REPORT OF EXAMINATION
OF THE
AMERICAN CONTRACTORS INDEMNITY COMPANY
AS OF
DECEMBER 31, 2013

Dave Jones

Insurance Commissioner

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TABLE OF CONTENTS

PAGE

Los Angeles, California
May 5, 2015

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

AMERICAN CONTRACTORS INDEMNITY COMPANY

(hereinafter also referred to as the Company) at its home office located at 601 South Figueroa,16th Floor, Los Angeles, California 90017.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2013. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination was a coordinated examination in which Texas was the lead state and examiners from the states of California, Delaware, Indiana, Maryland, and Oklahoma participated, and was conducted concurrently with the examinations of other insurance entities in the holding company group as follows:

- Houston Casualty Company (Texas)
- U.S. Specialty Insurance Company (Texas)
- Perico Life Insurance Company (Delaware)
- HCC Life Insurance Company (Indiana)
- United States Surety Company (Maryland)
- HCC Specialty Insurance Company (Oklahoma)

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; accounts and records; and statutory deposits.

COMPANY HISTORY

On February 20, 2009, the California Department of Insurance (CDI) approved the Company's acquisition of 100% of the common stock of Surety Company of the Pacific (SCP), a California domestic insurance company. Effective March 1, 2009, the Company completed its purchase of SCP and merged it with the Company.

The SCP merger transaction was recorded using the statutory merger method. As a result, the Company's 2009 annual statement restated prior year's amounts as if the merger had occurred as of January 1, 2008.

On December 30, 2011, the CDI approved the Company's acquisition of 100% of the common stock of Pioneer General Insurance Company (PGIC), an affiliate and a Colorado insurance company. On December 31, 2011, the Company and PGIC were merged and the Company became the surviving entity.

The PGIC merger transaction was recorded using the statutory method. As a result, the Company's 2011 annual statement restated prior year's amounts as if the merger had occurred as of January 1, 2010.

Capitalization

The Company has 100,000 shares of $70 par value common stock authorized of which 30,000 shares are issued and 70,000 outstanding.

Dividends Paid to Parent

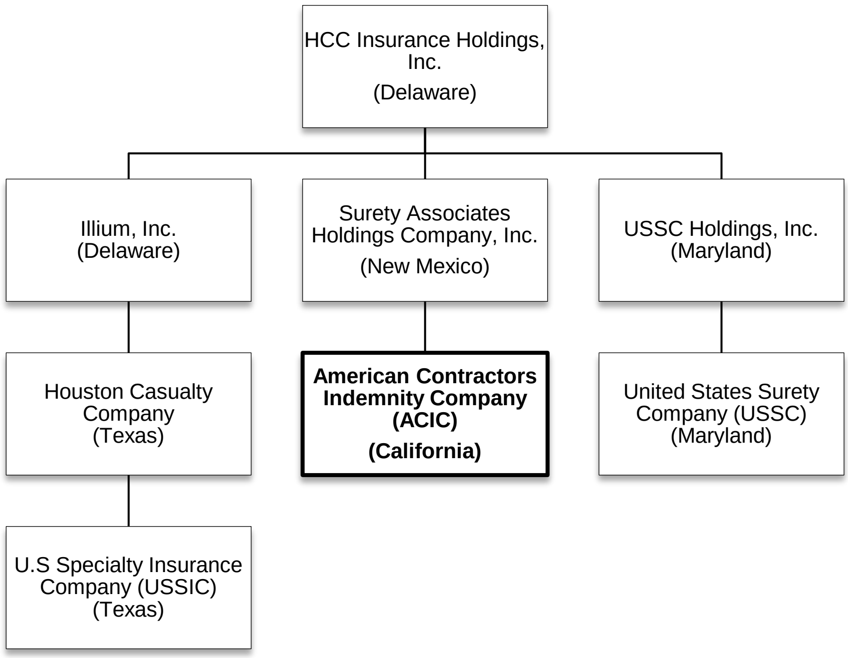
During the examination period, the Company paid cash dividends to its parent, Surety Associates Holding Company, Inc., as shown as in the followings:

Year	Amount
2010	$ 5,600,000
2011	26,000,000
2013	24,000,000*
Total	$ 55,600,000

* On January 19, 2012, the CDI approved the declaration of a $24 million extraordinary dividends paid on April 10, 2013.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent and its ultimate parent, depicts the Company's inter relationship within the holding company system as of December 31, 2013:



All ownership is 100% unless otherwise noted.

