

March 1, 2005, Issue 1

12222 Merit Drive, Suite 1660
Dallas, TX 75251
www.acig.com
(972) 702-9004

ACIG

news

Welcome

Welcome to the premier issue of ACIG News, our electronic newsletter. ACIG News will be published and distributed on a quarterly basis to ACIG members, their brokers and other service providers. We will provide timely information regarding the operations of ACIG and its members. Our new digital formatting will allow you to forward ACIG News to any interested parties within your company.

INSIDE THIS ISSUE

- 2 ACIG Asset Allocation
- 2 Project Lifesaver
- 3 Mergers and Acquisitions Team
- 3 Risk Management
- 5 Safety
- 5 Claims
- 7 Marketing
- 7 CCIP's
- 7 ACIG Shareholders in the News
- 8 ACIG Meetings and Workshops
- 8 Summary

ACIG Mission Statement

To more accurately reflect our goals, we have revised our mission statement.

“Our mission is to save lives, prevent injury and reduce the overall cost of insurance for our shareholders by (1) effectively reducing losses, (2) providing a stable market with quality services, (3) utilizing our group purchasing power and (4) creating equity.”

Financial Report

We achieved outstanding financial results in 2004 producing an overall record based upon pre-tax financial results.

- Profits	\$ 4,465,000
- Retro Refunds	\$27,733,000
- Policyholder Dividends	<u>\$11,292,000</u>
Total	\$43,490,000

*“As of December 31,
2004, our total
shareholder’s equity
stood at \$84,948,000...”*

Tillinghast, our independent actuaries, reviewed and signed off on our overall loss reserves in both the subject and retro excess layers. Interestingly, \$72,571,000 of our total reserves of \$123,067,000 are earmarked for Incurred But Not Reported (IBNR) losses.

As of December 31, 2004, our total shareholder’s equity stood at \$84,948,000, an increase of \$9,392,000 from December 31, 2003.

American Contractors Insurance Group Asset Allocation (as of 12/31/04)

ACIG's investments are under the direction and supervision of our Investment Committee. The committee members are Chairman Mel Gray, Richard Pepper, Jim Danella and Bill McIntyre. Our portfolio is diversified between fixed income, convertibles and equities. The market values as of 12/31/04 are as follows:

"Our portfolio is diversified between fixed income, convertibles and equities."

	<u>Market Value</u>	<u>Percent</u>
Fixed Income: BlackRock	\$148,174,450	71.5%
Convertibles: Zazove	22,829,694	11.0%
Total Equities	36,252,767	17.5%
Dodge & Cox	15,915,002	7.7%
Primecap	12,286,174	5.9%
Private Capital	<u>8,051,591</u>	<u>3.9%</u>
TOTAL ASSETS	\$207,256,911	100.0%

Project Lifesaver

We started this key initiative on June 1, 2003. Our goal was to reduce the frequency and severity of losses by 40% over a two-year period. We have some great news to report as of January 5, 2005.

"Project Lifesaver meetings are underway for 2005."

- **Manhours are up**
- **Standard premiums are up 14%**
- **Frequency of losses are down**
 - **Workers Compensation down 14%**
 - **General Liability down 22%**
 - **Auto Liability down 20%**
- **Losses reduced by \$8,988,128**

Project Lifesaver meetings are underway for 2005. Our contractors have developed proactive programs to reduce their losses. Congratulations on this outstanding safety result.

ACIG has completed seven (7) Best Practices white papers that are posted to our website www.acig.com under the Safety section.

Mergers and Acquisitions Team

To address the complex Risk Management, Insurance, Safety and Claims issues related to a merger or acquisition, we have formed an ACIG Mergers and Acquisitions Team. The team is comprised of some of our most experienced and seasoned ACIG professionals.

- Mark Farmer, Team Leader - Risk Management and Insurance
- Rob Hunt - Safety
- Paul Becker - Claims

To aid in the Risk Management due diligence process, we have developed a mergers and acquisitions checklist, which is available on our website, www.acig.com under the Risk Management section. Please contact Mark Farmer at 972-687-9449 or via e-mail at MCFarmer@ACIG.com with any questions.

