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# ACIG

## news

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## Liability Risk Retention Act Marks 20<sup>th</sup> Anniversary

In 1986, President Ronald Reagan signed into law the 1986 amendments to the Liability Risk Retention Act in hopes of providing a “marketplace solution” to disruptions in availability and affordability of commercial liability insurance.

There were several benefits to the 1986 amendments. At the heart of the Liability Risk Retention Act is a single state regulatory scheme, under which an RRG becomes licensed and regulated in one state, but can operate on a nationwide basis. In addition, the RRG is exempt from rate and form regulations, which allows a matching of exposures, premiums and coverage terms and conditions.

American Contractors Insurance Company Risk Retention Group (ACICRRG) was started on December 31, 1986, the effective date of the new Federal Liability Risk Retention Act. We currently utilize ACICRRG to underwrite commercial general and automobile liability coverage.

Calls to amend the Liability Risk Retention Act have grown stronger, seeking exposures beyond liability to all commercial lines including property and excess workers compensation. Congress is expected to address expansion amendments in the next session.

By all accounts, the Liability Risk Retention Act was a success, providing a viable alternative to the traditional insurance market. There are more than 200 RRGs operating today. ACICRRG was an earlier adoptee of the Liability Risk Retention Act and is one of the largest risk retention groups in the country.

## Financial Report

For the quarter ending September 30, 2006, ACIG continued its very strong financial results based on a pre-tax basis.

Profits	\$ 5,888,000
Retro Refunds	33,282,000
Policyholder Dividends	<u>15,085,000</u>
Total	\$54,255,000

As of September 30, 2006, our shareholders' equity was \$94,037,000.

## ACIG Investment Portfolio

ACIG's investments are under the direction of our investment committee. The committee members are Chairman Mel Gray, Richard Pepper, Jim Danella, and Bill McIntyre. The investment committee has retained the services of Angeles Investment Advisors to provide investment advice and performance measurement.

<u>Asset Class</u>	<u>Market Value</u>	<u>Percent</u>
<b>BlackRock</b>	<b>174,882,782</b>	<b>68.6%</b>
<b>Western - Absolute Return</b>	<b>15,595,370</b>	<b>6.1%</b>
<b>Total Fixed Income:</b>	<b>\$190,478,152</b>	<b>74.7%</b>
<b>Convertibles: Zazove</b>	<b>25,380,876</b>	<b>9.9%</b>
<b>Dodge &amp; Cox</b>	<b>17,479,847</b>	<b>6.8%</b>
<b>Primecap</b>	<b>14,387,117</b>	<b>5.6%</b>
<b>Private Capital</b>	<b>7,560,949</b>	<b>3.0%</b>
<b>Total Equity</b>	<b>39,427,913</b>	<b>15.4%</b>
<b>Total Investments</b>	<b>\$255,286,941</b>	<b>100%</b>

## Project Lifesaver Recap Overall Group as of August 1, 2006

We began this Loss Reduction Initiative on June 1, 2003. Our objective was to reduce the frequency and severity of losses. Based upon our expected level of losses, our actual results indicate a decrease in expected losses of \$29,592,067, as detailed below.

<u>Policy Period</u>	<u>Expected Losses</u>	<u>Indicated Losses*</u>	<u>Decrease From Expected</u>	<u>Percent Decrease</u>
2003-04	\$49,330,005	\$37,084,993	\$12,245,012	24.8%
2004-05	\$46,953,881	\$37,911,382	\$ 9,042,499	19.3%
2005-06	\$63,453,735	\$55,149,179	\$ 8,304,556	13.1%
<b>Total Decrease From Expected:</b>			<b>\$29,592,067</b>	<b>18.5%</b>

\*Indicated losses include IBNR and ALAE reserves.