Management of the Company is vested in a four-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2013 follows:

Directors

Name and Location	Principal Business Affiliation
Peter W. Carman Ellicott City, Maryland	Senior Vice President and Chief Financial Officer American Contractors Indemnity Company
Brad T. Irick Houston, Texas	Executive Vice President and Chief Financial Officer HCC Insurance Holdings, Inc.
Adam S. Pessin Encino, California	President and Chief Executive Officer American Contractors Indemnity Company

Name and Location	Principal Business Affiliation
Randy D. Rinicella Houston, Texas	Senior Vice President, General Counsel, and Secretary HCC Insurance Holdings, Inc.

Principal Officers

Name	Title
Adam S. Pessin	President and Chief Executive Officer
Peter W. Carman	Chief Financial Officer
Kio Lo	Vice President and Assistant Secretary

Management Agreements

Intercompany Service and Cost Allocation Agreement: Effective January 31, 2004, the Company and its affiliates entered into an Intercompany Service and Cost Allocation Agreement with HCC Service Company, Ltd. (HCCSC). Pursuant to this Agreement, HCCSC provides personnel and administrative services. All costs incurred by HCCSC are allocated to members of the group. In 2009, 2010, 2011, 2012, and 2013 the Company paid $3.4 million, $4.6 million, $4.6 million, $5.4 million, and $4.2 million, respectively, in fees to HCCSC. The Agreement was approved by the California Department of Insurance (CDI) on March 19, 2004.

Tax Allocation Agreement: Effective January 31, 2004, HCC Insurance Holdings, Inc. (HCC) and its subsidiaries and affiliates, including the Company, entered into a Tax Allocation Agreement. Pursuant to this Agreement, HCC files consolidated federal income tax returns and pays estimated consolidated federal income taxes due. Each party pays HCC its estimated separate federal income tax liability. The intercompany tax balance is settled within 120 days subsequent to the filing of the consolidated return. The Agreement was approved by the CDI on April 30, 2004.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was licensed to transact surety insurance which consisted of contract bonds, bail bonds, court and commercial bonds, license and permit bonds, and custom bonds. Business is written in the District of Columbia, Guam, Northern Mariana Islands, and all states except Massachusetts, New Hampshire, North Carolina, and Vermont.

In 2013, the Company wrote $72.3 million of direct premiums. Of the direct premiums written, $45.4 million, or 62.8%, was written in California, $4.7 million, or 6.5%, in Washington and $22.2 million, or 30.7%, was written in the remaining states.

The business is produced through approximately 4,200 agents and brokers.

REINSURANCE

Assumed

None

Ceded

The following is a summary of the principal ceded reinsurance treaties as of December 31, 2013:

Affiliated

Type of Contract	**Reinsurer's Name**	**Company's Retention**	**Reinsurer's Aggregate Limits**
Surety per XOL Reinsurance 1st Excess of Loss	U.S. Specialty Insurance Company	$2 million per principal/group limit	$5 million per principal/group limit ($15 million in

			aggregate)
Surety per XOL Reinsurance 2nd Excess of Loss	U.S. Specialty Insurance Company	$7 million per principal/group limit	$8 million per principal/group limit ($24 million in aggregate)
Surety per XOL Reinsurance 3rd Excess of Loss	U.S. Specialty Insurance Company	$15 million per principal/group limit	$10 million per principal/group limit ($20 million in aggregate)
Surety per XOL Reinsurance 4th Excess of Loss	U.S. Specialty Insurance Company	$25 million per principal/group limit	$25 million per principal/group limit ($50 million in aggregate)

The California Department of Insurance approved the above reinsurance agreement on August 7, 2013 with the effective date of May 1, 2013.