Risk Management

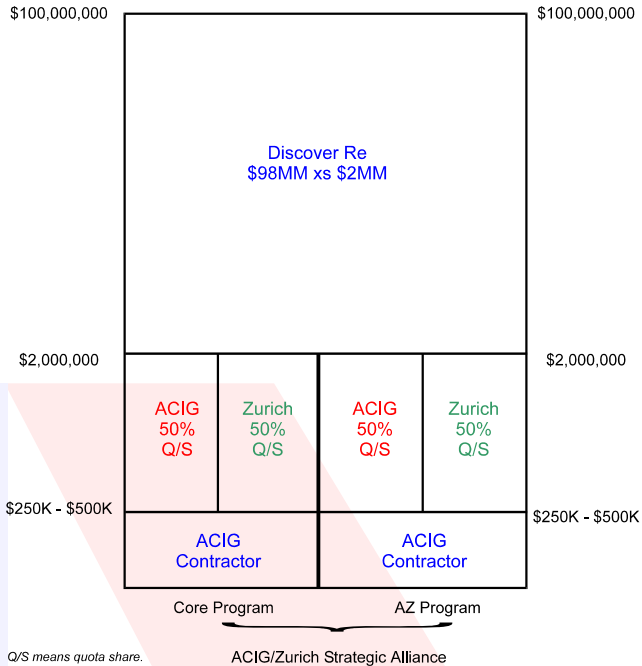
ACIG has been working with Zurich Construction to develop an integrated risk and insurance solution for our general building contractors. Due to the amount of work awarded to subcontractors (70% to 80% of the total project), our general building contractors rely heavily on their risk transfer program (e.g., indemnity, insurance requirements and additional insured status). In 2005, it has become increasingly difficult to obtain from the subcontractor and its insurer the proper coverage, limits of liability and additional insured endorsement that provides the completed operations extension. A solution to this risk environment is for the ACIG general building contractors to sponsor a Contractor Controlled Insurance Program (CCIP).

Under the CCIP, the project owner, the general contractor and all enrolled subcontractors will be insured parties. ACIG and Zurich have entered into a strategic alliance to underwrite and share risk on our general building contractors Core and AZ programs. The following schematics illustrate the risk layers and the participation by the contractor, ACIG and Zurich.

“ACIG and Zurich have entered into a strategic alliance to underwrite and share risk...”

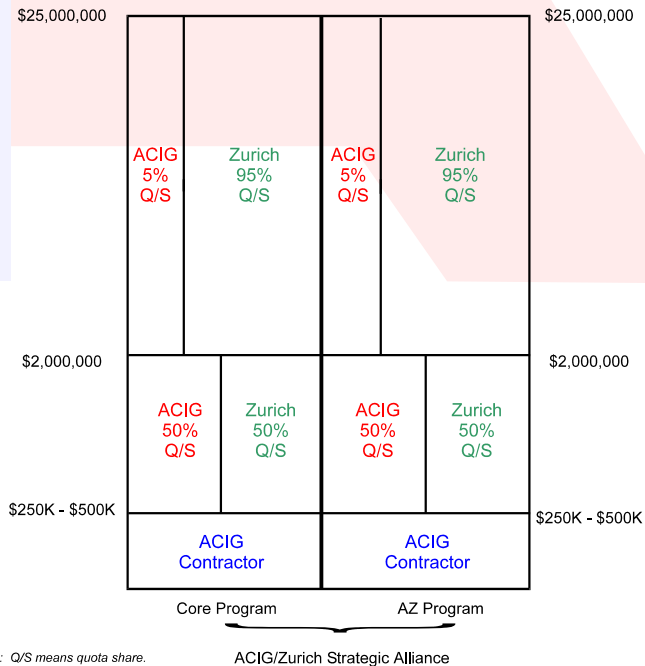
“The AZ Program will offer superior coverage and limits, as well as provide the completed operations extension.”

ACIG/Zurich
Strategic Alliance
Risk Layer Structure
Workers Compensation



Note: Q/S means quota share.

ACIG/Zurich
Strategic Alliance
Risk Layer Structure
General/Umbrella Liability



Note: Q/S means quota share.

This non-standard approach to project insurance will provide superior coverage for ten years with general and umbrella limits of \$25,000,000 per project. This approach will eliminate the uncertainty surrounding adequate coverage and limits and will provide the completed operations extension.

This transition will require a lot of work, but will be highly beneficial to all parties involved. Helping considerably with all these changes are three new additions to the RMS team.

James Shay and **Michael Overholt** joined the Risk Management Services Department of ACIG on January 3, 2005. James was formerly the Risk Manager for Swinerton, a nationwide general building contractor. Michael has been with ACIG for the past 10 years as a Senior Safety Consultant.

We are anticipating a strong demand from our general building contractors for CCIP's. To address this demand, we have named **Mark Slater**, CCIP Administrator. He will be working on the administrative activities of the CCIP's. Mark, a CPA, has worked for ACIG for 2 ½ years.

Safety

We have been working with the auto liability risk pool participants to develop recommended guidelines to help manage their auto liability exposures. A meeting was held on February 18, 2005 to review and discuss the guidelines.

Seven of our ACIG members have been utilizing the DBO² safety observation system. To date, we have over 250,000 observations in the ACIG database. Recently, DBO² has completed an analysis of reported non-compliance observations and claim activity. According to Barry Nelson, CEO of DBO², there is a direct correlation between the number of unsafe observations and the actual number of accidents.

*"We have completed
7 Best Practices
white papers."*

Our safety consultants have completed seven (7) of twelve (12) Best Practices white papers. The remaining five (5) will be completed by June 30, 2005.

