

ACIG

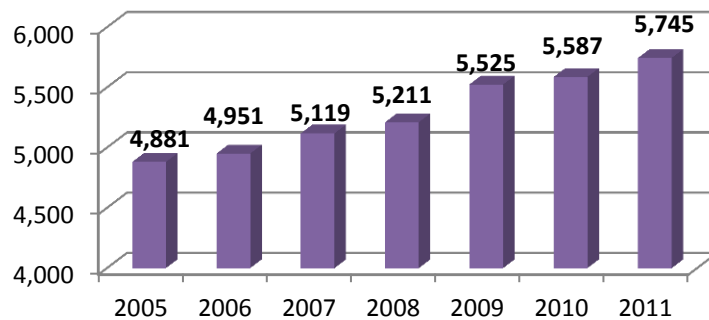
news

The Captive Market is Alive and Expanding

Recently, I attended the World Captive Forum in Aventura, Florida. This meeting brings together captive owners, reinsurers, investment advisors, domiciles and other service providers. The captive market's current state is stronger than it's ever been.

According to a report published by *Business Insurance*, there are five thousand seven hundred and forty-five (5,745) captives in operation.

Captive Growth



Bermuda continues to be the largest domicile with eight hundred forty-five (845), although Vermont is moving up quickly with its five hundred seventy-two (572) captives. When ACIG was founded in 1981, there were no domestic domiciles. Today all Fortune 1,000 companies as well as the largest privately-held companies utilize captives.

Top 5 Captive Domiciles – 2010-2011

Rank	Domicile	# of Captives	
		2010	2011
1	Bermuda	845	862
2	Cayman Islands	705	707
3	Vermont	572	590
4	Guernsey	341	343
5	Barbados	242	270

Source: *Business Insurance*, March 5, 2012.

Captives have become strategic components integral to a company's financial and risk management objectives. The construction industry occupies the #6 position on the Top 10 Industries Utilizing Captives.

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The top four (4) lines of business underwritten by captives are:

1. Property, Business Interruption and Supply Chain
2. Workers Compensation
3. General Liability
4. Auto Liability

New and creative uses of captives include:

1. Extended Warranties
2. Directors and Officers Liability (D&O)
3. Group Life Insurance
4. Accidental Death and Dismemberment (AD&D)

Captive premiums are estimated to be more than 25% of the commercial marketplace. In a recent A.M. Best study, captives outperformed the commercial market combined ratio (losses plus expenses) by 32%; a 68% combined ratio compared to 100%. The captive business is a solid, profitable business that will not return to the traditional insurance marketplace.

ACIG Financial Report December 31, 2012

Balance Sheet Profile

ACIG reported total assets of \$383,653,000 as of December 31, 2012 versus \$345,492,000 reported at December 31, 2011. ACIG's shareholders' equity was \$127,944,000 (versus \$120,487,000 at December 31, 2011).

Operating Results for the Twelve Months Ended December 31, 2012

ACIG reported pre-tax income of \$36,589,000 for the twelve months ended December 31, 2012, before policyholder dividends of \$22,255,000 and related bonuses of \$3,897,000. ACIG accrued premium refunds of \$22,255,000 payable to the ACIG insureds pursuant to our capital management strategy. ACIG reported net income of \$7,210,000 for the twelve month period ended December 31, 2012 versus budgeted net income of \$2,500,000, primarily because investment gains were realized that were not budgeted.

ACIG's Investment Portfolio

Asset Allocation as of December 31, 2012

	Market Value	Percent of Total
Insurance Reserves Portfolio	\$ 196,680,143	56.8%
BlackRock	\$ 171,221,987	
State Deposits	\$ 25,458,156	
Capital Portfolio	\$ 149,314,269	43.2%
Equities		
Dodge & Cox (Global)	\$ 7,647,649	2.2%
Primecap	\$ 18,517,268	5.4%
Wellington Global Perspectives	\$ 12,386,766	3.6%
Vanguard – International Growth	\$ 7,334,640	2.1%
Convertibles		
Zazove	\$ 24,951,371	7.2%
Allianz	\$ 11,275,338	3.3%
Fixed Income		
Western-Absolute Return	\$ 15,789,316	4.6%
T. Rowe Price High Yield Fund	\$ 5,507,096	1.6%
PIMCO – Income Fund	\$ 13,330,378	3.9%
Franklin Templeton Global Bonds	\$ 17,577,146	5.1%
JP Morgan – Mortgage-Backed-Securities	\$ 14,997,301	4.3%
TOTAL INVESTMENTS	\$ 345,994,412	100%

