

June 1, 2006, Issue 6

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ACIG

news

50th Anniversary of the Interstate Highway System

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The Interstate Highway System, the 46,717 mile ribbon of concrete and asphalt that links and moves America, turned 50 years old on June 29, 2006. In 1956 President Dwight D. Eisenhower proved himself a visionary when he signed legislation authorizing the Interstate Highway system. His experience in the military in the United States and Europe helped him understand the importance of mobility. Success laid in the ability to move men and machinery quickly and efficiently. Eisenhower's insight helped to lay the ground work for our current Interstate Highway system.

"As the Interstate System approaches 50, it's facing a 'mid-life crisis' that few outside the transportation industries and the public agencies that manage it seem to understand." said 2005 ARTBA Chairman, Rich Wagman. Now, however, it is increasingly overburdened with traffic and congestion. At fifty, the Interstate System is in need of a face lift. The role of our contractors is increasingly more important as transportation officials are focusing on improving the conditions of our highways.

ACIG salutes and recognizes all of the contractors who helped shape the Interstate Highway System and who are making its conditions better for future generations.

Financial Report

For the quarter ending March 31, 2006, ACIG had very strong results based upon a pre-tax basis.

Profits	\$ 1,303,000
Retro Refunds	13,378,000
Policyholder Dividends	<u>3,438,000</u>
Total	\$18,119,000

*"Shareholder equity is
\$92,014,000"*

As of March 31, 2006, our shareholders' equity was \$92,014,000.

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.

*"Investments total
\$240,006,712"*

<u>Asset Class</u>	<u>Market Value</u>	<u>Percent</u>
Total Fixed Income:	\$151,101,197	72.4%
BlackRock	165,301,167	68.9%
Western - Absolute Return	10,018,029	4.2%
Convertibles: Zazove	23,807,548	9.9%
Total Equity	40,879,967	17.0%
Dodge & Cox	18,241,858	7.6%
Primecap	14,270,885	5.9%
Private Capital	8,367,224	3.5%
Total Assets	\$240,006,712	100%

A.M. Best Rating Affirmed

A.M. Best Company recently affirmed our rating:

1. A (Excellent) rating for American Contractors Insurance Group Ltd., ACIG Insurance Company and American Contractors Insurance Company Risk Retention Group.
2. A Financial Size Category ("FSC") VII (\$50-100 million of policyholders' surplus).

*"A.M. Best Rating
of A (Excellent)"*

The A.M. Best Rating of A (Excellent) FSC VII is believed adequate for our current business plan. In order to achieve a FSC of VIII (\$100-\$250 million of policyholders' surplus), we would have to increase ACIG's consolidated surplus to \$100 million from the current \$92 million.

ACIG has an automatic back-up arrangement with Discover Re, our reinsurer, for those instances when our A.M. Best Rating of A (Excellent) and FSC VII is inadequate.

2006 Renewal Report

ACIG had an outstanding 2006 renewal. Insured payrolls are estimated to be \$1,339,044,461 for the June 1, 2006-07 policy period, an increase of 12.9% over 2005-06 estimates.

<u>Line of Business</u>	<u>Estimated Premiums</u>
Workers Compensation	\$59,918,666
General Liability	46,663,820
Automobile Liability	9,069,174
Total Core Business	\$115,651,660
Workers Compensation	7,070,402
General Liability	19,092,409
Total CCIP Business	\$ 26,162,811
Grand Total	\$141,754,471

“Premiums are estimated to be \$141,754,471”

For the June 1, 2006-07 policy period our retentions on a per occurrence basis are unchanged at \$3,000,000 for Workers Compensation and \$2,000,000 for both Auto and General Liability.

ACIG renewed its Workers' Compensation reinsurance program with Discover Re. They provide limits of \$97,000,000 per occurrence excess of our retention.

Project Lifesaver

We started this initiative on June 1, 2003. Our objective was to reduce the frequency and severity of losses. We have some great news to report as of May 1, 2006.

<u>Line of Business</u>	<u>Rate per 200,000 manhours</u>
Workers Compensation	
2002/03 Baseline Rate	1.53
2003/04 Rate	1.32
2004/05 Rate	1.15
Overall Rate Reduction	24.8%
2005/06 Rate (7 months)	.85*
*expected to increase	
General Liability	
2002/03 Baseline Rate	.49
2003/04 Rate	.45
2004/05 Rate	.24
Overall Rate Reduction	51%
2005/06 Rate (7 months)	.12*
*expected to increase	
Auto Liability	
2002/03 Baseline Rate	1.24
2003/04 Rate	1.06
2004/05 Rate	.98
Overall Rate Reduction	21%
2005/06 Rate (7 months)	.30*
*expected to increase	

We are in the process of developing the key metrics for the next round of Contractor Project Lifesaver Meetings. We have refined the process to improve the meeting materials and communications.

Best Practices Sessions were conducted on May 17, 2004, May 25, 2005, and April 19, 2006. These working sessions have been very well attended, and we will be making improvements for the April 11, 2007 Best Practices Session to be held in Dallas.

ACIG/Zurich Strategic Alliance

June 1, 2006 marked the first anniversary of the ACIG/Zurich Strategic Alliance. Currently, five (5) of our General Building contractors are participating in the Alliance. This program was developed in response to the deteriorating insurance market for subcontractors and as a response to developers' interest in wrap-up programs. To date, we have bound forty-three (43) Contractor Controlled Insurance Programs on \$2,035,000,000 of construction values. We would encourage any of the General Building contractors to examine the Risk Mitigation features of the AZ Program.