Rad Manning joined ACIG as a safety consultant on February 7, 2005. Prior to joining ACIG he worked in the Safety Department of Brown and Root. His background and experience will be a great addition to our safety resources.

Claims

ACIG reviews all of its large and complex claims semi-annually as part of our Large Claim Review (LCR) process. Over the course of two days, we roundtable these claims with Bill McIntyre, Mike O'Neill, our claims consultants and account executives. Based upon this review, we develop global as well as claim specific action items. This is also the venue where we discuss and adjust the loss reserves in the retro excess layer for both workers compensation and liability claims.

As a result of the February 2005 LCR, we are developing Best Practices to be used in adjusting a construction defect claim. We will develop a white paper on this topic and post it to our website, www.acig.com, under the Claims heading.

Medical costs in the ACIG book of claims are rising despite the use of medical cost containment protocols. The rising costs in the ACIG book of claims can be attributed to the increased share of prescription drugs in the overall medical cost and management of a claim. According to the National Council on Compensation Insurance (NCCI) prescription drugs share of medical costs has grown from 10.1% in 1997 to 12.1% in 2002.

The top ten drugs represent 43% of total prescriptions. Three of these drugs have no generic equivalent. However, the FDA has recently approved generic versions of two other drugs, OxyContin and Neurontin.

“The top ten drugs represent 43% of total prescriptions.”

Top 10 Drugs	% of Total RX Paid	Brand or Generic
Celebrex (anti-inflammatory)	7.80%	Brand (generic not available)
OxyContin (pain-killer)	6.50%	Brand (generic approved in 3/04)
Vioxx (anti-inflammatory)	5.60%	Brand (generic not available) <i>withdrawn from market 9/30/04</i>
Hydrocodone (pain-killer)	5.40%	Generic
Neurontin (pain-killer)	4.90%	Brand (generic approved in 9/03)
Carisoprodol (muscle relaxer)	3.20%	Generic
Ultram (pain-killer)	2.90%	Brand (generic available 6/02)
Cyclobenzaprine (muscle relaxer)	2.40%	Generic
Ambien (sedative)	2.10%	Brand (generic not available)
Naproxen (anti-inflammatory)	2.10%	Generic

Source: NCCI.

Marketing

ACIG has 37 approved membership slots, and currently 35 active (premium paying) members. Accordingly, two membership slots are open.

<u>Active Prospects</u>	<u>Anniversary Date</u>	<u>Location</u>
J.T. Vaughan General Building	New Shareholder effective 3/7/05	Houston, TX
Spaw Glass General Building	5/1/05	San Antonio, TX
McGeorge Contracting Street & Road	5/1/05	Jefferson, AR
Bergelectric Prime & Subcontractor	7/1/05	Los Angeles, CA
Austin Industries General Building	10/1/05	Dallas, TX
Haskell Companies General Building	2/1/06	Jacksonville, FL

CCIP's

Currently, we have three (3) CCIP projects that are ongoing for Hoffman, LeChase and Roy Anderson Corp. In addition, we have prepared proformas on five (5) other projects. We anticipate more activity when the ACIG/Zurich Strategic Alliance becomes available on 4/1/05.

ACIG Shareholders in the News

The Weitz Company celebrates 150 years. A national company head quartered in America's heartland shaped by Midwestern values, its story of 150 years in the making embodies an undeniable entrepreneurial spirit.

Today, the company is comprised of 11 business units located throughout the country and anticipates \$1 billion in revenues for 2005. The Weitz Company became an ACIG shareholder in 1993.

*"The Weitz Company
celebrates 150 Years."*

Richard E. Wagman of G.A. & F.C. Wagman has been installed as the Chairman of the American Road and Transportation Builder Association. In this role, Rich will provide leadership and strategic planning to move ARTBA forward in 2005 and beyond. G.A. & F.C. Wagman has been an ACIG shareholder since 1990.

ACIG Meetings and Workshops

ACIG sponsors many meetings and workshops throughout the year. These meetings and workshops provide a valuable source of networking opportunities amongst our members, staff and selected vendors.

Date	Meeting	Place
March 24-26, 2005	Vail Contractors Forum	Bachelors Gulch, CO
April 6-8, 2005	Safety/Claims Workshop	New Orleans, LA
May 4-5, 2005	Executive Committee Meeting	Chicago, IL
September 14-16, 2005	Safety/Claims Workshop	Minneapolis, MN
October 20-22, 2005	Risk Management Workshop	Charleston, SC
February 15-18, 2006	Annual Board of Directors Meeting	Kona, HI

"ACIG contractors have embraced Project Lifesaver."

Summary

ACIG is in an outstanding financial position with a strong profit model that allows us to build our shareholders' equity. ACIG contractors have embraced Project Lifesaver, which will help save lives, prevent injury and reduce the overall cost of insurance. The ACIG/Zurich Strategic Alliance provides an integrated solution for our general building contractors. We appreciate your strong and continued support of the ACIG program.



Executive Vice President - Risk Services