



April 1, 2017, Issue 41

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# ACIG

## news

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The Hilton Palacio Del Rio Hotel is a milestone, not only for the city of San Antonio, but for the modular construction industry. Built in 1968 in support of HemisFair, the Texas World Exposition, the 500-room deluxe hotel was designed, completed and occupied in an unprecedented period of 202 working days.

Built by H. B. Zachry, the 21-story building was built using a modular construction system. The first four stories, the elevator and utility core were built using conventional poured in place reinforced concrete. From the fifth to the 20<sup>th</sup> story, 496 prefabricated modules were placed by a crane in 46 days.

The hotel’s room modules were pre-cast using light-weight structural concrete. Before arriving at the construction site, each room was fully decorated, including a color TV, AM/FM radio, beds, carpeting, automatic coffee makers and ashtrays. The units were 32’8” x 29’8” long and 13’ wide and 9’6” tall, they weighed 35 tons each and were prefabricated at a plant 8 miles from the site. They placed an average of 17 units per day.

McKinsey Global Institute just released its “Reinventing Construction: A Route to Higher Productivity.” Based on an analytical review of productivity improvements across many industries, the construction industry has struggled to evolve its approaches and its productivity has suffered as a result. One of its key recommendations is to adopt a prefabrication and modularization approach. This can reduce build time because productivity is much higher in a controlled environment.

Prefabricating larger modules remotely reduces on-site complexities, offers better safety, improved quality and lowers rework rates. A number of ACIG contractors are utilizing preconstruction and modular structures on their projects. Examples include headwalls that are built offsite that include electrical, medical gas and other mechanical assemblies, bathroom modules that include everything but the toilet tissue and large, sophisticated piping and mechanical systems to be installed in commercial and industrial projects.

One of the impediments to more utilization of prefabrication assemblies is that this approach is capital-intensive; therefore, requires certainty about the scale of demand in order to justify the capital investment.

There will be giant improvements in the construction industry productivity over the next ten years. One key contribution will be the use of more prefabrication and adopting manufacturing-type systems that will result in a high quality, safer and more profitable project.



## ACIG Financial Report December 31, 2016

### *Balance Sheet Profile*

ACIG reported total assets of \$447,835,000 as of December 31, 2016 versus assets of \$444,804,000 reported at December 31, 2015. ACIG's shareholders' equity was \$165,733,000 (versus \$152,223,000 at December 31, 2015). ACIG posted net unrealized gains on investments (net of tax) of \$18,617,000 at December 31, 2016, an increase of \$6,919,000 from December 31, 2015, which accounted for a significant portion of the capital growth.

### *Operating Results for the Year Ended December 31, 2016*

ACIG reported pretax income of \$58,967,000 for the year ended December 31, 2016 before policyholder dividends and other return premiums of \$42,056,000 and related bonuses of \$7,364,000. ACIG accrued premium refunds of \$42,056,000 payable to the ACIG insureds pursuant to our capital management strategy versus budgeted transactions of \$32,210,000. ACIG reported net income of \$6,239,000 for the year ended December 31, 2016 versus budgeted net income of \$4,020,000, primarily because underwriting income was higher than budgeted.

## A.M. Best Rating

American Contractors Insurance Group has been assigned a rating of A (Excellent) VIII (\$100-\$250MM) of policyholders surplus.

As a group captive, ACIG's reasons for receiving and maintaining a published A.M. Best Rating is four fold.

1. Owner's requirements in contract documents.
2. Validates corporate governance.
3. Increased transparency.
4. Expense reductions in purchasing reinsurance and fronting services.

ACIG's senior leadership maintains regularly scheduled communication with our A.M. Best financial analyst.



## ACIG's Investment Portfolio

### Asset Allocation as of December 31, 2016

	Market Value	Percent of Total
<b>Insurance Reserves Portfolio</b>	<b>\$ 227,877,439</b>	<b>52.9%</b>
BlackRock	\$ 194,628,247	
State Deposits	\$ 33,249,192	
<b>Capital Portfolio</b>	<b>\$ 203,039,403</b>	<b>47.1%</b>
<b>Equities</b>		
Dodge & Cox (Global)	\$ 12,227,459	2.8%
Vanguard Primecap	\$ 32,681,375	7.6%
Wellington Global Perspectives	\$ 11,047,235	2.6%
Vanguard – International Growth	\$ 9,235,326	2.1%
Angeles Global Equity Opportunities	\$ 11,495,732	2.7%
<b>Absolute Return</b>		
Angeles Absolute Return Fund	\$ 18,333,308	4.3%
<b>Convertibles</b>		
Zazove	\$ 25,305,017	5.9%
Allianz	\$ 15,744,664	3.7%
<b>Fixed Income</b>		
Western – Absolute Return	\$ 17,692,993	4.1%
T. Rowe Price High Yield Fund	\$ 6,953,500	1.6%
PIMCO – Income Fund	\$ 22,111,732	5.1%
Crescent High Income	\$ 11,788,187	2.7%
<b>Real Assets</b>		
Harvest MLP Income Fund	\$ 8,422,876	2.0%
<b>TOTAL INVESTMENTS</b>	<b>\$ 430,916,842</b>	<b>100%</b>
<b>Shareholders' Equity (as of 12/31/16)</b>	<b>\$ 165,733,000</b>	

