REPORT OF EXAMINATION

OF THE

AMERICAN CONTRACTORS INDEMNITY COMPANY

AS OF

DECEMBER 31, 2023

Insurance Commissioner

Filed on June 19, 2025

TABLE OF CONTENTS

Los Angeles, California
May 19, 2025

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). The Company's statutory home office and primary location of its books and records is 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, 2018. This examination covered the period from January 1, 2019 through December 31, 2023.

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 serving as the lead state of Tokio Marine HCC Holdings Subgroup (TMHCC) of Tokio Marine Holdings, Inc. It was conducted concurrently with other insurance entities in the holding company group, including:

Tokio Marine HCC Holdings Subgroup

Company Name	**CoCode**	**Domiciled State**
American Contractors Indemnity Company	10216	California
HCC Life Insurance Company	92711	Indiana
Avemco Insurance Company	10367	Maryland
United States Surety Company	10656	Maryland
Tokio Marine GRV Re Inc	11243	Oklahoma
Houston Casualty Company	42374	Texas
Producers Agriculture Insurance Company	34312	Texas
Producers Lloyds Insurance Company	33170	Texas
US Specialty Insurance Company	29599	Texas

COMPANY HISTORY

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

Capitalization

The Company is authorized to issue 100,000 shares of common stock with a par value of $70 per share. As of December 31, 2023, there were 36,000 shares issued and outstanding.

Dividends

During the examination period, the Company distributed various cash dividends to its immediate parent, Surety Associates Holding Company, Inc., including an extraordinary dividend of $12.1 million in 2022. Ordinary dividends were distributed in 2019, 2020, 2021, and 2023, as detailed in the schedule below.

The dividend distributions during the examination period are summarized in the following table:

Year	Amount
2019	$12,600,000
2020	$14,441,686
2021	$12,400,000
2022	$12,100,000*
2023	$13,700,000

*The 2022 dividend is considered extraordinary due to its timing, as it was declared within a rolling 12-month period since the Company's last dividend payment. The California Department of Insurance (CDI) approved this extraordinary dividend on May 31, 2022.

MANAGEMENT AND CONTROL

The Company is wholly-owned by Surety Associates Holding Company, Inc., which, in turn, is a wholly-owned subsidiary of HCC Insurance Holdings, Inc. (HCC). The ultimate parent company is Tokio Marine Holdings, Inc. (TMH), a Japan-based publicly traded insurance holding company. The following abridged organizational bulleted list shows the interrelationship of the companies within the holding company system as of December 31, 2023. All companies are 100% owned within the structure.

- Tokio Marine Holdings, Inc., Japan
  - Tokio Marine & Nichido Fire Insurance Company, Limited., Japan
    - Tokio Marine North America, Inc., Delaware
      - Tokio Marine GRV Re, Inc., Oklahoma
    - HCC Insurance Holdings, Inc., Delaware
      - Illium, Inc., Delaware
        - Houston Casualty Company, Texas
          - U.S. Specialty Insurance Company, Texas
          - HCC Life Insurance Company, Indiana
          - Tokio Marine HCC Mexico Compania Afianzadora, S.A. de C.V., Mexico
        - Avemco Insurance Company, Maryland
      - HCC Service Company, Inc., Delaware
      - Surety Associates Holding Company, Inc., New Mexico
        - American Contractors Indemnity Company, California
      - USSC Holdings, Inc., Maryland
        - United States Surety Company, Maryland
      - Brooklyn Ventures, Inc., Delaware
        - Brooklyn Ventures, LLC, Missouri
      - Produceres Ag Insurance Group, Inc., Delaware
        - Pro Ag Management, Inc., Illinois
          - Producers Agriculture Insurance Company, Texas
            - Producers Lloyds Insurance Company, Texas

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, 2023:

Directors

Name and Location	Principal Business Affiliation
Kio Lo Monterey Park, California	Senior Vice President, Chief Financial Officer, and Assistant Secretary American Contractors Indemnity Company
Adam S. Pessin Encino, California	President and Chief Executive Officer American Contractors Indemnity Company
Randy D. Rinicella Houston, Texas	Executive Vice President and Chief Legal Officer HCC Service Company, Inc.
Thomas E. Weist Houston, Texas	Executive Vice President and Chief Financial Officer HCC Service Company, Inc.

