REPORT OF EXAMINATION
OF THE
AMERICAN CONTRACTORS INDEMNITY COMPANY
AS OF
DECEMBER 31, 2018

Filed on June 29, 2020

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Los Angeles, California
June 29, 2020

Honorable Ricardo Lara
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 801 South Figueroa Street, Los Angeles, California 90017.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2013. This examination covered the period from January 1, 2014 through December 31, 2018.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting

Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This was a coordinated examination with Texas as the lead state of the Tokio Marine HCC Holdings Subgroup (TMHCC) of Tokio Marine Holding, Inc. It was conducted concurrently with other insurance entities in the holding company group, including the Company, HCC Life Insurance Company, Avemco Insurance Company, United States Surety Company, and HCC Specialty Insurance Company. The following states participated on the examination: California, Indiana, Maryland, and Ohio.

COMPANY HISTORY

In October 2015, the Company was acquired by Tokio Marine Holdings, Inc. (TMH), a Japan-based insurance holding company, through TMH's acquisition of HCC Insurance Holdings, Inc., its former ultimate parent.

Capitalization

On December 27, 2017, the board of directors approved the issuance of 6,000 shares of common stock at par value, which increased the Company's common capital stock from $2.1 million to $2.5 million. The issuance was funded by the Company's unassigned surplus. As of December 31, 2018, the Company has 100,000 shares authorized of $70 par value common stock, of which 36,000 shares issued.

Dividends

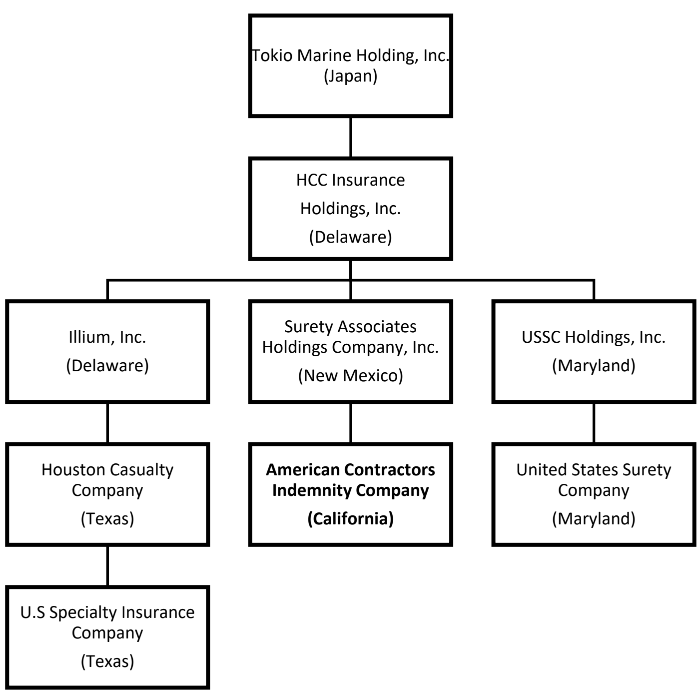
During the examination period, the Company paid ordinary cash dividends to its parent, Surety Associates Holding Company, Inc., as shown as in the following:

Year	Amount
2014	$19,000,000
2016	$15,400,000
2018	$13,700,000
Total	$48,100,000

Subsequently, on June 26, 2019, the Company paid an ordinary cash dividend to its parent of $12.6 million.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Tokio Marine Holdings, Inc. (Tokio Marine) is the ultimate controlling entity. Tokio Marine is incorporated in Japan. Following is an abridged organizational chart (all ownership is 100%):



The four members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2018:

Directors

Name and Location	Principal Business Affiliation
Peter W. Carman [(a)] Ellicott City, Maryland	Senior Vice President and Chief Financial Officer American Contractors Indemnity Company
Brad T. Irick [(b)] 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
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
Alexander M. Ludlow	Vice President and Secretary
Peter W. Carman [(a)]	Senior Vice President and Chief Financial Officer

The following changes in management occurred subsequent to the examination date:

[(a)] On April 26, 2019, Peter W. Carman was replaced by Kio Lo on the Company's board of directors. Ms. Lo also assumed the role of Senior Vice President and Chief Financial Officer at the same time.