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*“\$430,916,842  
in total investments”*

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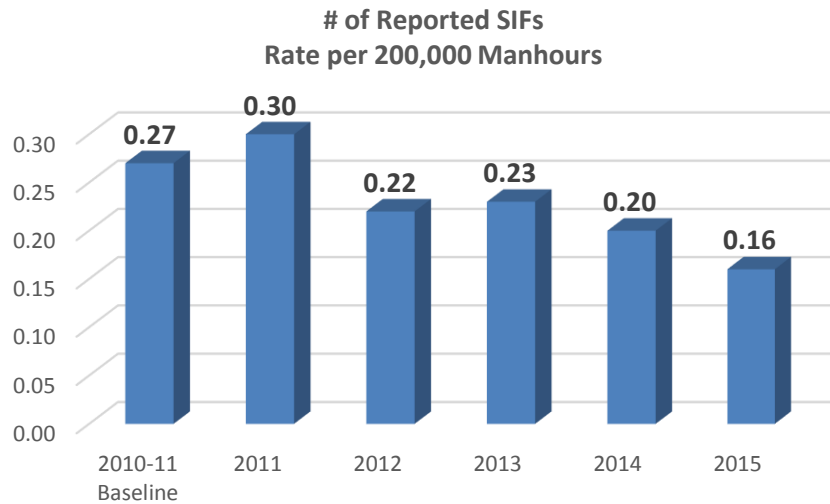
The total portfolio returned 4.6% for 2016.



## Serious Injury and Fatality (SIF) Committee

The purpose of our SIF committee is to develop a member roadmap across our three (3) industry groups that include a series of tools and resources to identify significant hazards to each job and activity. SIF committee reports will be presented at our Best Practices and Risk Management Workshop.

### SIF Snap Shot



## Claims Cost Index

The claims cost index (CCI) has continued to outpace the consumer price index (CPI) since 2013.

	2013	2014	2015	2016
Claim Cost Index	3.19%	4.05%	2.49%	3.12%
Consumer Price Index	1.46%	1.62%	0.12%	0.73%

In economic terms, claim cost for loss and loss adjustment expenses are an insurer’s cost of production. Major claim costs include physician services, hospital charges, lost time and wages, repair cost to vehicles, building materials and construction labor. Loss adjustment expense include legal fees, experts, and court costs.



## Contractor Controlled Insurance Program

Currently ten (10) ACIG general contractors are utilizing Contractor Controlled Insurance Groups (CCIPs). They are employing a combination approach, using a rolling program to insure smaller projects and project specific programs for larger projects.

Total Projects	1,289
Total Contract Values	\$14,699,521,649
ACIG Premiums	
General Liability	\$144,913,967
Workers Compensation	<u>74,762,220</u>
Subtotal	\$219,676,187
Umbrella/Excess	<u>\$ 76,027,545</u>
<b>Grand Total</b>	<b>\$295,703,732</b>

If you are interested in how your company can employ a CCIP program, please contact James Shay at [james.shay@acig.com](mailto:james.shay@acig.com).

## Workers Compensation Rate Study

A biennial study using a methodology that puts state workers compensation rates on a comparable basis produced some interesting results.

### Highest Rate States

- California
- New Jersey
- New York
- Connecticut
- Alaska

### Lowest Rate States

- North Dakota
- Indiana
- Arkansas
- West Virginia
- Virginia

Variability in the state rates is impacted by the state workers compensation statutes that contain the stipulated benefits to be delivered. The rates are further impacted by utilization of the workers compensation system.

[Click here](#) to review the report and the 50 state ranking.

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## Drugs in High Hazard Occupations

Two Amtrak track workers killed in a collision with a train near Philadelphia had drugs in their system at the time, as did the Amtrak engineer driving the train.

Miscommunication and safety violations resulted in the train hitting a backhoe at 100 miles an hour, obliterating the backhoe and killing the two track workers.

The backhoe operator, tested positive for cocaine, while his supervisor tested positive for oxycodone, codeine and morphine. The train engineer tested positive for marijuana.

This accident illustrates the dangers of drug-use in a high-hazard occupation.

Recent data from Quest Diagnostics Laboratory, a drug testing firm, shows an increase in drug usage amongst American workers across many occupations.

## Criminal Prosecutions Arising Out of Workplace Accidents

We have observed an increase in the number of criminal prosecutions arising out of workplace accidents. This topic and the accompanying chart was discussed at the CEO Reporting Forum. Workplace safety is serious business as can be seen by the information contained in the chart.