Nonaffiliated

Type of Contract	**Reinsurer's Name**	**Company's Retention**	**Reinsurer's Aggregate Limits**
XOL Surety per Principal 1st Excess of Loss	AXIS Reinsurance Company – 11% Everest Reinsurance Company – 4% Hannover Ruck SE – 45% R+V Versicherung A.G. – 22.5% SCOR Reinsurance Company – 2.5% Transatlantic Reinsurance Company – 5%	$2 million per principal/group limit	$5 million per principal/group limit ($15 million in aggregate)
XOL Surety per Principal 2nd Excess of Loss	AXIS Reinsurance Company – 12.5% Everest Reinsurance Company – 5% Hannover Ruck SE – 48% R+V Versicherung A.G. – 26.5% SCOR Reinsurance Company – 3% Transatlantic Reinsurance Company – 5%	$7 million per principal/group limit	$8 million per principal/group limit ($24 million in aggregate)
XOL Surety per Principal 3rd Excess of Loss	AXIS Reinsurance Company – 15% Everest Reinsurance Company – 4% Hannover Ruek SE – 47.5%	$15 million per principal/group limit	$10 million per principal/group limit ($30 million in aggregate)

	R+V Versicherung A.G. – 20% SCOR Reinsurance Company – 3% Transatlantic Reinsurance Company – 10.5%		
XOL Surety per Principal 4th Excess of Loss	AXIS Reinsurance Company – 15% Everest Reinsurance Company – 5% Hannover Ruck SE – 25% R+V Versicherung A.G. – 26.75% SCOR Reinsurance Company – 8.25% Transatlantic Reinsurance Company – 20%	$25 million per principal/group limit	$25 million per principal/group limit ($50 million in aggregate)
Surety Quota Share	Munich Reinsurance America, Inc. – 27.5% for Indemco Munich Reinsurance America, Inc. – 20% for Large Commercial		Indemco: $20 million per bond $30 million aggregate per principal Large Commercial: $30 million per bond/principal/group $50 million per bond/principal/group for principal/group with at least BBB- Moody's rating
Surety Quota Share	Partner Reinsurance Company of the U.S. 12.5%		$20 million per bond $30 million aggregate per principal $75 million aggregate per principal gross of any collateral

The above non-affiliated contracts were placed through AON Benfield reinsurance brokers, a licensed intermediary, except for the Munich Reinsurance America, Inc. Quota Share treaty which was placed directly with the reinsurer.

The Company also participates in the Surety Bond Guaranty Program, which is administered by the U. S. Small Business Administration (SBA). The SBA guarantees bonds for contracts up to $6.5 million, covering bid, performance and payment bonds for small and emerging contractors who cannot obtain surety bonds through regular commercial channels. Under the program, the SBA guarantees loss reimbursement to participating surety companies of between 70% to 90% of the incurred losses for surety bonds that issued through this program.

The Surety Bond Guaranty program is governed by the Code of Federal Regulation – Title 13.

The total reinsurance recoverable as of December 31, 2013 was $7.0 million and approximately $5.7 million was from the SBA.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2013

