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ACIG

news

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Best Practices Meeting

ACIG will be holding its Annual Best Practices Meeting on April 11, 2007 at the Grand Hyatt DFW. Based upon feedback and recommendations, we have restructured the agenda to be more responsive to our members' needs. Below is a snap shot of the agenda.

- Industry Group Breakout Session
 - General Building
 - Industrial/Specialty
 - Street and Road
 - Mining/Aggregate Operations
- Concurrent Breakout Sessions
 - Wellness Programs
 - Joint Venture Projects
 - Dealing with a Hispanic Workforce
 - Subcontractor Management
 - Post Accident Processes/Protocols
 - Recognition and Rewards
 - Behavior Based Safety

The identification and implementation of Best Practices will reduce the number of incidents and accidents moving us closer to our goal of "Zero Accidents."

Financial Report

ACIG reported record premium volume and overall economic performance for 2006. Our premiums grew from \$114,915,000 in 2005 to \$151,282,000 in 2006. The growth in premium is attributed to three key factors:

- Organic Growth of Our Members
- Acquisitions by Our Members
- AZ Program Growth

ACIG's Economic Performance can be measured by adding the following items:

■ Retrospective Return Premiums	\$50,451,000
■ Policy Holder Dividends	21,659,000
■ Income Before Taxes	<u>13,764,000</u>
Total Economic Performance	\$85,874,000

As of December 31, 2006, our shareholders' equity was \$97,198,000.

A.M. Best Rating

Currently, ACIG has an A.M. Best Rating of A (Excellent), Financial Size Category of VII (\$50-100MM) in policyholder surplus. We have been in discussion with our analyst at A.M. Best Company about our 2007 rating that will be published in June 2007. Based upon our audited policyholders' surplus of \$97,198,000 and our 1st quarter performance, verified by our independent auditors, A.M. Best is expected to assign ACIG with a 2007 rating of A (Excellent) Financial Size Category VIII (\$100-250MM) in policyholders surplus.

"ACIG earned a 7.5% return on its investments."

We maintain a standby fronting arrangement with Discover Re in those rare instances when our A.M. Best Rating is not acceptable.

ACIG Investment Portfolio

ACIG's investments are under the direction of our investment committee. The committee members include 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>
BlackRock	180,375,529	68.0%
Western - Absolute Return	15,913,258	6.0%
Total Fixed Income:	\$196,288,787	74%
Convertibles: Zazove	26,909,493	10.1%
Dodge & Cox	18,704,967	7.1%
Primecap	15,018,441	5.7%
Private Capital	8,228,092	3.1%
Total Equity	41,951,500	15.8%
Total Investments	\$265,149,781	100%

ACIG earned a 7.5% return, net of expenses, for calendar year 2006.

Project Lifesaver Recap Overall Group as of January 30, 2007

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 \$29,028,220, as detailed below.

	<u>PY 2003</u>	<u>PY 2004</u>	<u>PY 2005</u>	<u>Total</u>
Expected Losses	\$49,329,682	\$46,953,663	\$62,714,131	\$158,997,476
Total Losses*	<u>\$37,195,329</u>	<u>\$38,975,984</u>	<u>\$53,797,943</u>	<u>\$129,969,256</u>
Savings	\$12,134,353	\$7,977,679	\$8,916,188	\$29,028,220

*Includes IBNR and ALAE reserves.

<u>Policy Year</u>	<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 <u>(Claims > \$5,000)</u>
2002-03 Baseline Rate	1.82	0.56	1.10
2003-04 Rate	1.58	0.53	0.99
2004-05 Rate	1.44	0.34	0.89
2005-06 Rate	1.13	0.19	0.86
2005-06 Rate Reduction	38%	66%	22%

*“Actual results indicate
a savings in
expected losses of
\$29,028,220.”*

Group Professional/Pollution Liability Program

ACIG is in the process of developing a Group Professional/Pollution Liability Program with Ames and Gough, a leading professional liability intermediary.

Background

The risk exposures for contractors are continuing to expand, particularly in the areas of professional and pollution liability. The fast track nature of the projects coupled with a variety of non-traditional project delivery systems, such as Design/Build and Construction Management at Risk, creates significant professional liability exposures. In addition, many projects are being built on Brownfield and Infill sites which involve volatile conditions and materials creating a very real pollution liability risk.

Two major issues for both professional and pollution liability are the unpredictability and size of the loss. This is compounded by the fact that umbrella liability policies, which are designed to respond to catastrophic losses, do not cover losses arising out of professional services or pollution events. This can lead to a mismatch of professional and pollution exposures and the policy limits available to respond to a loss.

Solution

Utilize American Contractors Risk Purchasing Group (ACRPG) to develop a comprehensive Group Professional and Pollution Liability Program. Key elements would include:

1. Group purchasing power of our combined 38 members utilizing American Contractors Risk Purchasing Group.
2. Substantial Shared Limits -- \$25MM each loss and \$75MM Aggregate with an automatic reinstatement provision.
3. Broad Coverage including, Contractors Professional Liability, Contractors Professional Protective Indemnity and Contractors Pollution Liability with mold coverage.
4. Customized loss prevention and claim resources.

