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# ACIG *news*

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## Workers Compensation – The Great Trade-Off

This year marks the 100<sup>th</sup> anniversary of the workers compensation system in the United States. The states' workers compensation systems have evolved and expanded since the beginning.

Pirates of the 18<sup>th</sup> century and a 19<sup>th</sup> century German chancellor preceded the United States in creation of a social system to protect workers.

Pirates, aka privateers, proved to be highly organized and entrepreneurial. They were highly prized allies of the government plundering and sharing the spoils with colonies who provided them a safe port. Privateering was a hazardous occupation and because of the risk of impairment, a system was developed to compensate injured pirates. There was one catch to collect, you had to survive the wounds as there was no compensation for death.

Otto von Bismark, the "Iron Chancellor", introduced Workers Accident Insurance in 1881. England followed Germany's lead enacting its own Workers Compensation Act in 1897.

America did not join the workers compensation social revolution until the early 1900s. Four early adapters, Maryland, Massachusetts, Montana and New York, all introduced workers compensation statutes that were struck down under constitutional challenge as violating due process. On May 24, 1911, the New York Court of Appeals declared the state's workers compensation law unconstitutional. The next day, one hundred forty six (146) workers were killed in a fire at the Triangle Waist Co. The owners were tried for manslaughter and acquitted. A civil suit against the owners netted \$75 in damages for their surviving families.

Prior to the enactment of workers compensation laws, an employee's only source of compensation was through the courts. Employees had to prove the employer was negligent and had to overcome the employers' defenses.

- Assumption of Risk
- Contributory Negligence
- Fellow Worker Rule

The Great Trade-off, before any workers compensation plan could move forward, an agreement between labor and industry had to be reached; each had to give up something for the system to function. The employers agreed to pay medical bills and lost wages, regardless of fault; and the employees agreed to give up the right to sue. Wisconsin passed its workers compensation law in May 1911 and became the model used by many states.

Workers compensation laws have continued to evolve since their enactment, but these are the early beginnings of our state workers compensation laws.

## ACIG Financial Report June 30, 2011

ACIG's shareholders' equity increased to \$122,729,000, an all-time high (at June 30, 2011). We reported pre-tax income of \$21,326,000 for the six months ended June 30, 2011 before policyholder dividends and other related return premiums and fees of \$15,908,000. ACIG reported net income of \$3,755,000 for six months ended June 30, 2011.

## ACIG's Investment Portfolio

### Asset Allocation as of June 30, 2011

	Market Value as of 6/30/11	Percent of Total
<b>Insurance Reserves Portfolio</b>	<b>\$ 190,682,169</b>	<b>57.9%</b>
BlackRock	\$ 190,682,169	
<b>Capital Portfolio</b>	<b>\$ 138,417,260</b>	<b>42.1%</b>
<b>Equities</b>		
Dodge & Cox (U.S.)	\$ 3,869,838	1.2%
Dodge & Cox (International)	\$ 3,479,143	1.1%
Primecap	\$ 18,204,276	5.5%
Wellington Global Perspectives	\$ 12,070,114	3.7%
Calamos Global Growth & Income	\$ 8,581,228	2.6%
<b>Convertibles</b>		
Zazove	\$ 23,579,710	72.0%
Calamos Global Growth & Income	\$ 11,084,329	3.4%
<b>Fixed Income</b>		
Western-Absolute Return	\$ 14,455,810	4.4%
T. Rowe Price High Yield Fund	\$ 2,842,635	0.9%
Payden GNMA Fund	\$ 19,453,019	5.9%
Franklin Templeton Global Bonds	\$ 15,710,401	4.8%
<b>Real Assets</b>		
BlackRock TIPS	\$ 5,086,757	1.5%
<b>TOTAL INVESTMENTS</b>	<b>\$ 329,099,429</b>	<b>100%</b>
<b>Shareholders' Equity (as of 6/30/11)</b>	<b>\$ 122,729,000</b>	
<b>Common Stock as a % of Shareholders' Equity</b>		<b>37.6%</b>

