

# STATE OF MISSOURI



## DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

### ORDER

After full consideration and review of the report of the financial examination of Arch Specialty Insurance Company for the period ended December 31, 2020, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, history, corporate records, management and control, territory and plan of operations, accounts and records, financial statements, comments on the financial statements, subsequent events and summary of recommendations.

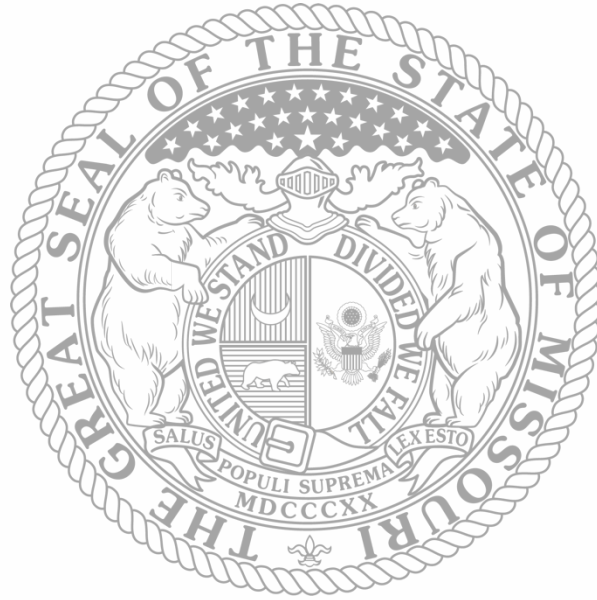
Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Arch Specialty Insurance Company as of December 31, 2020 be and is hereby ADOPTED as filed and for Arch Specialty Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement and verify compliance with each item mentioned in the Comments on the Financial Statement and/or Summary of Recommendations section of such report; and (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 18<sup>th</sup> day of May, 2022.



*Chlora Lindley-Myers*

Chlora Lindley-Myers, Director  
Department of Commerce and Insurance



REPORT OF  
FINANCIAL EXAMINATION OF

# ARCH SPECIALTY INSURANCE COMPANY

AS OF  
DECEMBER 31, 2020

STATE OF MISSOURI  
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

## TABLE OF CONTENTS

<b>SCOPE OF EXAMINATION</b> .....	<b>1</b>
PERIOD COVERED.....	1
PROCEDURES.....	1
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	<b>2</b>
<b>COMPANY HISTORY</b> .....	<b>2</b>
GENERAL.....	2
MERGERS, ACQUISITIONS, AND MAJOR CORPORATE EVENTS .....	2
DIVIDENDS AND CAPITAL CONTRIBUTIONS .....	2
SURPLUS NOTES.....	2
<b>MANAGEMENT AND CONTROL</b> .....	<b>3</b>
BOARD OF DIRECTORS .....	3
SENIOR OFFICERS .....	3
PRINCIPAL COMMITTEES .....	4
CORPORATE RECORDS.....	4
HOLDING COMPANY, SUBSIDIARIES, AND AFFILIATES.....	4
ORGANIZATIONAL CHART .....	6
INTERCOMPANY TRANSACTIONS .....	6
<b>TERRITORY AND PLAN OF OPERATION</b> .....	<b>7</b>
<b>GROWTH OF COMPANY AND LOSS EXPERIENCE</b> .....	<b>8</b>
<b>REINSURANCE</b> .....	<b>8</b>
GENERAL.....	8
ASSUMED REINSURANCE .....	8
CEDED REINSURANCE.....	9
<b>ACCOUNTS AND RECORDS</b> .....	<b>9</b>
INDEPENDENT AUDITOR .....	9

ACTUARIAL OPINION .....	9
CONSULTING ACTUARY .....	9
INFORMATION SYSTEMS .....	9
<b>FINANCIAL STATEMENTS.....</b>	<b>10</b>
ASSETS.....	11
LIABILITIES, SURPLUS AND OTHER FUNDS.....	12
STATEMENT OF INCOME .....	13
RECONCILIATION OF CAPITAL AND SURPLUS .....	13
<b>COMMENTS ON FINANCIAL STATEMENT ITEMS .....</b>	<b>14</b>
<b>FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION .....</b>	<b>14</b>
<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>14</b>
<b>SUBSEQUENT EVENTS.....</b>	<b>14</b>
<b>ACKNOWLEDGMENT .....</b>	<b>15</b>
<b>VERIFICATION.....</b>	<b>15</b>
<b>SUPERVISION .....</b>	<b>16</b>

