

HEALTHCARE WORKERS' COMPENSATION FUND

HWCF

MEMBERS' MEETING

MAY 31, 2006

Presentation by:

Melvin L. Capell CPCU, MBA, ARM

President/CEO

Opening

Mr. Chairman, Board of Trustees, Members, Staff and other Guests. Thank you for attending the 2006 Annual Members' meeting of the Healthcare Workers' Compensation Fund (hereinafter called HWCF). At the close of my presentation, I want you to understand the current status of HWCF and what your fund is planning for the future.

2005 Results

Good News – Summary. As you have already heard from our Certified Public Accountants, HWCFs' bottom line shows a profit for the year 2005. Much of that profit is attributable to positive claims experience since we began the company 3 years ago. Compared to historic claim experience, we are having fewer claims per exposure unit. In insurance terms, this means that our claim frequency has been lower than expected. The size of the average claim has grown as compared to historic claim experience. However, we are carefully watching two indicators in regard to this measurement. One, what is the actual average size of settled claims – our current measurements include claim reserves which are best guesses and will only be truly accurate when each claim is settled. And, two; how does the increase look as compared to actual economic inflation? I, and I might add, the overall industry feel that the average claim size is rising faster than inflation. But, until the large claims have been identified, settled, and compared to similar claims that were settled in prior years, we cannot be certain that the average size is rising. By the way, in insurance terms this is stated as “the claim severity is increasing.”

Additional good news of significance:

1. HWCF has accomplished continued growth in a competitive environment and;
2. Loss Control services have been enhanced.

Good News – Detail. The good news listed above is the result of outstanding jobs being performed by the management and staff of HWCF. I would like to take a few minutes and complement some of those responsible for these outstanding results.

- Wayne Averrett has been instrumental in developing new members.
- Wayne and Dana Logel have operated an effective Underwriting unit.
- Dawn Adams, Shannon Cox, the Workers' Compensation Claim staff and our network of defense attorneys have been managing our claims in a very professional manner.
- Jack Posey has worked aggressively in responding to your needs in the areas of preventing and controlling accidents.
- Mark Killingsworth and the accounting staff have built the accounting systems necessary to monitor and measure our financial operation. Three years ago we had zero accounting systems.
- Donald Eagen and the IT staff have built and maintain a computer support system that gives HWCF the ability to move forward in a positive, organized fashion.
- And, Bill Green, who through his regular legal reviews has kept us on track and in compliance with the laws and regulations that we must comply with.

Specific Results Information. There are a few specific pieces of December 31, 2005 financial data that I would like to bring to your attention.

- During 2005, HWCF received Member contributions of \$11 million.
- Starting with that \$11 million of contributions, taking away the dollars spent on reinsurance and adding the net revenue from investments HWCF had total revenues of \$10.5 million.
- Dollars paid to settle claims plus the net claim reserve change amounts equaled \$8.2 million.
- Taking the claim cost of \$8.2 million and adding management fees, agent commissions and other expenses the total expenses for 2005 were \$9.5 million.
- Subtracting the expenses from revenues, HWCF had income before income taxes of \$1.029 million.
- Income tax expense was \$300 thousand.
- Bottom line for 2005, HWCF had a net income of \$685 thousand.
- Member Equity increased \$600 thousand to \$1.7 million.

Mission

When HWCF started three years ago its directed mission was to provide a stable Workers' Compensation insurance market at a competitive level. And, to provide professional, value added claims and risk management services.

I would like to address the question – Has HWCF met its directed mission? Every indication we have received is that HWCF has fulfilled its mission. Members that have sought competitive quotes indicate that our pricing is very competitive. Another perspective, we have been told that small, rural hospitals have very limited opportunities to place their workers' compensation insurance without HWCF.

HWCF's claims and loss control staff are proud of the professional services that they provide. Over and over, at our seminars, at individual visits to members' facilities and offices, during telephone consultations and other contacts with members, our staff is told that they are appreciated and respected for the services that they provide.