	<u>WC</u> PLS Reportable <u>Loss Rate</u>	<u>GL</u> Claims > \$5,000 <u>Loss Rate</u>	<u>AL</u> Loss Rate Per 100 Units (Claims > \$5,000)
2002-03 Baseline Rate	1.84	0.57	1.07
2003-04 Rate	1.59	0.49	1.01
2004-05 Rate	1.41	0.27	0.90
2005-06 Rate	1.10	0.14	0.82
2005-06 Rate Reduction	40.2%	75.4%	23.4%

## Best Practices

Our Project Lifesaver initiative is supported by our efforts in identifying and implementing Best Practices. Our Best Practices Steering Committee has been working with ACIG staff on the planning process for the April 11, 2007 Best Practices Meeting to be held in Dallas. Based on past attendance feedback, the committee has made some recommendations on restructuring the Best Practices meeting.

### AGENDA

- I. General Session (30 minutes)
- II. Industry Breakouts (3 hours)
- III. Concurrent Special Topics (afternoon session)
  - a. Wellness Programs
  - b. Dealing with a Hispanic Workforce
  - c. Joint Venture Projects
  - d. Subcontractor Management
  - e. Post Accident Process

The Steering Committee will also be soliciting additional topics to add to the concurrent sessions.

The target attendees for the Best Practices Meeting are the CEO's, COO's, and their key operations managers.

## ACIG/Zurich Strategic Alliance

The AZ Program continues to grow as our five (5) AZ Program contractors have expanded their implementation efforts to include more projects. The AZ Program was developed as a response to the deteriorating insurance market for subcontractors as well as to meet the unique insurance requirements for complex construction projects. Recent subcontract audits have validated the shrinking, and in some cases, disappearing insurance protection afforded general contractors. To date we have bound sixty two (62) projects covering more than \$2,500,000,000 in construction values. The estimated AZ Program premiums total \$67,828,541. We anticipate adding additional contractors to the AZ Program in the coming year.

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*"Our Project Lifesaver initiative is supported by our efforts in identifying and implementing Best Practices."*

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## ACIG Education Program Expanded

ACIG will be conducting a number of Educational Programs in support of our Mission Statement. In addition to offering outstanding learning opportunities, the programs will also encourage interaction and networking among participants.

### **In-House Legal Counsel Forum - November 30, 2006**

Many of ACIG's members have been adding legal counsel as part of their staff. ACIG has recognized the importance of this trend and the ability we have to bring these resources together in a networking environment. The

In-House Legal Counsel Forum will provide general counsel with a venue to discuss current legal topics, and to identify and develop Best Practices. The agenda and its topics were developed by the Steering Committee.

### **ACIG University - January 23-24, 2007**

ACIG has begun an initiative to educate future leaders within our members about risk management and ACIG as a whole. This "ACIG University" meeting is scheduled for January 23-24, 2007 at the Four Seasons in Las Colinas. Don Greenland with Nabholz Construction will provide the Keynote presentation on Leadership roles in Risk Management. ACIG's staff of professionals will comprise the instructors. The agenda will incorporate case studies and will offer great networking opportunities.

### **Professional Liability Seminar - Date to be Determined**

As the construction industry moves into more non-traditional project delivery systems, the professional liability risk for contractors continues to expand. This one-day seminar presented in conjunction with Ames and Gough, one of the leading Professional Liability Risk Management firms, will provide a detailed discussion on Professional Liability exposures, Best Practices in mitigating risk and developing an effective Professional Liability Insurance Program.

## **U.S. Department of Labor Releases 2005 Occupational Death Summary**

The U.S. Department of Labor has just recently released its 2005 occupational death summary.

Key facts included in the report:

- 5,702 occupational deaths.
- 1,186 private construction industry deaths, one in five of occupational deaths.
- Increases in construction deaths from:
  - Residential construction
  - Utility construction
  - Street and road construction
- Decreases in construction deaths from:
  - Specialty trade contractors
  - Roofing contractors
- At risk age groups:
  - 19 years and younger
  - 55 years and older

For a complete copy of the report, visit their website at [www.bls.gov/news](http://www.bls.gov/news).

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*"1,186 private construction industry deaths."*

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## SWAT Report

ACIG and its members utilize a SWAT team approach for investigation of catastrophic claims. Key factors for the 6/1/05-06 policy are as follows:

1. Goal: Immediate notification from the field.  
Results: 2.43 hours average.
2. Goal: Notify ACIG within 60 minutes.  
Results: 37 minutes average.
3. Goal: ACIG onsite within 24 hours.  
Results: 16.5 hours average.