Jefferson City, MO  
April 22, 2022

Honorable Chlora Lindley-Myers, Director  
Missouri Department of Commerce and Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

**Arch Specialty Insurance Company (NAIC #21199)**

hereinafter referred to as such, as ASIC, or as the Company. Its primary office is located at Harborside 3, 210 Hudson Street, Suite 300, Jersey City, New Jersey, 07311, telephone number (201) 743-4000. The fieldwork for this examination began on January 4, 2021, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The Missouri Department of Commerce and Insurance (Department) has performed a multi-state financial examination of ASIC. The last examination of the Company by the Department covered the period of January 1, 2015 through December 31, 2017. The current examination covers the period of January 1, 2018 through December 31, 2020, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

**Procedures**

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to ASIC included Investments, Underwriting, Claims Handling, Reserving, Reinsurance, and Related Party

Transactions. The examination also included a review and evaluation of information technology general controls.

This examination was conducted as part of a coordinated examination of the Arch Insurance Group, which consists of numerous insurance companies domiciled in several states. The Missouri Department of Commerce and Insurance is the lead U.S. state regulator for the group. Along with Missouri, Delaware and Kansas participated in the coordinated examination. The Wisconsin and North Carolina Insurance Departments performed concurrent examinations of their domestic companies. The examination was also conducted concurrently with the examinations of the Company's Missouri domiciled affiliates, Arch Indemnity Insurance Company (AIIC), Arch Property Casualty Insurance Company (APCIC), and Arch Insurance Company (AIC).

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

### **COMPANY HISTORY**

#### **General**

Arch Specialty Insurance Company (formally known as Rock River Insurance Company) was incorporated on December 22, 1964, under Illinois law, and commenced business effective January 1, 1965. On September 30, 1999, the Company was purchased by Sentry Insurance and redomesticated to Wisconsin in July of 2000. Effective February 1, 2002, ASIC was purchased by Arch Capital Group Ltd. (ACGL). Through a series of contributions of its stock within the ACGL group, the Company became a wholly-owned subsidiary of Arch Insurance Company. The Company changed its name to Arch Specialty Insurance Company on August 1, 2002, and redomesticated to the State of Nebraska on December 18, 2006, as an excess and surplus lines insurer. The Company redomiciled to the State of Missouri, effective September 30, 2014, as a domestic excess and surplus lines insurer.

#### **Mergers, Acquisitions, and Major Corporate Events**

There were no mergers or acquisitions involving the Company during the examination period.

#### **Dividends and Capital Contributions**

No dividends were declared or paid by ASIC during the examination period. ASIC did not receive any capital contributions during the examination period.

#### **Surplus Notes**

There were no surplus notes issued or outstanding during the examination period.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The Company's Articles of Incorporation specify that the Board of Directors (Board) shall consist of between nine and twenty-five members. This complies with 379.035 RSMo (Articles of Incorporation for Stock Companies). The Directors elected and serving as of December 31, 2020 were as follows:

<b><u>Name and Address</u></b>	<b><u>Principal Occupation and Business Affiliation</u></b>
Nicolas, A.E. Papadopoulo Paget, Bermuda	Chairman and Chief Executive Officer Arch Worldwide Insurance Group
John P. Mentz Lakeville, MN	President, Arch Insurance North America Chief Operating Officer, Arch Worldwide Insurance Group
Thomas J. Ahern Ridgewood, NJ	Executive Vice President, Chief Financial Officer, and Treasurer Arch Insurance Company and subsidiaries
Brian D. First Canton, CT	Executive Vice President and Chief Underwriting Officer Arch Insurance Company and subsidiaries
Patrick K. Nails Yardley, PA	Senior Vice President and Chief Claims Officer Arch Insurance North America
Marita A. Oliver New York, NY	Executive Vice President, Corporate Underwriting Arch Insurance Company and subsidiaries
John A. Rafferty Western Springs, IL	Executive Vice President and Chief Underwriting Officer Arch Insurance Company and subsidiaries
Richard A. Stock Eagan, MN	Executive Vice President and Chief Underwriting Officer Arch Insurance Company and subsidiaries
Matthew A. Shulman New Canaan, CT	Chief Executive Officer Arch Insurance North America