Principal Officers

Name	Title
Adam S. Pessin	President and Chief Executive Officer
Kio Lo	Senior Vice President, Chief Financial Officer, and Assistant Secretary
Alexander M. Ludlow	Vice President and Secretary

Management Agreements

Financial and Statutory Accounting Tax Allocation Agreement: Effective January 31, 2004, the Company entered into a Tax Allocation Agreement (Tax Agreement) with HCC Insurance Holdings, Inc. (HCC), its intermediate holding company, and other affiliates and subsidiaries. Under the terms of this agreement, participants in the group file a consolidated federal income tax return. HCC is responsible for filing the return and making federal income tax payments on behalf of all participants. Allocation of taxes is based on separate return calculations, with the tax balance payable or receivable settled in amounts as if separate returns were filed. Tax payments or credits are settled no later than 30 days after the filing date of the consolidated tax return. The California Department of Insurance (CDI) approved this Tax Agreement on April 30, 2004. During the examination period, the Company paid federal income taxes totaling $2.71 million, $0.75 million, $3.09 million, $2.97 million, and $3.82 million for 2019, 2020, 2021, 2022, and 2023, respectively.

On December 4, 2023, the Company filed an Amended and Revised Financial and Statutory Accounting Tax Allocation Agreement (Amended Tax Agreement) to incorporate provisions required by the U.S. Internal Revenue Service (IRS) for compliance with the Base Erosion and Anti-Abuse Tax (BEAT) and Corporate Alternative Minimum Tax (CAMT). The Amended Tax Agreement took effect on January 31, 2024. The CDI approved the Amended Tax Agreement on March 25, 2024.

Intercompany Service and Cost Allocation Agreement: Effective January 31. 2004, the Company entered into an Intercompany Service and Cost Allocation Agreement (Agreement) with HCC Service Company, Inc. (HCCSC), a Texas limited partnership, and other subsidiaries of HCC group. Under the terms of 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 and settled monthly. The CDI approved this Agreement on March 19, 2004.

During the examination period, the Company paid HCCSC management fees totaling $3.9 million, $4.4 million, $4.4 million, $4.1 million, and $4.7 million for 2019, 2020, 2021, 2022, and 2023, respectively.

Limited Agency Agreement: Effective June 18, 2014, the Company entered into a Limited Agency Agreement (Agency Agreement) with Brooklyn Ventures LLC (BV LLC), which became an affiliate on August 1, 2014. Under the terms of this agreement, BV LLC acts as the Company's agent and is responsible for marketing, issuing bonds, collecting premiums, and handling claims. As compensation for its services, BV LLC receives a tiered commission structure for contract surety: 30% on the first $2.5 million of bond penalty, 15% on the next $2.5 million, and 10% on any amount over $5 million. For court surety, BV LLC receives a 20% commission on judicial and fiduciary bonds. For commercial surety, the commission is 50% on license, permit, and miscellaneous bonds. All premiums collected by BV LLC are held in a fiduciary capacity and must be paid to the Company within 30 days of collection. Failure to collect or remit premiums within this timeframe results in the forfeiture of the corresponding commission on those premiums. Effective June 1, 2019, the Agency Agreement was amended to restate the commission schedule. The CDI approved the amended Agency Agreement on May 21, 2019.

During the examination period, the Company paid BV LLC commission fees totaling $1.2 million, $1.6 million, $2.2 million, $2.6 million, and $2.9 million for 2019, 2020, 2021, 2022, and 2023, respectively.