*“\$345,994,412
in total investments”*

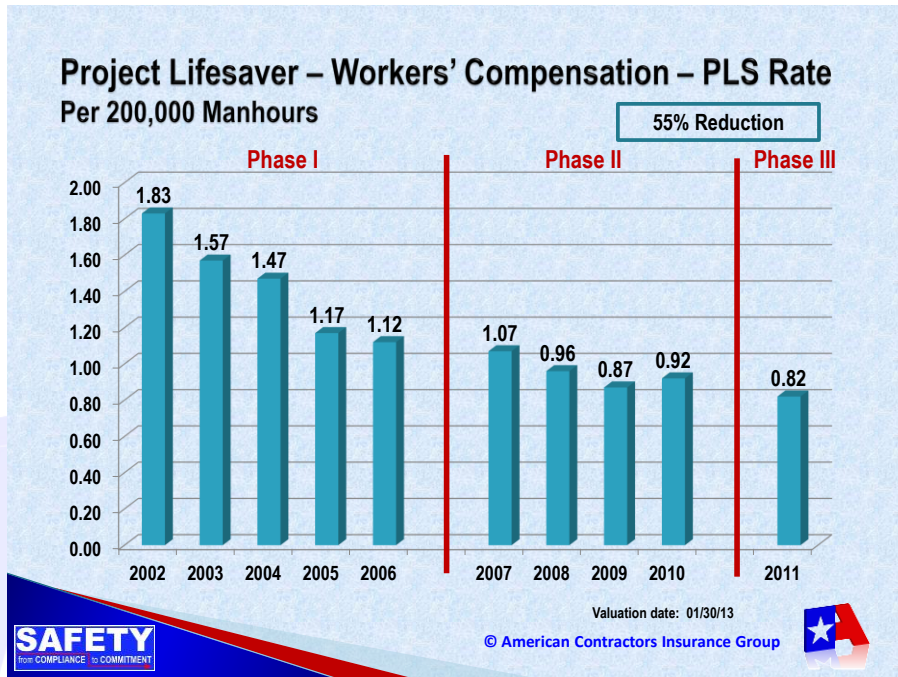
The insurance reserve portfolio returned 2.7%, and the capital portfolio returned 12.4% for a combined return of 6.9% for 2012.

Project Lifesaver Report

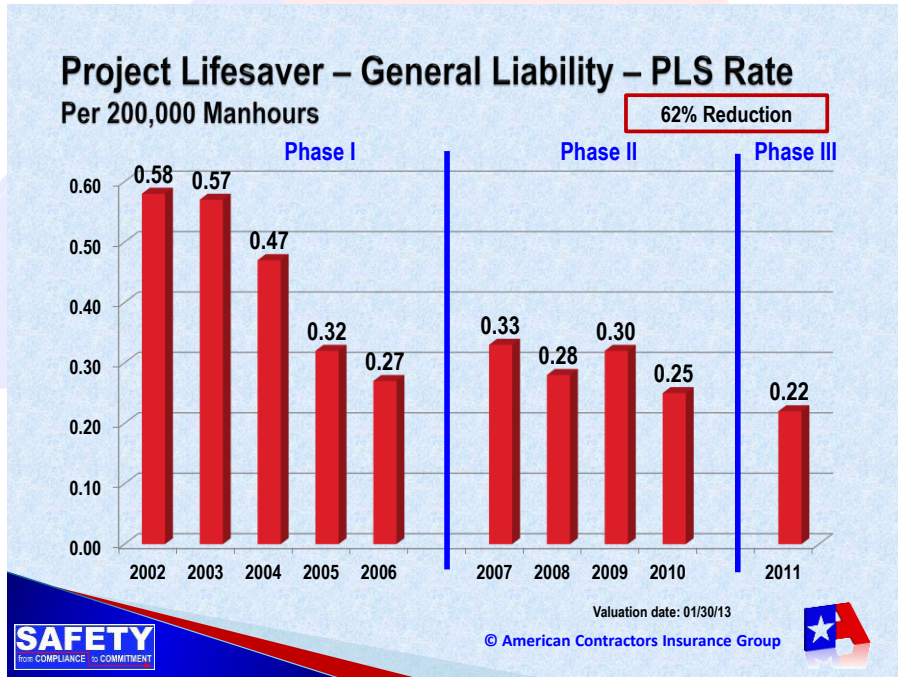
ACIG members continue to produce positive results in our Project Lifesaver Initiative. Over the nine (9) recent policy years, our members have reduced their loss rates as follows:

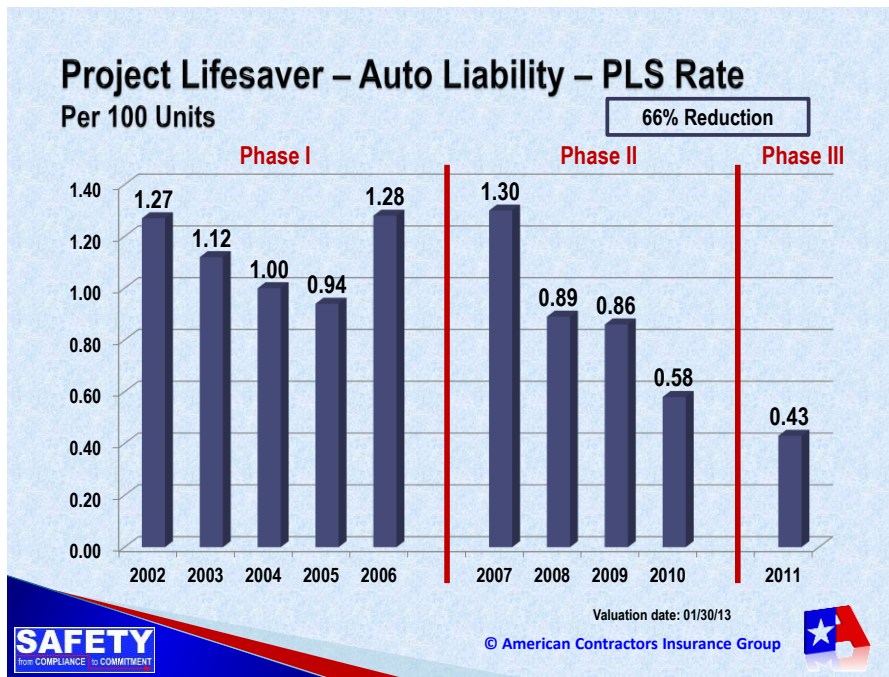
Workers Compensation	55% improvement
General Liability	62% improvement
Auto Liability	66% improvement

“A 55% reduction in PLS Recordable Cases”



“General Liability loss rate has been reduced by 62%”





*“Auto Liability
loss rate has been
reduced by 66%”*

Much work remains on eliminating severe injuries and deaths on our projects. ACIG’s safety consultants are working with our members to identify high hazard activities and implement the best safety strategies.

Best Practices

Our tenth annual best practices meeting was held on February 21, 2013 at the Westin Riverwalk in San Antonio, Texas. Don Greenland served as the best practices steering committee chairman and made the welcome and introductory remarks. Mike O’Neill, ACIG’s President and CEO, made a presentation on the 2012 Olympics construction safety results including lessons learned on this massive construction project. He also reported on the project lifesaver results over the past nine (9) policy periods. Steve Halverson, President & CEO of The Haskell Company, was the keynote speaker and provided a roadmap of Haskell’s safety journey to zero accidents.