[(b)] On October 1, 2019, Brad T. Irick was replaced by Sharon Brock on the Company's board of directors as Executive Vice President. Also, the Company increased its number of directors from four (4) to five (5), and Thomas E. Weist was appointed and elected to the office of Executive Vice President of the Company.

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report, both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Commissioner, and enter that fact in the board minutes. A review of the board minutes did not disclose that the officially filed 2013 examination report nor the first formally prepared draft report by the examiners were presented to the Board. It is recommended that the Company comply with CIC Section 735.

CIC Section 1201 states that the Company's board of directors is required to authorize and approve its investment securities. A review of the minutes failed to document the authorization and approval of its investment securities, which is not in compliance with CIC Sections 1201. It is recommended that the Company comply with CIC Sections 1201.

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 based on an equitable basis. In 2014, 2015, 2016, 2017, and 2018, the Company paid HCCSC fees in the amount of $4.3 million, $4.5 million, $4.1 million, $3.9 million, and $4.1 million, respectively. 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. In 2014, 2015, 2016, 2017, and 2018, the Company paid or (recovered) federal income taxes in the amount of $6.0 million, $8.8 million, $8.4 million, $1.1 million, and $5.1 million, respectively. The Agreement was approved by the CDI on April 30, 2004.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, 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. The Company is licensed to write business in the District of Columbia, Guam, Northern Mariana Islands, and all states except Massachusetts, New Hampshire, North Carolina, and Vermont.

In 2018, the Company wrote $62.5 million of direct premiums. Of the direct premiums written, $35.6 million (56.9%) was written in California, $3.6 million (5.7%) in Washington, and $3.1million (5.0%) in Texas. The business is produced through approximately 3,900 agents and brokers.

In 2018, the Company wrote $4.5 million of bail premiums. On April 9, 2019, the Company announced it is exiting the bail bond business through the sale of its bail bond operations.

REINSURANCE

Assumed

None.

Ceded

The following is a summary of the principal ceded reinsurance treaties as of December 31, 2018:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Affiliated:			
Surety per XOL Reinsurance 1st excess of loss	U.S. Specialty Insurance Company (Authorized)	$2.5 million per principal/group limit	$22.5 million per principal/group limit ($67.5 million in aggregate)
Surety per XOL Reinsurance 2nd excess of loss	U.S. Specialty Insurance Company (Authorized)	$25.0 million per principal/group limit	$50.0 million per principal/group limit ($100.0 million in aggregate)
Surety Quota Share	Houston Casualty Company (Authorized)	30.0% of the Company's net liability	70.0% of the Company's net liability
Non-Affiliated:			
XOL Surety per Principal 1st excess of loss	40% Hannover Ruck Se 22.5% R+V Versicherung A.G. 12.5% Axis Reinsurance Company 10% Munich Reinsurance America, Inc. (All Authorized)	$2.5 million plus 15.0% of $22.5 million in excess of $2.5 million per principal/group limit	85.0% of $22.5 million in excess of $2.5 million per principal/group limit ($67.5 million in aggregate)
XOL Surety per Principal 2nd excess of loss	40% Hannover Ruck Se 30% R+V Versicherung A.G. 15% Axis Reinsurance Company 10% Munich Reinsurance America, Inc. 5% Partner Reinsurance Company of the U.S. (All Authorized)	$25.0 million per principal/group limit	$50.0 million per principal/group limit ($100.0 million in aggregate)

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 80.0% to 90.0% 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, 2018 was $68.0 million, and approximately $25.8 million was from the SBA.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2018

Underwriting and Investment Exhibit for the Year Ended December 31, 2018

Reconciliation of Surplus as Regards Policyholders from December 31, 2013 through December 31, 2018

Statement of Financial Condition
as of December 31, 2018

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 344,563,572	$	$ 344,563,572	
Cash, cash equivalents, and short-term investments	10,807,797		10,807,797	
Investment income due and accrued	3,525,186		3,525,186	
Uncollected premiums and agents' balances in the course of collection	3,269,216	563,930	2,705,286	
Amounts recoverable from reinsurers	2,075,143		2,075,143	
Net deferred tax asset	3,670,916	1,421,846	2,249,070	
Electronic data processing equipment and software	433,603	409,713	23,890	
Furniture and equipment	689,608	689,608	0	
Receivables from parent, subsidiaries and affiliates	1,887,081		1,887,081	
Aggregate write-ins for other than invested assets	336,800	277,643	59,157	
Total assets	$ 371,258,922	$ 3,362,741	$ 367,896,181	