Intercompany Service Agreement: Effective March 22, 2022, the Company entered into an Intercompany Service Agreement (Service Agreement) with Tokio Marine HCC Mexico Compania Afianzadora, S.A. de C.V. (TMHM), its affiliate. Under the terms of this agreement, the Company provides TMHM with various services, including accounting and financial reporting, executive operational services, insurance management, reinsurance, IT services, and strategic planning. Management fees for these services are based on actual costs, with TMHM reimbursing the Company on a monthly basis for all expenses incurred. If any invoice remains unpaid 30 days after receipt, the Company charges a 10% interest on the outstanding balance. The CDI approved this Agency Agreement on March 21, 2022. During the examination period, the Company received management fees under the terms of this Service Agreement totaling approximately $300,000 in 2022 and

$400,000 in 2023.

On November 27, 2024, the Company filed a new Intercompany Reserve Pooling Service Agreement (Service Agreement) with the California Department of Insurance (CDI). Pursuant to California Insurance Code (CIC) Section 1215.5(b)(4), the Company sought CDI's approval to enter into the Service Agreement with its affiliates: U.S. Specialty Insurance Company (USSIC), a Texas insurer; Houston Casualty Company (HCC), a Texas insurer; United States Surety Company (USSC), a Maryland insurer; and Avemco Insurance Company (AIC), a Maryland insurer, with an effective date of December 31, 2024. Under the Service Agreement, HCC provides personnel, management, and administrative services to the Company and its affiliates. For compensation, the Company pays HCC a fixed administrative fee of $1,000 per month as an approximation of actual incurred costs. An expense true-up will be calculated and settled annually to reconcile the fixed fee with actual costs. Additionally, indirect and shared expenses shall be allocated in conformity with the Statements of Statutory Accounting Principles (SSAP) No. 70. The CDI approved the Service Agreement on December 27, 2024.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2023, the Company was licensed to transact property and casualty insurance business in 46 states, the District of Columbia, Guam, and the Northern Mariana Islands. The Company operates as a mono-line underwriter specializing in surety bonds, including court, specialty contracts, license and permit, and other miscellaneous bonds.

In 2023, the Company wrote $75.4 million in direct premiums, with $50.9 million (67.5%) generated in California, $3.7 million (4.9%) in Texas, and $2.8 million (3.8%) in Washington. A majority of its business is produced through small independent agents. In addition, the Company is listed with the United States Department of Treasury and authorized to write surety bonds for federal projects.

REINSURANCE

Intercompany Pooling Reinsurance Agreement

On November 27, 2024, the Company filed a new Intercompany Pooling Reinsurance Agreement (Pooling Agreement) with the California Department of Insurance (CDI). Pursuant to California Insurance Code (CIC) Section 1215.5(b)(3), the Company sought CDI's approval to enter into the Pooling Agreement with its affiliates: U.S. Specialty Insurance Company (USSIC), a Texas insurer; Houston Casualty Company (HCC), a Texas insurer; United States Surety Company (USSC), a Maryland insurer; and Avemco Insurance Company (AIC), a Maryland insurer, with an effective date of December 31, 2024. The Pooling Agreement includes all lines of business except Livestock Risk Protection and business sourced from Houston Casualty London Branch, which currently includes Marine, Energy, Property Treaty, Property Direct & Facultative, and Accident and Health. HCC will serve as the reinsurer. Ceding will occur on a net basis and be allocated among affiliates at the following fixed percentages: HCC (44.6%), USSIC (43.5%), ACIC (6.6%), AIC (2.8%), and USSC (2.5%).

The Company was a party to a Surety Quota Share Reinsurance Agreement with HCC, effective July 1, 2015. Under the terms of this agreement, the Company ceded 70% of its net surety liability to HCC and retained 30%. In return, HCC paid the Company a 65% ceding commission on the ceded premium. As part of the implementation of the Intercompany Pooling Reinsurance Agreement, HCC terminated the Surety Quota Share Reinsurance Agreement with the Company, effective December 31, 2024. The CDI approved the Pooling Agreement on December 27, 2024.

Assumed

Effective July 1, 2020, the Company entered into a facultative reinsurance agreement with Allegheny Casualty Company (ACC), a non-affiliated surety company. Under the terms of this agreement, the Company assumes 100% of all business covered under the contract and provides reinsurance coverage up to $1,000,000 per single bond. In exchange, the Company pays ACC a 20% ceding commission on the net written premium ceded under the agreement.