Industry breakout sessions were facilitated by the best practices steering committee members for our general building, street and road, infrastructure and industrial contractors. The concurrent afternoon sessions featured the following special emphasis topics:

- Incentivizing Safety Performance through Employee Recognition and Rewards
- Fatigue Management While Driving
- Leveraging Safety Technology in the Field
- Fit-for-Duty – Every Day
- LEAN Impact on Safety and Quality
- How to Lead, Mentor and Enhance Safety Performance of Your Latino Workers

Planning is underway for our next best practices meeting scheduled for February 20, 2014 in New Orleans.

AZ Program Report

ACIG and Zurich entered into a Strategic Alliance on June 1, 2005 to address some significant risk and insurance issues facing our general building contractors:

*“AZ Premiums of
\$179,676,017”*

1. Subcontractor liability exclusions, limitations and related claims disputes.
2. Disallowing any meaningful risk transfers due to state anti-indemnity and insurance regulations.
3. Low limits of insurance maintained by first and second tier subcontractors.

The AZ Program provides a seamless program insuring core program projects, project specific CCIPs and rolling CCIPs for smaller projects. All of the insurers and limits are identical under all three (3) aspects of the AZ Program.

As of December 31, 2012, our six (6) AZ members have produced the following premiums:

Workers Compensation	\$ 32,631,727
Primary Liability	\$ 93,773,479
Umbrella/Excess Liability	<u>\$ 53,270,811</u>
Total	\$179,676,017

Included in this total is the premiums generated on 682 CCIPs, with construction values exceeding \$8.4BB.

The initial underwriting results and economic benefits are very positive. The overall results of the AZ Program will not be known for several years due to the long-tail (10 years) completed operations claims exposure.

KS Industries Safety Officer Receives the Congressional Medal of Honor

President Barack Obama awarded the Congressional Medal of Honor to Former Staff Sergeant Clinton Romesha. He was honored for his actions during the 2009 attack on Combat Post Keating in the mountains near the Pakistan border. About 50 U.S. troops were at the outpost when it came under fire by hundreds of Taliban fighters.



Combat Outpost Keating sat in a valley and came under attack from the mountains on all four (4) sides at 6:00 a.m. on October 3, 2009. When three (3) Taliban fighters breached the camp's perimeter, Romesha shot and killed them with an Afghan rifle. They were among more than ten (10) Taliban that he killed that day under heavy enemy fire.

Eight (8) U.S. soldiers were killed in the fighting and twenty-two (22) were wounded, including Romesha, who was peppered with shrapnel from a rocket-propelled grenade.

The Army's account of the fight noted that Former Staff Sergeant Romesha "displayed extraordinary heroism throughout a day long engagement in which he killed multiple enemy fighters, recovered fallen soldiers and led multiple recovery, resupply and counter attack operations."

Clinton is a true American hero; he works as a safety officer for KS Industries, LP in North Dakota.

"It does not take a hero to order men into battle. It takes a hero to be one of those men who go into battle."
General H. Norman Schwarzkopf



ACIG Contractors' Award Winning Projects

Engineering News Record (ENR) announced its winners in its Best of the Best Competition. This year two of the winning projects were built by ACIG members.

In the Cultural/Worship category, Linbeck Nabholz Joint Venture took home the prize for the **Crystal Bridges Museum of American Art**.



Crystal Bridges Museum of American Art, a 200,000-sq-ft museum and cultural center, features complex geometric forms inspired by the local Arkansas landscape as well as the suspension bridges of Bhutan.

The museum was built using bridge engineering to create hanging structures, suspending the museum above a creek bed. Two suspended cable-and-wood buildings were secured using specially designed rock anchors to stabilize the large abutments on both roofs. Engineers used analysis models to create the structures and model their behavior during construction, helping to determine construction and erection tolerances.

One judge calls the project an "impressive coordination between architecture and engineering. Innovation at its finest."

In the Higher Education/Research category, Hoffman Corporation was the winner for its **University of Washington Molecular Engineering and Sciences Building**.



Situated within the central science core of the University of Washington's Seattle campus, the 90,000-sq-ft first phase of the master-planned Molecular Engineering & Sciences Building was designed to create a multidisciplinary research setting and strengthen existing science programs.

