Message from the Chairman

To our friends and business partners:

Just as the Thomas Point Lighthouse has stood as a beacon of safety and trust, so too has IWIF stood for the past 89 years. IWIF has withstood the financial turbulence of an insurance market that has seen many commercial carriers leave the Maryland marketplace. To our customers and our partners we say, “You can depend on IWIF to be your constant, safe harbor for workers’ compensation insurance coverage.”

In 2003, we heartily welcomed Michelle Duffy-Orr and James Simpson as new members of IWIF’s board of directors, and recently welcomed Rocky Gonzalez in 2004. We look forward to the energy and insight we can draw from them in our future progress. We also express our gratitude to the outgoing board members Leonard Schuler, Paul Rose, and Joseph Coale, whose wisdom and experience helped guide us to our current success.

That success is underscored by IWIF’s stellar performance in 2003. Total assets surpassed $1 billion, and operating profit rose to $10.6 million, an increase of 23% over the prior year. These financial achievements resulted from sound and responsible stewardship, coupled with improving investment markets.

Another example of the health and vigor of IWIF is indicated by our steady growth in premium and market share, especially among larger accounts. It is IWIF’s proven value proposition, which offers world-class services and best-practices in the insurance industry, that strengthen our reputation. Now, more than ever, businesses are choosing to partner with IWIF.

Through enhancements in our infrastructure and technology and through increased customer service excellence, we are well positioned to retain our customers and to remain the leader in the Maryland marketplace.

In the past year, IWIF has assumed a stronger voice and presence as the workers’ compensation expert in our state. We commissioned a study to understand the cost drivers of claims in Maryland, based upon our history and experience as the largest carrier in the state. We readily shared our findings with the business community and our legislators to help guide their future actions. We continue to host free seminars for policyholders and others to help attendees better understand basic principles of loss control, claims management, fraud detection and reporting, and the legal structure of workers’ compensation. IWIF assumes this role with vigor because we fully embrace our corporate mission to champion workplace safety to protect all Maryland workers, and provide insurance to support the vitality of the state’s economy.

We thank you for your business and trust in our ability to deliver products and services that meet your workers’ compensation insurance needs. I am confident that IWIF has built a foundation for an even brighter future.

Gratefully yours,

Daniel E. McKew, Chairman
IWIF Board of Directors
President's Message

The Injured Workers’ Insurance Fund (IWIF) emerged from 2003 in great financial health and well prepared to meet the challenges of the New Year. In this message, which covers my second year as CEO of IWIF, I wish to express gratitude to our agent/partners, policyholders, and dedicated, diligent employees responsible for our success.

Today, IWIF is the dominant underwriter of workers’ compensation insurance in Maryland, with more than one-third market share among a crowded field of hundreds of insurance providers. IWIF has emerged as the carrier of choice, especially among small to medium-size companies, which comprise the backbone of Maryland’s economy.

Our success reflects a steadfast commitment by IWIF employees to offer competitive products with outstanding customer service. Each year, we retain a market research firm to assess the satisfaction of our policyholders and agent/partners with the quality of our services. Over the past seven years, we have seen a steady improvement in the survey results. In 2003, we received outstanding marks, as satisfaction among policyholders rose to 87%, and for agents/brokers it grew to an all-time high of 92%.

The financial performance of the company reached historic highs. This performance was driven partly by the 1999 legislation that holds IWIF to the same financial solvency regulations under the Maryland Insurance Administration as all insurance carriers. We ended the year with assets exceeding $1 billion. In addition, we registered improvements on several fronts. In 2003, IWIF’s annual premium revenue continued to grow, due to our competitive pricing, improved services and favorable market conditions. We also welcomed more customers as the total number of policies grew from 27,600 to 29,500.

Favorable results were recorded in our expense ratio, loss ratio, and the combined ratio. One of our new cost containment programs in 2003 was to join in a partnership with a preferred medical provider organization (PPO). This strategic partnership is an important mechanism to mitigate the impact of rising medical costs. This partnership allows IWIF to control growth in medical expenditures, while simultaneously enhancing the quality and timeliness of medical care for injured workers. The biggest benefit of this new partnership for injured workers and our policyholders is the statewide availability of first class medical care. Our medical network now includes 100% of all hospitals and 75% of all physicians in Maryland.

