

COASTAL INSURANCE RISK RETENTION GROUP, INC.

(CIRRG)

STOCKHOLDERS' MEETING

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Presentation By:

Melvin L. Capell CPCU, MBA, ARM

President/CEO

**Opening**

Good Morning, Mr. Chairman, Board Members, Stockholders, Insureds, Staff and Guest – on behalf of the company management, I welcome you to the 2009 Stockholders' Meeting of Coastal Insurance Risk Retention Group, Inc. (hereinafter, I will call it CIRRG). During this speech, I will present information regarding the operational results of fiscal year 2008. Plus, discuss current challenges and future strategies.

A primary theme of my presentation is "achievement". So, I would like to begin by reading some noted quotes on achievement.

1. "Well done is better than well said" – Benjamin Franklin
2. "The toughest thing about success is that you've got to keep on being a success." – Irving Berlin
3. "The reward of a thing well done is to have done it." – Ralph Waldo Emerson
4. "We succeed only as we identify in life, or in war, or in anything else, a single overriding objective, and make all other considerations bend to that one objective." – President Dwight D. Eisenhower

Continuing on this theme, I would like to share some aphorisms about achievement.

1. Getting something done is an accomplishment; getting something done right is an achievement.
2. They said it couldn't be done, but we did it.
3. Those who dare, do; those who dare not, do not.

I hope that you can see some of our past in these statements.

## **Activity Report**

This sets the tone for talking about our 2008 results. The 2008 financial results show a profitable year. In fact, it is the fifth 5<sup>th</sup> consecutive year that CIRRG has operated at a profit.

During 2008, CIRRG took in \$12.4 million of "Gross Premiums Written", \$1.7 million of "Investment Income Earned" and \$1 thousand of "Total Other Income". This sums to a total income of \$14.1 million. Expenses, including reinsurance, investment expenses, operational expenses and claims cost were \$12.5 million. There was a "Net Realized Capital Gains Loss" of \$550 thousand which will be discussed in more detail latter in this presentation, subtracting these figures from total income results in a total "Income Before Income Taxes" of \$1.1 million. CIRRG paid \$370 thousand in taxes. All of this resulted in a bottom line 2008 "Net Income" of \$740,000.

These results include a non-recurring reduction of ultimate claims cost. This reduction is not directly observed in the financials, since the reduction is treated as a credit to claims cost. The reduction occurred because our actuaries have changed their projection of CIRRG's expected ultimate claim cost for past years and this change is "downward". The actuaries changed their expectations because they now have sufficient CIRRG claims data to perform their trending analysis utilizing CIRRG actual data rather than nationwide medical malpractice industry data. It reflects that our claim experience is better than most other medical malpractice companies. All of this is good news.

## **Growth**

In last years' report, I spoke about the need for growth and in general terms – how growth could be created. Growth continues to be a challenge. We have addressed this situation with an increased emphasis on marketing including senior staff level marketing committees for hospitals, physicians and allied healthcare. We have seen the addition of some new hospitals and physicians over the last year. However, we have also seen the loss of some insureds over the same period. This has resulted in essentially flat premium levels. Our reduction of premium is generally not due to competition. It has been caused by physicians leaving the state and hospitals experiencing lower levels of exposure. We have seen some standard market competitors quoting on hospitals. However, their quotations have not been competitive.

During the coming year, we will expand our marketing efforts. Additional advertising will be distributed throughout the Alabama medical community, enhanced efforts will be developed to create face to face opportunities to tell potential insureds about our products and services and we will be expanding our resources dedicated to marketing. The expanded emphasis on getting our name out there should be very obvious.

## Activity/Status Report

Regulatory requirements and governmental healthcare payment programs are changing. These environmental changes will affect the future of CIRRG. "Business as usual" is not a formula for future success. Therefore, I would like to spend some time talking about these challenges and outlining some of the actions being taken to address the changes.

In the area of regulatory changes, a great example will be the financial treatment of investments. Investment income is important to insurance companies. CIRRG had \$38.8 million of investments as of December 31, 2008. Loss of investment value has a direct and negative impact on the financial results of insurance companies. The dramatic loss of investment values that our economy has experienced over the last year has resulted in dangerous situations for several life and health insurance companies. However, most property and casualty insurance companies, like CIRRG, have not suffered damaging levels of loss. This is because the regulations regarding how we can invest dictate that our investments must principally be in bonds. By regulation CIRRG can invest a maximum of 10% of its assets in other than bonds. Since a great share of investment losses have been in equities and property values, this has meant that our investment portfolio has substantially maintained its value.

However, the selling of investments at lower market prices is not what has caused many of the dramatic losses. If a company does not sell its investments, how does it lose investment value? The answer to this question can be found in revised Financial Accounting Standards Board (FASB) standards. FAS 115, interpretation number 1 has had a substantial effect on these values. Simply explained, this financial standard now requires insurance companies to regularly review each individual investment – commonly there are hundreds or even thousands of individual investments – to determine if the market value of any investments have declined. If so, that investment must be analyzed to see if it is permanently or temporarily impaired. The common name for this is "Other Than Temporarily Impaired" or OTTI. If it is determined to be a permanent impairment, the value of the investment must be written down in the company's financials to market price. This is accomplished using another technique with a new term that we see in the news "Mark To Market" valuation. The resultant write down hits the profit or loss of a company directly as a negative. As a result of this, we have heard of at least one life insurance company saying that they had a good operational year but experienced a large loss due to investment write downs. Even though this did not cause CIRRG a problem in 2008, we do comply with this standard and it potentially could affect us in the future.

I would like to now address a second area of environmental change. The Centers for Medicare and Medicaid Services (CMS) is implementing several changes in their payment programs to healthcare providers. A significant reduction in governmental healthcare payments occurred in the mid 1990's. At the same time the claims data shows that there was an increase in the number of claims. I believe that there was a correlation between these two events. We are concerned that this could occur again with the impending changes in CMS payments. Therefore we are watching the number of claims per exposure unit very closely to identify any increases in claims frequency.

These changes and others have challenged the CIRRG Board and the HWCF Board to look at our current organizational structure and analyze its ability to carry us into the future. To facilitate this analysis, the Boards created a Joint Board Committee on Reorganization. This committee is actively pursuing its charge. And, strategic adjustments will be developed and implemented over the next year.

Summarizing, the phrase which best describes the historic activities of CIRRG since 2003 is “achievement”. This is as opposed to “business as usual” or “accomplishment”. The activities of today are being designed to continue our history of producing achievements into the future. The future of your company is not being left to chance, it is being managed by your Board of Directors and Senior Management.

### **Closing**

In conclusion, I would like to thank you for your business and your confidence in us as your medical malpractice insurance provider. Please do not hesitate to call any of us with any questions or concerns that you might have regarding our products or services.

Thank you for your attention. Mr. Chairman, this concludes my prepared comments. If there are any questions, I would be pleased to answer them.