To fit the facility on the site, historic Cunningham Hall – built in 1909 as part of the Alaska-Yukon-Pacific Exposition – had to be relocated. Within this footprint, the design took advantage of the topography to provide ground-level and below-grade instrumentation labs.

The school claims it is the largest core lab on the West Coast with ultra-low-vibration and electromagnetic-interference requirements. Given the location of the instrumentation labs, regularly occupied research labs and offices were designed above grade to take advantage of daylight and to provide views of Seattle's skyline and nearby mountains.

The project features the first naturally ventilated offices in a laboratory building on the university's campus. Because a typical cross-ventilation strategy between labs and offices was not possible due to the health and safety requirements, the team took an integrated approach to develop and test solutions to make the natural ventilation strategy work. A custom-designed, elevated-temperature, chilled-water loop, fed by a heat-recovery chiller system, serves the process cooling equipment associated with the microscopes as well as the chilled beams that provide cooling in the microscope spaces.

ACIG Notes and Notables

- ❖ ACIG Insurance Company is our licensed insurance company that underwrites the workers compensation line of business for our members. As a licensed carrier providing workers compensation insurance, we are required to provide data to the National Council on Compensation Insurance (NCCI). ACIG Insurance Company received all A's on our carrier data quality report. Congratulations to our underwriting department on this outstanding result.
- ❖ Mike O'Neill and Michael Overholt were presenters at IRMI's 32nd Annual Construction Risk Conference. Their topic was "Utilizing Best Practices to Drive Results".
- ❖ Tricia Kagerer joined ACIG as a risk management executive. Prior to joining ACIG, she was the risk manager in charge of safety and quality with C.F. Jordan, a Texas based general building contractor.
- ❖ ACIG helped sponsor two (2) Habitat for Humanity homes being built in West Dallas. Employees volunteered their time over two (2) weekends to help construct the homes. Volunteers complete most of the exterior construction, and Habitat subcontracts the interior finish to local trade contractors. The result is a high quality, well-constructed home.

ACIG Contractors in the News

BMW Group, Inc. worked over 5.5 million manhours in 2012 with zero lost time injuries or illnesses. Congratulations to Brian Acton and the BMW team on this outstanding achievement.

Ike Riser, Shimmick's safety director, was awarded AGC of California's Harry Eckstein Safety Professional of the Year Award. This very prestigious award exemplifies the most dedicated and innovative safety professional both within their company and the construction industry.

Rik Kunnath, Chairman of The Charles Pankow Foundation, was chosen by *Engineering News Record* as one of its Top 25 Newsmakers. Rik was acknowledged for his accomplishments in leading the Charles Pankow Foundation and sponsoring over \$8 million of applied research in construction innovation.

Wagman Family Corporate Leadership was selected to receive the 2013 Lutheran Social Services Cornerstone Award in recognition of four (4) generations of Wagman's who share a commitment to the York, Pennsylvania community.

Wayne Drinkward, President and CEO of Hoffman Corporation, was selected as the CEO of the Year by the Portland Business Journal. Wayne is a member of the executive committee and compensation committee and serves as Chairman of the CEO Reporting Forum.

ACIG 2013 Education and Networking Calendar

Event	Location	Dates
ACIG University	Dallas, TX	January 21-23
Best Practices	San Antonio, TX	February 21
ACIG Annual Meeting and Reporting Forums	San Antonio, TX	February 22
Vail Contractors Forum	Vail, CO	March 21-24
AZ Alliance Meeting	Scottsdale, AZ	March 28
Spring Safety/Claims Workshop	Dallas, TX	April 16-18
Fall Safety/Claims Workshop	Scottsdale, AZ	September 10-12
Risk Management Workshop	Washington, DC	October 24-26
In-House Legal Counsel Forum	Dallas, TX	October/November
Quality Peer Groups	Various	Various
Safety Peer Groups	Various	Various

Concluding Thoughts

ACIG was a trailblazer in the captive movement at its inception in 1981. The business model allows our members to earn financial benefits through underwriting profits and investment income on both their retained risk layer and our pooled risk layers. Since its beginning in 1981, ACIG has produced economic benefits for its members totaling \$1,042,762,000.

All the best,



President & CEO