Liabilities, Surplus, and Other Funds			Notes
Losses		$ 6,228,451	(1)
Loss adjustment expenses		9,611,560	(1)
Commissions payable, contingent commissions and other similar charges		1,322,625	
Other expenses		5,392,189	
Taxes, licenses, and fees		383,300	
Current federal and foreign income taxes		778,850	
Unearned premiums		10,378,636	
Advance premiums		1,003,214	
Ceded reinsurance premiums payable		1,133,811	
Amounts withheld or retained by company for account of others		190,055,656	
Provision for reinsurance		6,004	
Payable for parent, subsidiaries and affiliates		11,671,682	
Aggregate write-ins for liabilities		3,470,602	
Total liabilities		241,436,579	
Common capital stock	$ 2,520,000		
Gross paid-in and contributed surplus	32,063,473		
Unassigned funds (surplus)	91,876,130		
Surplus as regards policyholders		126,459,602	
Total liabilities, surplus, and other funds		$ 367,896,181	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2018

State of Income

Underwriting Income		
Premium earned		$ 17,728,077
Deductions:		
Losses incurred	$ (2,986,896)	
Loss adjustment expenses incurred	7,616,924	
Other underwriting expenses incurred	10,582,491	
Total underwriting deductions		15,212,519
Net underwriting gain		2,515,559
Investment Income		
Net investment income earned	$ 10,113,782	
Net realized capital losses	(902,835)	
Net investment gain		9,210,947
Other Income		
Net loss from agents' or premium balances charged off	$ (71,024)	
Finance and service charges not included in premiums	56,831,694	
Aggregate write-ins for miscellaneous income	(55,242,457)	
Total other income		1,518,212
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		13,244,718
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		13,244,718
Federal and foreign income taxes incurred		2,033,819
Net income		$ 11,210,899

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2017		$ 128,552,342
Net income	$ 11,210,899	
Change in net deferred income tax	(39,362)	
Change in nonadmitted assets	435,259	
Change in provision for reinsurance	465	
Dividends to stockholders	(13,700,000)	
Change in surplus as regards policyholders for the year		(2,092,740)
Surplus as regards policyholders, December 31, 2018		$ 126,459,602

Reconciliation of Surplus as Regards Policyholders
from December 31, 2013 through December 31, 2018

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2013			$ 89,598,788
Net income	$ 83,777,361	$	
Change in net unrealized capital gains	73,028		
Change in net deferred income tax		3,790,658	
Change in nonadmitted assets	1,428,637		
Change in provision for reinsurance		659	
Capital change: Paid-in	420,000		
Surplus adjustment: Paid-in	3,473,107		
Dividend to stockholders		48,100,000	
Aggregate write-ins for gains and losses in surplus		420,000	
Total gains and losses	$ 89,172,133	$ 52,311,317	
Net increase in surplus as regards policyholders			36,860,816
Surplus as regards policyholders, December 31, 2018			$ 126,459,602

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, 2018. Based on the analysis performed by the TDI Actuary and the review of their work by a Casualty Actuary from the CDI, the Company's December 31, 2018 reserves for losses and loss adjustment expenses were determined to be within a reasonable range of estimates, and have been accepted for the purpose of this examination.

SUBSEQUENT EVENTS

On March 11, 2020, The World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, the United States President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for the United States products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the United States and global insurance and reinsurance industry is still unknown at the time of releasing this report. The California Department of Insurance (CDI) is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The CDI and all insurance regulators, with the assistance of the National Association of Insurance Commissioners are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on United States insurers. The CDI has been in communication with the Company regarding the impact of COVID-19 on its business operations and the financial position. It is too early to determine material operational, solvency, or liquidity concerns to the Company's operational and solvency position as a result of COVID-19.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control (Page 3): It is recommended that the Company comply with California Insurance Code Section 735 and Section 1201.

Previous Report of Examination

None.

ACKNOWLEDGMENT

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

Respectfully submitted,

/S/

Ralph Oseguera, AFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

/S/

Sayaka Dillon, CFE
Senior Insurance Examiner, Supervisor
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