We are in the process of negotiating the terms and conditions for the program, which it will be available on June 1, 2007.

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 one hundred twenty one (121) projects covering more than \$3,081,000,000 in construction values. The estimated AZ Program premiums total \$88,768,318.

ACIG and Zurich Construction are in the process of restructuring the program, and with the support of some of the leading excess liability underwriters, we will have a program with up to \$75MM in limits. As the subcontractor insurance market continues to deteriorate, we anticipate that more of our General Contractors will join the AZ Program.

121 projects

*\$3 Billion
in Construction Values*

*\$89 Million
in Premiums*

Construction Defects

ACIG has observed more activity and claims relating to construction defects. Construction Defects can be defined as the failure of a building or any building components. There is an expectation by the project Owner that the project will be erected in a reasonable workman-like manner and will perform in a manner intended by the building product manufacturer. Construction Defects fall into two (2) broad categories:

1. Defects in Design, Workmanship and Materials, and
2. Earth Movement and Settlement Problems

From our claims experience, it has become apparent that more emphasis needs to be placed in the areas of quality control and project documentation. In response to this need, ACIG will be sponsoring a Quality Summit in 2007 to bring our General Contractors together to examine the issues and develop Best Practices in the area of Quality Control. We will be forming a Quality Summit Task Force to provide guidance and resources for the meeting.

In addition, Mike O'Neill and Jeff Masters of Cox, Castle and Nicholson will be presenting three (3) one and a half day seminars on Construction Defects in Orlando, Las Vegas and Dallas sponsored by International Risk Management Institute (IRMI).

For more information go to www.irmi.com/seminars/default.aspx.

*“ACIG will be
sponsoring a
Quality Summit.”*

ACIG Gives Back to the Construction Industry

ACIG is regarded as one of the leading risk management and insurance organizations in the United States. Frequently, ACIG is asked to make presentations and participate in various seminars and workshops for construction related organizations. Here is a representative listing of organizations and topics presented by ACIG.

<u>Organization</u>	<u>Topic</u>
14 th World Captive Forum	The Mature Captive
I.R.M.I.	Advanced Risk Management and Insurance Strategies for Residential Developers and Contractors
A.I.C.P.A. - Executive Forum	Construction Industry Executive Briefing

Assurex Global Construction Risk	Evolution of a Captive
I.R.M.I.	Navigating Merger and Acquisition Risk
A.G.C. Advanced Management Program	Construction Risk Management
A.G.C. National Convention	Top Ten Gaps in Contractors Liability Coverage
National Association of Surety Bond Producers (N.A.S.B.P.)	“Snakes in the Grass” Understanding Contractors Risk Management and Insurance

All of these presentations are located on our website www.acig.com under the RMS tab, Articles and Presentations.

ACIG Meetings and Workshops

ACIG sponsors meetings and workshops throughout the year.

<u>Date</u>	<u>Meeting</u>	<u>Place</u>
April 10, 2007	Fleet Safety	Dallas, TX
April 11, 2007	Best Practices	Dallas, TX
April 12-13, 2007	Safety/Claims Workshop	Dallas, TX
September, 2007	Safety/Claims Workshop	Las Vegas, NV
October, 2007	Risk Management Workshop	Sea Island, GA

ACIG Contractors in the News

Murphy Company, St. Louis, MO, is celebrating its 100 year anniversary in 2007. Since its founding in 1907, Murphy has set the standard for mechanical and industrial construction and engineering, providing clients throughout the United States with timely execution, and the highest quality.

“Murphy Company celebrates 100 year anniversary”.

McBride and Son Homes, Chesterfield, MO, is donating a new four-bedroom house to Shawn Hornbeck, his parents and their foundation. Shawn was 12 when he was kidnapped in 2002 from his home. He was found on January 12, 2007 along with Ben Ownby, a 13 year-old also kidnapped by Michael Devlin, who is jailed on kidnapping charges.

Michael Crawford, CEO of Sukut Construction, Inc. has been selected as one of ENR's Top 25 Newsmakers of 2006. Mike enabled Sukut's equipment managers to spend millions and to tap into public grant funds to "repower" vintage equipment with cleaner engines. Mike's firm has set an example by keeping a step ahead of regulators while helping to reduce emissions.

Summary

One of our member CEOs recently made a very perceptive statement, "We're in the Risk Management business...we just happen to build buildings." Depending upon your industry niche, his comments could easily apply to streets, roads, bridges, industrial plants, refineries or utility construction. The key point is that the nature of construction requires a keen understanding of your risks and the application of the most cost-effective risk management techniques to address these risks. The new terminology "Enterprise Risk Management" denotes a broader and deeper view of risks and requires some "out-of-the-box" thinking and action. ACIG stands ready to assist you in your Enterprise Risk Management Program.

Thank you for your continued support of the ACIG program.



Executive Vice President