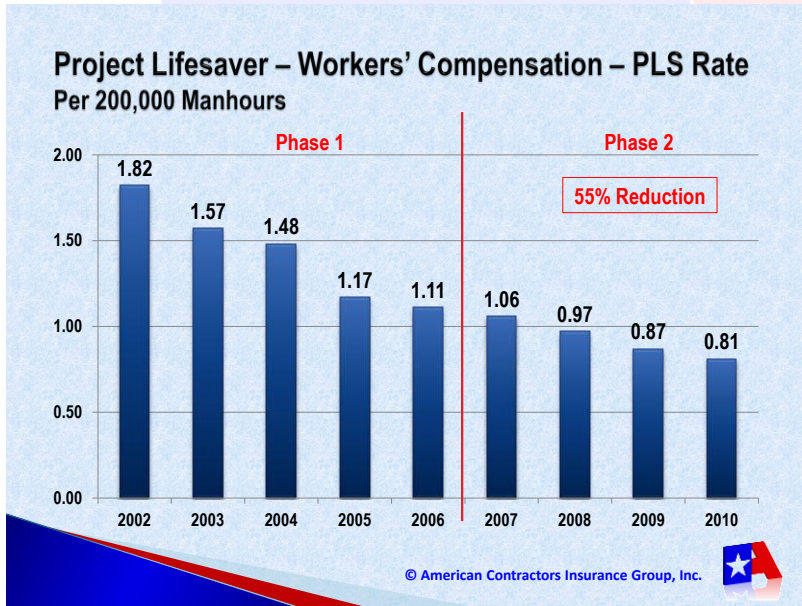
*“\$329,099,429  
in total investments”*

## Project Lifesaver Report

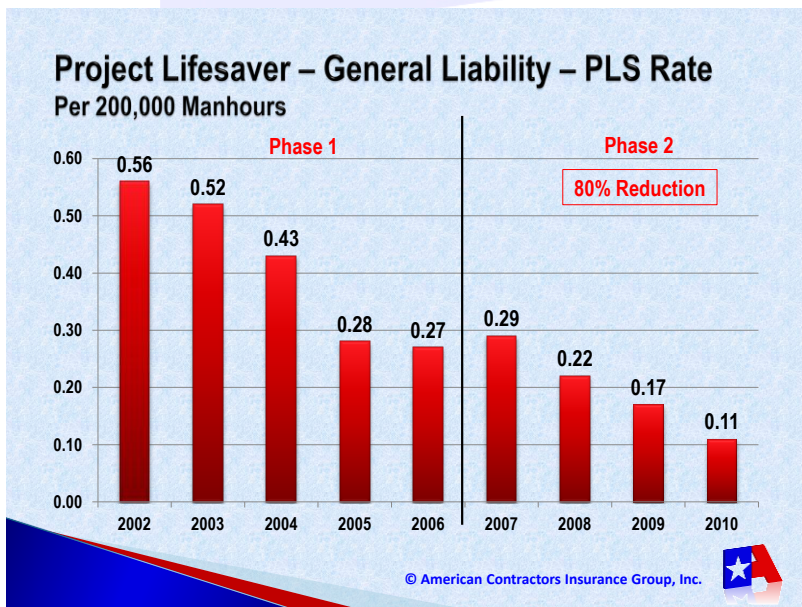
ACIG members continue to produce outstanding results in our Project Lifesaver Initiative. Over the eight (8) recent policy years, they have reduced their loss rates as follows:

Workers Compensation	55% improvement
General Liability	80% improvement
Auto Liability	66% improvement

The accompanying charts chronicle the improvements over time. These results are a testament to our members' safety culture that permeates their operations. To achieve meaningful reductions, we need to remain vigilant and strive for Zero Accidents.