[Click here](#) to view chart.

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## ACIG News and Notables



**Mike O'Neill**, President & CEO, was a panelist at Swiss Re North America annual meeting. Mike's topic was "Differentiation and Disruption in the Property and Casualty Market."



**Michael Overholt**, Vice President of Safety & Quality, attained the LEED Green Associate designation by demonstrating the knowledge and understanding of green building practices and principles.



**Larry Owen**, Manager – Quality Division, was named an ASQ-Certified Six Sigma Black Belt. Earning an ASQ is formal recognition of an understanding of and a commitment to quality practices in the construction field.



## ACIG Contractors in the News

The 2017 Golden Beaver Awards were presented by **Paul Cocotis**, President of The Beaver's at the Annual Awards Banquet on January 20, 2017.

**Al Landes**, President and COO of Herzog Contracting Corp., was presented the Management Award. He has been with Herzog for 44 years, Al has given generously of his time to the construction industry, serving as President of the AGC of America, AGC of California and The Beavers.

**Scott Laumann**, Northwest Field Manager for Shimmick Construction was presented the Supervision Award. He joined Shimmick Construction in 1990, where he has overseen major heavy civil projects.

**Thomas B. Schueck**, Chairman of Lexicon, Inc. was inducted into The University of Arkansas's Business Hall of Fame. Starting in 1968 with \$800 and one employee, Marge, his wife, the company has grown to over \$300MM in revenues and 2,200 employees.

**James D. Pitcock**, Chairman and CEO of Williams Brothers Construction Co., Inc., received the 2016 Hartmann-Hirschman-Egan Award from the American Concrete Pavement Association (ACPA). Doug was recognized for his leadership in the transportation-construction industry, and operating one of the largest concrete paving contractors in the United States.

Three ACIG Members received the Associated General Contractors (AGC) of America Safety Excellence Awards:

### **Kitchell Contractors**

1<sup>st</sup> Place

Construction Management over 500,000 workhours

### **Cajun Industries, LLC**

2<sup>nd</sup> Place

Heavy Division over 1,000,000 workhours

### **Goodfellow Bros., Inc.**

2<sup>nd</sup> Place

Heavy Division over 200,000 workhours




## ACIG Thought Leadership

Our team of insurance, risk management, safety, quality and claims professions have written eight (8) white papers or Lessons Learned Bulletins since December 1, 2016.

*“The Dirty Dozen: 12 Things to Watch for in Your Umbrella”* written by Merle Jones, Director of Insurance Brokerage. [Click here](#)\* to read his article.

*“Root Cause Analysis in Construction”* written by Cathy Scarince, Quality Consultant. [Click here](#)\* to read her article.

*“Managing ‘Green Construction’ Risks”* written by Todd Reeves, Risk Management Executive and Karl Weber, Quality Consultant. [Click here](#)\* to read their article.

*“Traveling Employees and an Employer’s Risk”* written by Susie Ferguson, Senior Claims Consultant/Technical Manager. [Click here](#)\* to read her article.

*“Lessons Learned: Fall from Elevation – A LIFE SAVED”* written by Mike Ruefer, Senior Safety Consultant. [Click here](#)\* to read his Safety Lessons Learned Bulletin.

*“SIF – Employee Struck on Chin with Cut Off Saw”* written by Carl Heinlein, Senior Safety Consultant. [Click here](#)\* to read his Safety Lessons Learned Bulletin.

*“Metal Joists – Design Coordination, Phase of Work, Construction”* written by Larry Owen, Manager – Quality Division. [Click here](#)\* to read his Quality Lessons Learned Bulletin.

*“Exposure from Internal Traffic in a Construction Zone”* written by Susie Ferguson, Senior Claims Consultant/Technical Manager; Geoff Schrader, Claims Consultant; Carl Heinlein, Senior Safety Consultant; Mike Ruefer, Senior Safety Consultant. [Click here](#)\* to read their Claims Lessons Learned Bulletin.

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## ACIG Education and Networking Calendar

Event	Location	Dates
<b>2017</b>		
Vail Contractors Forum	Vail, CO	March 16-19
ACIG CCIP Meeting	Scottsdale, AZ	March 29-30
ACIG Legal Counsel Forum	Dallas, TX	April 3-4
Executive Committee Meeting (Invitation Only)	New York, NY	April 27-28
Autumn Risk Management Workshop and Executive Committee	Bluffton, SC	October 26-28
<b>2018</b>		
ACIG Best Practices	San Diego, CA	February 14-17
ACIG Annual Membership Meeting	San Diego, CA	February 14-17

## Concluding Thoughts

Brian Acton, CEO of BMWC Constructors, Inc., made a very compelling Safety Culture presentation at our 2017 Best Practices Meeting.

Brian and his senior leadership team are dedicated to eliminating serious injuries and fatalities on their projects. They have implemented a series of safety processes and have woven the families into their safety commitment.

All the best,



President & CEO