Industry Group Analysis				
	<u>WC</u>	<u>GL</u>	<u>AL</u>	<u>Total</u>
Building	2	8	0	10
Street and Road	5	5	1	11
Industrial	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b>7</b>	<b>13</b>	<b>1</b>	<b>21</b>

## Medical Cost Containment Delivers Savings

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*"We realized over \$4MM in reduced bills."*

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The National Council on Compensation Insurance (NCCI) reports that a larger portion of the claims dollar is being spent on medical costs. ACIG has a medical cost containment initiative to mitigate growing medical costs. We utilize medical cost containment vendors to provide a variety of services. Our most recent audit produced the following results:

<b>Total Bills Reviewed</b>	<b>\$8,422,807</b>
<b>Savings</b>	<b><u>\$4,135,351</u></b>
<b>Net Bills</b>	<b>\$4,287,462</b>
<b>Cost Containment Fees</b>	<b>\$ 197,828</b>
<b>Net Savings Of</b>	<b>47%</b>

## ACIG Meetings and Workshops

ACIG sponsors meetings and workshops throughout the year.

<u>Date</u>	<u>Meeting</u>	<u>Place</u>
November 30, 2006	In-House Legal Counsel Forum	Dallas, TX
January 23-24, 2007	ACIG University Advanced Executive Track	Dallas, TX
February 21-24, 2007	ACIG Annual Meeting	Cabo San Lucas, Mexico
April 11, 2007	Best Practices	Dallas, TX
April 12-13, 2007	Safety/Claims Workshop	Dallas, TX

## ACIG Contractors in the News

Cajun Constructors, Inc. of Baton Rouge, Louisiana welcomed President George W. Bush to its jobsite in New Orleans' Ninth Ward. This was President Bush's tenth visit to the Gulf States to view the progress in clean-up and reconstruction after the city was destroyed by Hurricane Katrina. Cajun was working on the replacement of the Industrial Canal Levee.

## Sam Kitchell Dies - Founded Company in 1950

Samuel F. Kitchell, founder of Phoenix-based Kitchell Corporation, one of the nation's leading construction managers/general contractors, died at his home in Paradise Valley, Arizona on Monday, September 11, 2006.

Kitchell founded the company that bears his name in 1950. Today Kitchell is a diversified corporation involved in construction and construction-management, real-estate development and refrigeration/air conditioning wholesaling.

Sam Kitchell modestly attributed the company's success to being "in the right place at the right time." Kitchell's growth paralleled the growth of Phoenix, now the nation's sixth-largest city.

But location wasn't the only factor. According to Bill Schubert, Kitchell's president/CEO since 1989, "Sam Kitchell was unmatched in his personal integrity, business acumen and gift for developing relationships and building

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*"Sam Kitchell was unmatched in his personal integrity, business acumen and gift for developing relationships and building trust with clients and with employees."*

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trust with clients and with employees. That's Sam's legacy and the real key to Kitchell's success and staying power in an industry and era that has seen many companies come and go."

Sam Kitchell was once president of the Arizona Building Chapter of Associated General Contractors of America, and in 1989 was named Entrepreneur of the Year by *Arthur Young/Inc. Magazine*. In 1991, the Arizona Chapter of the Newcomen Society honored him for his contributions to American business. He was inducted into the Arizona Business Hall of Fame in 1992. In 2004, he received the Construction Industry Pioneer Award from the Phoenix Chapter of the Construction Financial Managers Association.

Sam Kitchell is survived by his wife of 63 years, Betty Kitchell, and five children.

Kitchell Corporation has been an ACIG shareholder since 1983.

## Summary

We just concluded our Risk Management Workshop and ACIG Board of Directors meeting in Laguna Beach, California. Our members reported a robust construction market and record backlogs. With this increased activity comes increased risk as we construct larger and more complex projects. Owner expectations and aggressive schedules are continuing to add additional risk on our projects.

As these risks increase, there is a strong need for an enterprise risk management program. ACIG is filling this need by developing education and training, addressing the expanding risk environment.

Thank you for your continued support of the ACIG program.



Executive Vice President