But the value of IWIF does not rest on financial results alone. We are known as an organization with a heart and a company that holds true to its mission to support the economic vitality of the State of Maryland.

For instance, when Bethlehem Steel, Maryland’s largest steel maker, declared bankruptcy on May 7, 2003, payments could no longer be paid to hundreds of injured workers for medical benefits. With the endorsement of the Office of the Governor, IWIF stepped in to prevent a lapse in payment of benefits. We took on the role of third-party administrator of these disability benefits primarily utilizing a $9.2 million bond from the State of Maryland. Why did we do this? Because it was the right thing to do.
IWIF is a strong corporate citizen. The company continues to give back to our community through matching grants and donations, but more importantly through volunteer talents and hours. IWIF sponsors the non-profit organization Kids’ Chance of MD, Inc., which raises money to provide scholarships to children whose parents were catastrophically injured or lost their life due to a workplace accident. We celebrated our third year in partnership with Mergenthaler Vocational Technical High School as we teach workplace safety to the teachers and students of that Baltimore high school. Our employees also work as volunteers and with fundraising for Big Brothers Big Sisters of Central Maryland. These are just a few examples of the extensive generosity of IWIF employees – they have large hearts, which is reflected in their care for injured workers.

While 2003 was a great year for IWIF, we identified a number of critical issues that are looming and could seriously impact the immediate future cost of workers’ compensation in our state. Those issues include rising medical costs, as the average costs of medical payments is 27% higher in our state than those in comparison states. Another issue is the rate of attorney involvement in Maryland, which is 2-1/2 times above the national average for attorney-represented claimants. Still another challenge has been raised by the 2003 Maryland Court of Appeals’ decision of Harris vs. Board of Education of Howard County, which overruled 75 years of precedent by no longer requiring that compensability for an injury be based upon an unusual activity. The Injured Workers’ Insurance Fund will continue to bring these issues forward to our state leaders for resolution.

Our reputation has been built by being the financially solid, reliable, customer-oriented leader in the workers’ compensation industry. That is a reputation not easily achieved over the last nine decades, but one to be jealously protected through continued commitment and exemplary service to the injured workers and business community of Maryland.

Respectfully,

Thomas L. Bromwell, President and CEO
As shown in these financial statements, IWIF had a very good year in 2003. These financial statements, presented in conformity with Generally Accepted Accounting Principles (GAAP), reflect strong net income and surplus (fund equity) growth. The results are reflective of actions taken during 2003 to limit IWIF’s exposure to external market conditions while continuing to improve its core operating areas. The benefits derived from these actions in 2003 have IWIF well positioned for 2004 and future years. IWIF remains committed to surplus growth through profitable operations in order to ensure full Risk Based Capital (RBC) compliance by 2005, as mandated by the Maryland Insurance Administration.

Thomas Phelan
Executive Vice President
Chief Financial Officer
Financial Highlights

STATEMENTS OF OPERATIONS

Year Ended December 31

2003      2002

REVENUES
Premiums ............................................................... $ 236,846,212 $ 181,721,722
Net investment income .......................................... 43,298,047 42,876,757
Net gain (loss) on investments ................................ 21,556,468 (37,477,238)
Other income ......................................................... 430,816 572,404
Total revenues ........................................... 302,131,543 187,693,645

EXPENSES
Claims expense, net ................................................ 215,336,239 169,828,847
Net operating expenses ........................................... 54,209,837 46,136,677
Total expenses ........................................................ 269,546,076 215,965,524

NET INCOME (Loss) ................................................. $ 32,585,467 $ (28,271,879)

The 2003 condensed financial statements have been derived from complete financial statements which were audited by ERNST & YOUNG, LLP. The schedules referred to in the Actuarial Opinion on page 16 relate to the “Yellow Book” schedules. A complete set of audited financial statements, with the unqualified opinion and complete set of footnotes, may be obtained upon request.