I am proud to pronounce that HWCF is fulfilling its' mission.

Challenges

Along with the good news, I feel that it is appropriate to inform you of the challenges that HWCF is addressing. I will address this in two pieces:

1. Where are we in addressing the challenges mentioned in last years' report?
2. What new challenges must be addressed?

Challenges identified last year:

1. Obtaining Growth. We continue to grow slowly but consistently. This is a challenge which has been addressed.
2. Potential Loss Of A Large Client. This will always be a possibility. To address it, steps have been taken to assure the financial and operational stability of HWCF even if it does occur.
3. Controlling Expense. Expense reports prepared for management show actual expenses compared to budgeted expenses on a monthly basis. Additionally, monthly financial reports show actual to budgeted entries. These are key management tools being used by management to monitor and control expenses.
4. Identification of Enhanced Services. Loss Control has identified members that have poor loss experience and has keyed on working with these accounts to improve their loss record. In addition, Jack attended a seminar on NFPA 1600 which is the newly introduced Disaster and Emergency Management standard. The claims department has established an operating relationship with Cypress Care Pharmacy Management. Working with this firm they have been able to control the cost of prescriptions including converting many to generics. During 2005, data shows that they saved an average of \$11,000 per month. So far in 2006, they have been saving an average of \$18,000 per month

Current and Future Challenges:

1. Threat of A Massive Loss or Losses Which Would Dramatically Impact HWCF. This is a challenge which was brought home to insurance companies worldwide by Hurricane Katrina. Potential sources of this type loss would be an act of terrorism against one of the large hospital members. Or, a Hepatitis C outbreak in a hospital. HWCF does purchase reinsurance. However, there are some potential situations that we need to address during the coming year.
2. Enhance Financial Strength. When HWCF started, we agreed to start without a capital call. This decision has worked out just fine. However, we do not need to get complacent with the Members' Equity that we currently have in HWCF. We need to build this equity to improve our financial strength. In addition, our loss ratio has been rising over the last three years. We need to move this ratio in the other direction.
3. Control of Loss Cost. As we obtain a more comprehensive claims data base, we need to learn how to use this information to the long term benefit of HWCF. It is easy to get interesting information, it is harder to get useful information. We have to develop tools that will help us prepare useful information that will help us control claim cost.
4. Complacency. It is so easy to fall into the trap of saying (unconsciously) – HWCF is up and running and doing fine, all we have to do now is ride along. That method of thinking will get us in trouble. To continue to fulfill our mission we must continue to innovate, develop, and move forward.

Preparing For The Future

The last challenge is a great way of opening a discussion on what management is currently doing to prepare for the future and the continued success of HWCF. I would like to discuss three current projects.

1. Warehousing Project. The IT department is in the lead on a major upgrade of our data management capabilities. We are developing a data warehouse system. This will allow us to do many things better than we can do them now. Examples: (1) We will be able to build output reports in a more timely and useable manner. (2) We will have the ability to drill down into data whenever we see things in our reports that we need to understand better. (3) We will be able to make information and reports available to our members over the internet on a 24/7 basis. And, (4) We will be able to integrate information and data from multiple sources into informative management information tools.
2. Development of TPA Claim Services. The strategy of developing additional TPA claim services is to spread the overhead expenses across a broader base.

3. Listening. We, the staff of HWCF, want to know what you, the members want from your fund. We have adopted the motto "Your Company Cares About You". We want this to be more than a motto, we want it to be a corporate culture. If you are pleased with the service you are getting, we would like to know it. If you are not happy about the service you are getting, we would like to know it. Bottom line, we want to know if we are providing you what you expect from us.

Closing

Summarizing my comments, HWCF is doing well. It is operationally sound and competitive. It is serving the Alabama healthcare industry in a positive and successful manner. With all of this, it can be proudly stated that the future for HWCF is bright and positive.

Mr. Chairman that concludes my comments.