless Workers’ Compensation Claims Operation. Technology has created the capability of storing large amounts of data on computers. In fact, this technology has made it possible, through a combination of scanning documents, filing electronically produced correspondence and capture of voice documents that it is now possible to have all workers’ compensation claims files maintained as computer documents. The Fund has been averaging about 2,500 claims per year. So, the conversion to electronic files has many advantages and potential cost benefits.

3. Loss Control Analysis Of Claims. The new warehousing system makes it much easier to develop reports and research captured data. The Fund has data from a large number of claims entered into our computer. We will be analyzing that data to identify causal trends of both frequency and severity. Plus, once we have identified company trends, it makes it very easy to analyze individual risk for those same trends. All of this means that we can more precisely target those unsafe acts or conditions that are causing our Fund the most difficulties. And, build loss control programs that address these specific hazards.

Closing

In conclusion, I would like to thank you for your business and your trust in us as your workers’ compensation self insurance fund. Please do not hesitate to call any of us with any question or concerns that you might have regarding our coverage or services. And, thank you for your attention today.

Mr. Chairman that concludes my prepared comments. If there are any questions I would be pleased to answer them.