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2013

Statement of Financial Condition
as of December 31, 2013

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 305,822,816	$	$ 305,822,816	
Mortgage loans on real estate: First liens	18,972		18,972	
Real estate: Properties held for sale	1,922,499		1,922,499	
Cash, cash equivalents and short-term investments	15,218,417		15,218,417	
Investment income due and accrued	3,089,692		3,089,692	
Uncollected premiums and agents' balance in course of collection	3,699,689	1,027,504	2,672,185	
Amounts recoverable from reinsurers	787,909		787,909	
Net deferred tax asset	7,500,897	2,312,609	5,188,288	
Electronic data processing equipment and software	621,402	540,503	80,899	
Furniture and equipment, including health care delivery assets	394,740	394,740	0	
Receivables from parent, subsidiaries and affiliates	328,890		328,890	
Aggregate write-ins for other than invested assets	628,776	516,020	112,756	
Total assets	$ 340,034,699	4,791,376	$ 335,243,323	
Liabilities, Surplus and Other Funds				
Losses			$ 27,374,386	(1)
Loss adjustment expenses			12,602,923	
Commissions payable, contingent commissions and other similar charges			746,933	(1)
Other expenses			4,028,266	
Taxes, licenses and fees			383,289	
Current federal income taxes			3,848,205	
Unearned premiums			38,324,334	
Advance premiums			1,015,909	
Ceded reinsurance premiums payable			178,434	
Amounts withheld or retained by company for account of others			152,780,128	
Provision for reinsurance			5,345	
Payable to parent, subsidiaries and affiliates			3,512,650	
Payable for securities			562,040	
Aggregate write-ins for liabilities			281,693	
Total liabilities			245,644,535	
Common capital stock		$ 2,100,000		
Gross paid-in and contributed surplus		28,590,366		
Unassigned funds (surplus)		58,908,422		
Surplus as regards policyholders			89,598,788	
Total liabilities, surplus and other funds			$ 335,243,323	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2013

Statement of Income

Underwriting Income		
Premiums earned		$ 71,633,782
Deductions:		
Losses incurred	$ (2,237,515)	
Loss adjustment expenses incurred	11,250,566	
Other underwriting expenses incurred	43,886,451	
Total underwriting deductions		52,899,502
Net underwriting gain		18,734,280
Investment Income		
Net investment income earned	$ 9,776,964	
Net realized capital gain	1,052,733	
Net investment gain		10,829,697
Other Income		
Net loss from agents' or premium balances charged off	(459,337)	
Finance and service charges not included in premiums	35,293,763	
Aggregate write-ins for miscellaneous income	(34,202,552)	
Total other income		631,874
Net income before federal income taxes		30,195,851
Federal income taxes incurred		7,204,762
Net income		$ 22,991,089

Capital and Surplus Account

Surplus as regards policyholders December 31, 2012		$ 91,272,968
Net income	$ 22,991,089	
Change in net unrealized capital losses	(73,028)	
Change in net deferred income tax	(841,596)	
Change in nonadmitted assets	(234,147)	
Change in provision for reinsurance	(2,062)	
Surplus adjustments:		
Paid-in	153,009	
Dividend to Stockholders	(24,000,000)	
Aggregate write-ins for gains in surplus	332,555	
Change in surplus as regards policyholders for the year		(1,674,180)
Surplus as regards policyholders, December 31, 2013		$ 89,598,788

Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2013

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2008 per Examination			$ 61,492,804
Net income	$ 86,491,013	$	
Net unrealized capital Losses		(73,028)	
Change in net deferred income tax		(1,207,454)	
Change in nonadmitted assets	3,053,242		
Change in provision for reinsurance	24,344		
Capital Changes:			
Transferred from Surplus		(1,000,000)	
Transferred to Surplus		(1,000,020)	
Surplus adjustments:			
Paid-in	1,139,526		
Transferred from Capital	2,000,020		
Surplus from merger	3,456,787		
Dividends to stockholders		(55,600,000)	
Aggregate write-ins for gains and losses in surplus		(9,178,446)	
Total gains and losses	$ 96,164,932	$ (68,058,948)	
Net increase in surplus as regards policyholders			28,105,984
Surplus as regards policyholders, December 31, 2013, per Examination			$ 89,598,788

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

As Texas was the lead state the California Department of Insurance (CDI) relied on the Texas Department of Insurance (TDI) Actuary to evaluate the loss and loss adjustment expense reserves as of December 31, 2013. In addition, a Senior Casualty Actuary from the CDI reviewed the work of the TDI Actuary, and performed additional analysis as deemed appropriate. Based on the evaluation and analysis performed by the Actuaries, the Company's reserves as of December 31, 2013 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGEMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

Millie Cao, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California