

## Board of Directors

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## Texas Mutual Insurance Company

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## Executive Officers

Russell R. Oliver  
President

Ron Wright  
Chief Operating Officer

Terry Frakes  
Senior Vice President  
Public Affairs

Rudy Garcia  
Senior Vice President  
Claim and Insurance Services

Randy Johnson  
Senior Vice President  
Investments

Vince Kasch  
Senior Vice President  
Financial Services

Karen Meriwether  
Senior Vice President  
and General Auditor  
Internal Audit

Mary Nichols  
Senior Vice President  
and General Counsel

Dave Smith  
Senior Vice President  
Information Technology

Joe Yurkovich  
Senior Vice President  
Underwriting and Loss Prevention

Tami Barron Schroeder  
Vice President  
Human Resources

Ernest Stokey  
Vice President  
Premium Audit and Recovery

## Corporate Mission

To provide a stable, competitive source of workers' compensation insurance for Texas employers, act as insurer of last resort, and help to prevent on-the-job injuries and illnesses and minimize their consequences.

## Corporate Vision

We will be the model provider of workers' compensation insurance through innovative, responsive partnerships with our customers and each other.

**TexasMutual**  
Insurance Company

## Working for Texas



## 2002 Annual Report

**TexasMutual**  
Insurance Company

## Letter from the Chairman

Corporate integrity is the cornerstone of any successful, sustainable business endeavor. Without it, as recent history has shown, even large companies ultimately will fall.

Texas Mutual Insurance Company has demonstrated its corporate integrity since its inception in 1991. Texas Mutual Insurance Company is not a publicly owned company, and therefore is not beholden to quarterly earnings to bolster stock prices or pad the bottom line. However, as a mutual insurance company, we have over 35,000 policyholders that depend on our integrity.

The board of directors meets frequently, and it is actively involved in reviewing and approving business decisions. The Internal Audit division reports directly to the board to ensure its findings are independent and unbiased.

Additionally, we realigned our corporate governance and board committees to meet the collective wisdom of the Sarbanes-Oxley Act and the Securities and Exchange Commission.

This report serves to notify all interested parties that Texas Mutual Insurance Company remains financially strong and professionally committed to the mission the Legislature established.

Martin H. Young Jr.

Chairman

## Letter from the President

At Texas Mutual Insurance Company, we know that the insurance market is cyclical. Today's hard market will eventually turn soft again, and we understand that the time to prepare for the soft market is during the hard market.

In 2002, some carriers restricted their business and cut back on their services in response to the hard market. At Texas Mutual Insurance Company, we took a different tack. We continued to offer coverage for all types of Texas businesses, and—as this report will demonstrate—we responded to our customers' needs with enhanced Internet capabilities, improved loss prevention services, and continued vigilance against fraud. Our efforts contributed to our 81 percent policyholder retention rate in 2002.

We plan to continue to provide and improve our top-tier services, as we did in 2002, for loyal policyholders who choose to stay with us year after year. Other carriers will jump in and out of the market, but we're here for you Texas, and we're here to stay.

Russell R. Oliver

President

Chairman Martin H. Young Jr. (left)  
and President Russell R. Oliver



## Year in Review

We are proud to be the state's leading provider of workers' compensation insurance; however, customer service—not market share—is what differentiates us from our competitors. Throughout 2002, we demonstrated our ongoing commitment to top-tier service.

### Total safety culture

We help employers manage—and in many cases reduce—their operating risks. As an insurance carrier, we pay injured workers' medical and indemnity benefits. As dedicated professionals, we use our expertise to help our policyholders build a total safety culture to identify and correct potential causes of loss.

### Fighting fraud

Some insurance companies seem to accept fraud as a cost of doing business. We do not. Our Special Investigations department identified \$3,123,618 in health care provider fraud and \$2,911,925 in premium fraud in 2002. Our investigations also saved an estimated \$2,880,954 in future income benefits costs. Ultimately, these savings benefit our policyholders by helping to keep premiums affordable.