*"43 projects with over
\$2BB in construction
values"*

ACIG's Safety Staff Expanded

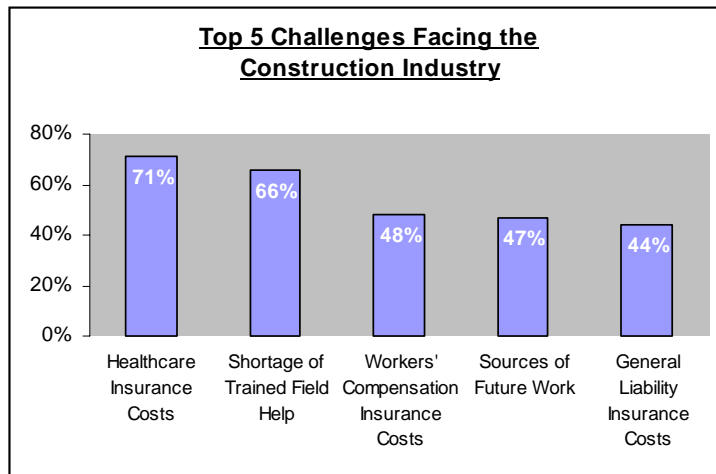
Based upon our contractors expanding operations and implementation of the AZ Program, ACIG embarked upon a nation-wide search to find a seasoned safety consultant to add to our staff. Mark Bowen has been added to our Safety Department. He brings a wealth of experience; he has been in the construction safety business for the past twenty-eight (28) years, sixteen (16) years with H.B. Zachary and most recently twelve (12) years with St. Paul Travelers Insurance Company.

Marketing

ACIG has 38 approved membership slots. Currently, all 38 are active premium paying members. Accordingly, no membership slots are open. ACIG continues to be contacted by a number of high quality construction companies regarding membership. At this time we are developing a "waiting list" for those contractors who have a bona fide interest in ACIG.

Insurance on the Minds of Leading Contractors

The Construction Financial Management Association (CFMA) released its 2005 Annual Financial Survey and Insurance Issues ranked among the Top Five (5) Challenges facing the construction industry.



“3 of 5 Top Challenges are insurance related”

Source: CFMA 2005 Survey

A total of six hundred sixty (660) companies participated in the 2005 Annual Financial Survey.

Medical-Only Claims that Become Lost-Time Claims

The National Council on Compensation Insurance (NCCI) recently published the results of its study on medical-only claims that become lost-time claims. The vast majority, 77.9% of claim counts, are medical-only claims. However, these medical-only claims account for only six percent (6%) of loss dollars.

The current challenge is how to prevent medical-only claims from becoming lost-time claims. Findings from the NCCI research can provide some guidance.

Some findings for claims that are medical-only at 3 months and then become lost-time by 30 months include:

- About 80% make the transition within 12 months of the date of injury.
- Medical-only claims that become lost-time claims cost an average of 40 times more than those that remain medical-only.
- Carpal tunnel claims are the most likely claims to transition from medical-only to lost-time, with the probability of such a transition being approximately 34%.
- The larger the incurred value (paid plus case reserves), the greater the probability of the claim becoming a lost-time claim.
- The probability of a claim transitioning increases with claimant age until age 65, and then it declines.

ACIG Shareholders in the News

Roy Anderson Corp

Roy Anderson Corp was featured for its post Katrina efforts on ABC Television's *Extreme Makeover "After the Storm"*. The program illustrated the destruction of property and suffering of those affected by Hurricane Katrina. Roy Anderson Corp built a mosaic and marble memorial in honor of those who were lost in the hurricane. A time capsule was incorporated into the memorial as a tribute to the lives that were lost. The living need messages of hope and the memorial represents the strength and resiliency of the people of the Gulf Coast.

J.T. Vaughn Construction Company, Inc.

J.T. Vaughn Construction was awarded the American Subcontractor Association's Houston Chapter, General Contractor of the Year Award. In addition, Danny Thompson of Vaughn was selected as Project Manager of the Year.

"Clarkson is celebrating its 126th anniversary."

Cajun Constructors, Inc.

Cajun Constructors, Inc. received the Associated Builders and Contractors Excellence in Construction Award for the Bachman Water Treatment Plant Hydraulic Improvements Project. As general contractor, Cajun was responsible for the entire project and self-performed 83% of the work.

Clarkson Construction Company

William E. Clarkson, Sr., class of 1949, was inducted into the Class of 2005 Hall of Fame, the highest honor bestowed on alumni of the Kansas State College of Engineering. Family owned Clarkson Construction Company, founded in 1880 is celebrating its 126th anniversary.

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
September 20-22, 2006	Safety/Claims Workshop	Cleveland, OH
October 26-28, 2006	Risk Management Workshop	Laguna, CA
February 21-24, 2007	Annual Board of Directors Meeting	Cabo San Lucas, Mexico
April 11, 2007	Best Practices Meeting	Dallas, TX
April 12-13, 2007	Safety/Claims Workshop	Dallas, TX

Summary

As we meet with our ACIG members throughout the United States, one recurring comment is the difficulty in locating, hiring, and retaining quality employees. This comment applies to all level of employees from tradesmen, foremen, superintendents, estimators, project managers to project executives.

We need to be vigilant in our hiring process to select the best person for the position, and to reinforce our commitment to safety and quality construction. Short cuts in the hiring process may result in an increased frequency and severity of claims.

Thank you for your continued support of the ACIG program.



Executive Vice President