Ceded

The following summarizes the principal ceded reinsurance treaties as of December 31, 2023:

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 million per principal/group limit	$50 million per principal/group limit ($100 million in aggregate)
Surety per XOL Reinsurance 3rd Excess of Loss	U.S. Specialty Insurance Company (Authorized)	$75 million per principal/group limit	$90 million per principal/group limit ($30 million in aggregate)
Surety Quota Share	Houston Casualty Company (Authorized)	30% of the Company's net liability	70% of the Company's net liability
Non-Affiliated:			
XOL Surety per Principal 1st Excess of Loss	35.00% Hannover Ruck Se 12.00% R+V Versicherung A.G. 9.00% Axis Reinsurance Company 10.00% Munich Reinsurance America, Inc. 7.25% Partner Reinsurance Company of the U.S. 11.25% Lloyd's Syndicate 4472 2.50% Helvetia Schweizerische Versicherungsgesellschaft 2.00% Navigators Insurance Company 0.82% Lloyd's Syndicate 2623 c/o Beazley U.S.A. Services Inc. 0.18% Lloyd's Syndicate 0623 c/o Beazley U.S.A. Services Inc. (Authorized & Certified)	$2.5 million plus 10% of $22.5 million in excess of $2.5 million per principal /group limit	90% of $22.5 million in excess of $2.5 million per principal/group limit ($67.5 million in aggregate)

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
XOL Surety per Principal 2nd Excess of Loss	35.00% Hannover Ruck Se 15.00% R+V Versicherung A.G. 10.00% Axis Reinsurance Company 11.00% Munich Reinsurance America, Inc. 9.00% Partner Reinsurance Company of the U.S. 12.50% Lloyd's Syndicate 4472 3.25% Helvetia Schweizerische Versicherungsgesellschaft 2.75% Navigators Insurance Company 1.23% Lloyd's Syndicate 2623 c/o Beazley U.S.A. Services Inc. 0.27% Lloyd's Syndicate 0623 c/o Beazley U.S.A. Services Inc. (Authorized & Certified)	$25 million per principal/group limit	$50 million per principal/group limit ($100 million in aggregate)
XOL Surety per Principal 3rd Excess of Loss	35.00% Hannover Ruck Se 15.00% R+V Versicherung A.G. 10.00% Axis Reinsurance Company 11.00% Munich Reinsurance America, Inc. 9.00% Partner Reinsurance Company of the U.S. 12.50% Lloyd's Syndicate 4472 3.25% Helvetia Schweizerische Versicherungsgesellschaft 2.75% Navigators Insurance Company 1.23% Lloyd's Syndicate 2623 c/o Beazley U.S.A. Services Inc. 0.27% Lloyd's Syndicate 0623 c/o Beazley U.S.A. Services Inc. (Authorized & Certified)	$75 million per principal/group limit	$90 million per principal/group limit ($30 million in aggregate)

The Company also participates in the Surety Bond Guaranty Program, which is administered by the United States Small Business Administration (SBA). Under the program, the SBA guarantees loss reimbursement to participating surety companies of between 80.0% and 90.0% of the incurred losses for surety bonds issued through this program. The Surety Bond Guaranty program is governed by the Code of Federal Regulation — Title 13.

Effective March 18, 2024, the SBA Office of Surety Guarantees increased its guarantee limits to adjust for inflation. This rule will increase private contract limits from $6.5 million to $9 million and federal contract limits from $10 million to $14 million.

As of December 31, 2023, the total reinsurance recoverable was $54.4 million, of which approximately $8.1 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, 2023. These financial statements were prepared by management and are the responsibility of management. No adjustments were made to the statutory financial statements filed by the Company.