### Dividends

For the fourth consecutive year, we paid dividends to reward our loyal policyholders whose low claim losses helped contribute to our success. We distributed over \$22 million in general dividends among 21,765 qualifying policyholders and \$466,669 in group dividends to *Texas Mutual* purchasing groups.

### Scholarship program

For the 2002-2003 academic year, Texas Mutual Insurance Company awarded six scholarships totaling \$18,478 to family members of individuals who died from work-related accidents. The program is open to unmarried spouses or children

of an individual who died from a compensable injury while working for a *Texas Mutual* policyholder. Selected individuals may receive up to \$2,000 per semester.

## Education and Commitment

Our commitment to Texas businesses and our progressive educational programs continue to help strengthen Texas employers. In 2002, we continued our risk management partnerships with Texas colleges; crisscrossed the state presenting educational workshops for agents, employers and health care providers; and demonstrated the benefits of return-to-work programs.

### Risk management college

Our seminars at Howard College in Big Spring educated West Texas employers on how to improve their employees' safety. Courses focused on regional needs, such as crop duster safety and hydrogen sulfide safety. Our courses at the College of the Mainland focused on chemical and refinery safety relevant to the coastal region. We will continue both programs in 2003.

### Statewide workshops

Our largest educational project involved hosting 48 workshops in 14 different Texas cities to teach agents, policyholders, and health care providers about the workers' compensation system and their roles in it. Our audiences' responses have been overwhelmingly positive, and we will continue the workshops in 2003.

### Return-to-work programs

Everyone wins when an injured employee returns to productive work. In fact, we have found that helping a policyholder develop a return-to-work program is one of the most beneficial services we offer.

Bringing the injured employee back to productive work reduces the costs associated with an injury. It can also speed the injured employee's recovery.

In 2002, we created a special small-business version of our return-to-work kit. The kit demonstrates how any business, even a small one, can provide alternative productive work that helps the injured employee get well and back on the job.

## Customer Service Online

Since launching our website seven years ago, we have introduced a host of online tools for policyholders and agents.

At *texasmutual.com*, policyholders can report injuries, create custom loss run reports, analyze loss data, order workplace safety material, download state and federal forms, and register for *Texas Mutual* workshops. We also make these tools available to insurance agents so they can better serve their *Texas Mutual* accounts and better market our services.

In 2002, we enhanced our Internet Quoting (IQ) program so it could issue online quotes for qualifying accounts with premiums up to \$25,000. We issued 2,897 quotes online, dramatically improving our response time to agents. This, in turn, helps to ensure that Texas employers receive timely quotes for coverage.

In November, we added an agency information management feature that allows each agency principal to review his or her *Texas Mutual* book of business. The principal can also access the agency's expiration list, cancellation list, policy-level summary, and related claim information.

Ultimately, Texas Mutual Insurance Company wants to be able to offer customers the choice of conducting every business interaction with us over the Internet. As e-commerce continues to evolve, we will continue to reach toward that goal because it makes things easier for our customers.



## Financial Highlights

For the year ended December 31, 2002  
(in thousands)

Premiums written	\$614,701
Net premiums earned	\$487,788
Net investment income	\$36,979
Claim benefits paid and incurred	\$358,308
Dividends to policyholders	\$22,678
Underwriting expense and policy acquisition costs	\$75,531
Provision for uncollectible premiums	\$640
Operating expenses	\$41,059
Net income	\$26,551

At December 31, 2002

(in thousands, except number of policyholders and employees covered)

Assets	\$1,882,882
Liabilities	\$1,079,918
Policyholders' surplus	\$802,964
Number of policies in force	36,087
Number of employees covered on policies in force	575,542

Key indicators, year ended December 31, 2002

Incurred loss ratio	72.0%
Combined ratio	102.1%
Premium written to surplus ratio	0.77:1

Premiums Written, Number of Employees Covered, and Number of Policies in Force  
1992 - 2002