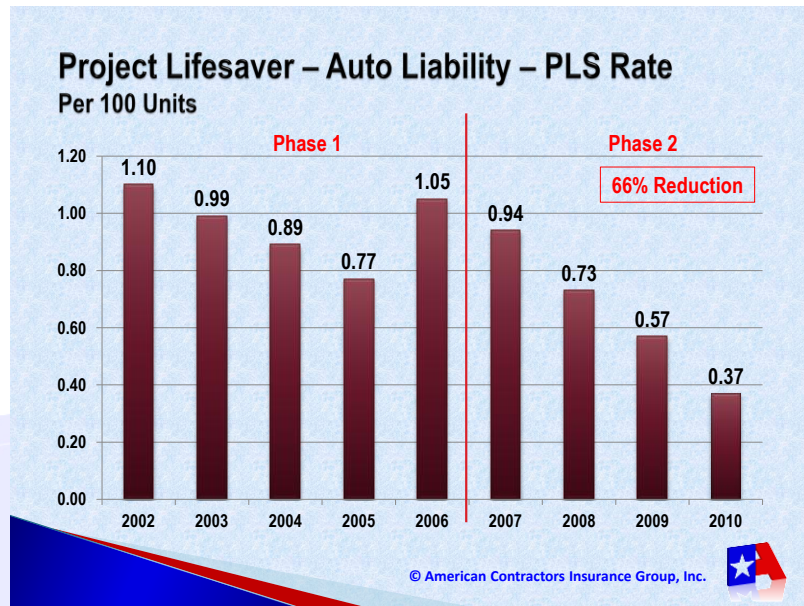


*"A 55% reduction in PLS Recordable Cases"*



*"General Liability loss rate has been reduced by 80%"*

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



## AZ Program Report

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

1. Subcontractor liability exclusions, limitations and related claims disputes.
2. States that did not allow any meaningful risk transfers due to anti-indemnity and insurance regulations.
3. Low limits of insurance maintained by first and second tier subcontractors.

*“AZ Premiums of \$160,533,460”*

All of these issues are still present in the current insurance market.

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 June 30, 2011, our six (6) AZ members have produced the following premiums.

Workers Compensation	\$28,193,051
Primary Liability	83,822,310
Umbrella/Excess Liability	48,518,099
<b>Total</b>	<b>\$160,533,460</b>

Included in this total is the premiums generated on five hundred sixty-six (566) CCIPs, with construction values exceeding \$7.3 billion.

The initial underwriting results and economic benefits are very positive; however, this book of business has a long tail and the overall results will not be known for several years.

We meet with the Program Underwriters every two (2) weeks to monitor the results and make any changes.

## SWAT Report

For the twelve (12) month period ended June 1, 2011, ACIG conducted nine (9) SWAT investigations. In all cases, ACIG was on site within 24 hours. These SWAT investigations are reviewed in the CEO thirty day call to discuss root cause, lessons learned and our strategy for mitigating the financial impact of the loss. Included in these SWAT investigations were two direct hire employee deaths.

## Medical Cost Containment

Medical costs are one of the key drivers leading to increased cost of workers compensation claims. ACIG engages CorVel and other vendors to review billed medical costs to review and reprice them in accordance with the various statutes.

We recently completed a medical cost containment audit to validate the cost savings.

Bills Processed	12,194
Original Medical Bills	\$8,658,895
Savings, Net of Costs	\$4,404,802
Percentage Savings	51%

## Loss Analysis Data

ACIG analyzed the information on one hundred two (102) losses to collect information about the injured employee, to identify the causal factors using a root cause analysis and to identify activities that contributed to the injury.

### A. Top Causal Factors

	<u>%</u>
Body Positioning	33%
Policy/Procedure Not Followed Correctly	17%
Slippery Surface	15%
Policy/Procedure Not in Place	12%
Instructions Not Provided	12%
Continuous Training Not Provided	<u>11%</u>
	100%

### B. Activity Hazard

	<u>%</u>
Working From Ladders or Scaffolds	24%
Motor Vehicle Accidents	23%
Access/Egress Equipment	19%
Working Near Mobile Equipment	18%
Working With Power Tools	<u>16%</u>
	100%

ACIG has prepared recommendations on all the category A and B items. They are included in the Project Lifesaver meeting binders.



## ACIG Welcomes Its Newest Member

**Sellen Construction Co., Inc.**, a Seattle based general building contractor and construction manager, became an ACIG shareholder on June 1, 2011. Sellen Construction Co., Inc. was founded in 1944 by John Sellen. They self-perform many of the critical-path and labor-intensive construction elements that set the pace for their subcontractors. Over its 67 year history, they have performed work for some of the leading Seattle project owners:

- Microsoft
- Seattle Art Museum
- Swedish Medical Center
- U.S. Bank
- Many hospital and healthcare projects.

## ACIG Member Unique Projects

### LNJV, a Joint Venture

Crystal Bridges Museum of American Art  
Bentonville, Arkansas



LNJV, a joint venture of Linbeck Group LP, Houston, TX, and Nabholz Construction Corporation, Conway, AR, is in the final stages of completing the Crystal Bridges Museum of American Art. Alice Walton, the daughter of Wal-Mart's founder, Sam Walton, is the philanthropist for the first major institution in 50 years dedicated to the vast spectrum of American art. The grand opening is scheduled for November 11, 2011.