Statement of Financial Condition as of December 31, 2023

Underwriting and Investment Exhibit for the Year Ended December 31, 2023

Reconciliation of Surplus as Regards Policyholders from December 31, 2018 through December 31, 2023

Statement of Financial Condition
as of December 31, 2023

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 379,481,669	$	$ 379,481,669	
Cash and cash equivalents	44,328,935		44,328,935	
Investment income due and accrued	3,269,306		3,269,306	
Premiums and agents' balances course of collection	4,747,296	1,737,758	3,009,538	
Amounts recoverable from reinsurers	3,168,540		3,168,540	
Net deferred tax asset	4,209,020	470,141	3,738,879	
Furniture and equipment	434,925	434,925	0	
Receivables from parent, subsidiaries and affiliates	1,144,369		1,144,369	
Aggregate write-ins for other than invested assets	184,728	95,050	89,678	
Total assets	$ 440,968,789	$ 2,737,874	$ 438,230,915	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 2,514,815	(1)
Loss adjustment expenses		11,331,685	(1)
Commissions payable, contingent commissions and other similar charges		1,889,459	
Other expenses		7,457,022	
Taxes, licenses and fees		749,945	
Current federal and foreign income taxes		565,961	
Unearned premiums		14,113,743	
Advance premiums		1,000,740	
Ceded reinsurance premiums payable		1,532,385	
Amounts withheld or retained by company for account of others		245,435,038	
Provision for reinsurance		70,019	
Payable to parent, subsidiaries and affiliates		21,969,222	
Aggregate write-ins for liabilities		4,026,613	
Total liabilities		312,656,647	
Common capital stock	$ 2,520,000		
Gross paid-in and contributed surplus	32,063,473		
Unassigned funds (surplus)	90,990,795		
Surplus as regards policyholders		125,574,268	
Total liabilities, surplus, and other funds		$ 438,230,915	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2023

Statement of Income

Underwriting Income

Premium earned		$ 18,937,738
Deductions:		
Losses incurred	$ (906,072)	
Loss adjustment expenses incurred	7,284,954	
Other underwriting expenses incurred	7,273,282	
Total underwriting deductions		13,652,164
Net underwriting gain		5,285,574

Investment Income

Net investment income earned	$ 13,820,305	
Net realized capital losses	(81,435)	
Net investment gain		13,738,870

Other Income

Net loss from agents' or premium balances charged off	$ (14,380)	
Aggregate write-ins for miscellaneous income	1,354,393	
Total other income		1,340,013
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		20,364,457
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		20,364,457
Federal and foreign income taxes incurred		4,018,867
Net income		$ 16,345,590

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2022		$ 122,932,122
Net income	$ 16,345,590	
Change in net deferred income tax	159,430	
Change in nonadmitted assets	(145,672)	
Change in provision for reinsurance	(17,202)	
Dividends to stockholders	(13,700,000)	
Change in surplus as regards policyholders for the year		2,642,147
Surplus as regards policyholders, December 31, 2023		$ 125,574,268

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2018 through December 31, 2023

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2018			$ 126,459,602
Net income	$ 63,257,396	$	
Change in net deferred income tax	538,104		
Change in nonadmitted assets	624,866		
Change in provision for reinsurance		64,014	
Dividend to stockholders		65,241,686	
Total gains and losses	$ 64,420,366	$ 65,305,700	
Net decrease in surplus as regards policyholders			(885,334)
Surplus as regards policyholders December 31, 2023			$ 125,574,268

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses
(1) Loss Adjustment Expenses

An actuary from the Texas Department of Insurance (TDI) conducted an analysis of the reasonableness of the Group's losses and loss adjustment expenses reserves. A Casualty Actuary from the California Department of Insurance (CDI) reviewed the TDI actuary's analysis. Based on this review, the Company's losses and loss adjustment expenses reserves as of December 31, 2023, were found to be reasonable and have been accepted for the purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Management and Control (Page 5): It was recommended that the Company comply with California Insurance Code Section 735 and Section 1201. The Company has complied with the recommendations.

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,

Liu, Shelly Digitally signed by Liu, Shelly
Date: 2025.06.19
07:38:28 -07'00'

Shelly Liu, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Oseguera, Ralph Digitally signed by Oseguera, Ralph
Date: 2025.06.19
07:46:16 -07'00'

Ralph Oseguera, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California