The 201,000 square foot museum containing ten buildings was designed by Boston architect Moshe Safdie for a site around two ponds on 120 acres. The terrain is steep and rough, with a 120 foot drop in elevation from the construction trailers and batch plant to the site a half-mile away.

A pond system was designed to accommodate a 500 year storm, plus a safety factor, so the buildings would never flood. The intricate cable roof system employed Building Information Modeling (BIM) in the design and erection phases. Project personnel said, "Erecting the cable roofs is like piecing together a Swiss watch."

## ACIG Notes and Notables

Carl Heinlein received the American Society of Safety Engineers (ASSE's) Safety Professional of the Year Award for the Construction Practices Division. Congratulations to Carl for this prestigious award and recognition for his hard work and dedication to the safety profession.

American Contractors Insurance Group and Larry Owen have been acknowledged by the National Association of Home Builders Research Center for its contributions on the high performance scopes of work. These scopes highlight the impact each trade contractor's work has on the project and encourage working as a team to build a home that exceeds minimum code requirements.

Mike O'Neill will be presenting "Construction Risk Management" at the Associated General Contractor Advanced Management Program. This provides a great venue to stress the importance of risk management to a group of future leaders.



## ACIG Contractors in the News

**Cajun Industries, LLC** was named Company of the Year by the Baton Rouge Business Report.

**Jaynes Corporation** CEO Don Power was appointed to the New Mexico Partnership by Governor Susana Martinez.

**Graycor Services L.L.C.** celebrated its 90<sup>th</sup> anniversary with a reception at its new headquarters at Two Mid America Plaza, Oakbrook Terrace, Illinois.

**LeChase Construction Services, LLC** acquired J.F. Schultze Construction LLC located in Charlotte, North Carolina.

## Team Member Spotlight

Each quarter we feature one of our ACIG team members.

**Team Member:** James Shay

**Position at ACIG:** Risk Management Executive

**Years of Service:** 6.75 years

**Family Members:** Dana (wife), Andrew (18), Douglas (14), Madeleine (11)

**Pets:** Buddy our Cockapoo, Boo our Maltipoo, and Taylor and Miguel, our guinea pigs, who squeak when I come home from work.

**Hometown:** Fremont, California

**First Paying Job:** Mowing lawns for neighbors. I mowed a LOT of lawns.

**Dream Car:** Audi A8 L, which doesn't fit our budget or garage.

**Favorite Pastime:** Live music!

**Favorite Movies:** Gran Torino. Period.

**Most Recent Book Read:** The Balanced Scorecard.

**iPod Favorites/Favorite Songs:** Current favorite group is The Civil Wars.

**Dream Vacation:** A remote villa in Italy with absolutely, positively no internet connection or cell service.

**People at Your Fantasy Dinner:** Jesus, Medgar Evers, and my brother.

## ACIG Meetings and Workshops

Meeting	Location	Dates
Risk Management Workshop	Sea Island, GA	October 27-28, 2011
In-House Legal Counsel Forum	Dallas, TX	November 9, 2011
Quality Peer Groups	Varies	Varies
ACIG University	Dallas, TX	Jan. 31-Feb. 1, 2012
Best Practices	Scottsdale, AZ	February 23, 2012
Annual General Membership	Scottsdale, AZ	February 24, 2012
Vail Contractors Forum	Vail, CO	March 14-17, 2012
Safety/Claims Workshop	Charlotte, NC	April 10-12, 2012



## Concluding Thoughts

Root cause analysis is an approach for identifying the underlying cause of why an incident occurred so that the most effective solutions can be identified and implemented. Within an organization, problem solving, incident investigation and root cause analysis are all fundamentally connected by three basic questions:

- What's the problem?
- Why did it happen?
- What will be done to prevent it?

Since July, 2005, ACIG has conducted fifty-six (56) Root Cause training sessions with nine hundred twenty (920) attendees. ACIG's Rad Manning has done a tremendous job in educating our members on the mechanics and value of root cause analysis. He has recently developed an Advanced Root Cause 201 Program that will be available to our members.

*"Failure is not fatal, but failure to change might be."*

John Wooden, American Basketball Player and Coach  
Winner of ten NCAA Basketball National Championships in a  
12-year period – seven in a row.

All the best,



President

## Root Cause Analysis