### **Senior Officers**

The officers elected and serving, as of December 31, 2020, were as follows:

<b><u>Name</u></b>	<b><u>Office</u></b>
Nicolas A.E. Papadopoulo	Chairman
Matthew A. Shulman	Chief Executive Officer
John P. Mentz	President
Thomas J. Ahern	Executive Vice President, Chief Financial Officer, and Treasurer
Regan A. Shulman	Executive Vice President, General Counsel, and Secretary
Patrick K. Nails	Executive Vice President and Chief Claims Officer
Andrew S. Becker	Executive Vice President
Brian D. First	Executive Vice President and Chief Underwriting Officer
Marita A. Oliver	Executive Vice President, Corporate Underwriting
John A. Rafferty	Executive Vice President and Chief Underwriting Officer
Richard A. Stock	Executive Vice President and Chief Underwriting Officer

**Principal Committees**

Pursuant to ASIC's Bylaws, the Board of Directors (Board) may designate one or more committees comprised solely of members of the Board, each of which shall consist of at least two members. The only Board committee in existence at December 31, 2020 was the Investment and Finance Committee. Appointed members of the Investment and Finance Committee as of December 31, 2020 were Nicholas A.E. Papadopoulos (Chairman), Thomas J. Ahern, John P. Mentz, and Patrick K. Nails.

ASIC's Board designates the ACGL Audit Committee to act as its Audit Committee. As of December 31, 2020, ACGL's Audit Committee consisted of Brian S. Posner (Chairman), Laurie S. Goodman, Thomas R. Watjen, and Eugene S. Sunshine. ACGL's Board determined that all of the Audit Committee members were independent under the applicable standards of NASDAQ and the Securities Exchange Act of 1934, and that Mr. Posner qualifies as an audit committee financial expert under the rules of the Securities and Exchange Commission.

Other than the Board committees discussed above, ASIC has also established various management committees to provide additional oversight and guidance. The management committees established as of December 31, 2020 included the Anti-Fraud Controls Steering Committee, the Reinsurance Steering Committee, the Information Technology Steering Committee, the Reserve Review Committee, the Information Governance Steering Committee, the Enterprise Risk Management Steering Committee, and the Privacy and Security Committee.

**Corporate Records**

The Company's Articles of Incorporation (Articles) and Bylaws were reviewed for any changes during the period under examination. The Articles were not amended during the examination period. The Bylaws were amended in 2019 to eliminate three of the named Board of Directors' committees and to add a new non-Board Committee, the Anti-Frauds Controls Steering Committee.

**Holding Company, Subsidiaries, and Affiliates**

ASIC is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). ASIC is directly owned by AIC, a Missouri domestic insurer that is wholly-owned by Arch Reinsurance Company (ARC), a Delaware-domiciled insurer. ASIC, AIC, and ARC are all ultimately owned by ACGL, a Bermuda-based publicly held limited liability company. ACGL is traded on the NASDAQ National Market under the symbol ACGL. As of December 31, 2020, no one stockholder owned 10% or more of ACGL.

ACGL was formed in September 2000 and focuses on writing specialty lines of insurance and reinsurance on a global basis through its wholly-owned subsidiaries. ACGL classifies its business operations into three underwriting segments and two other operating segments. The three underwriting segments are insurance, reinsurance, and mortgage, and the two other operating segments are classified as other and corporate (non-underwriting). The largest segment based on net written premiums is the insurance segment, which accounted for 45.8% (\$3.2 billion) of ACGL's net written premiums of \$6.9 billion in 2020. Of the \$3.2 billion of the insurance segment's net written premiums, AIC and its US subsidiaries, including ASIC, produced 68.2% (\$2.2 billion) of the net written premiums. The rest of the premiums for the insurance segment were produced by ACGL subsidiaries in Bermuda, Europe, the United Kingdom, Australia, and Canada.

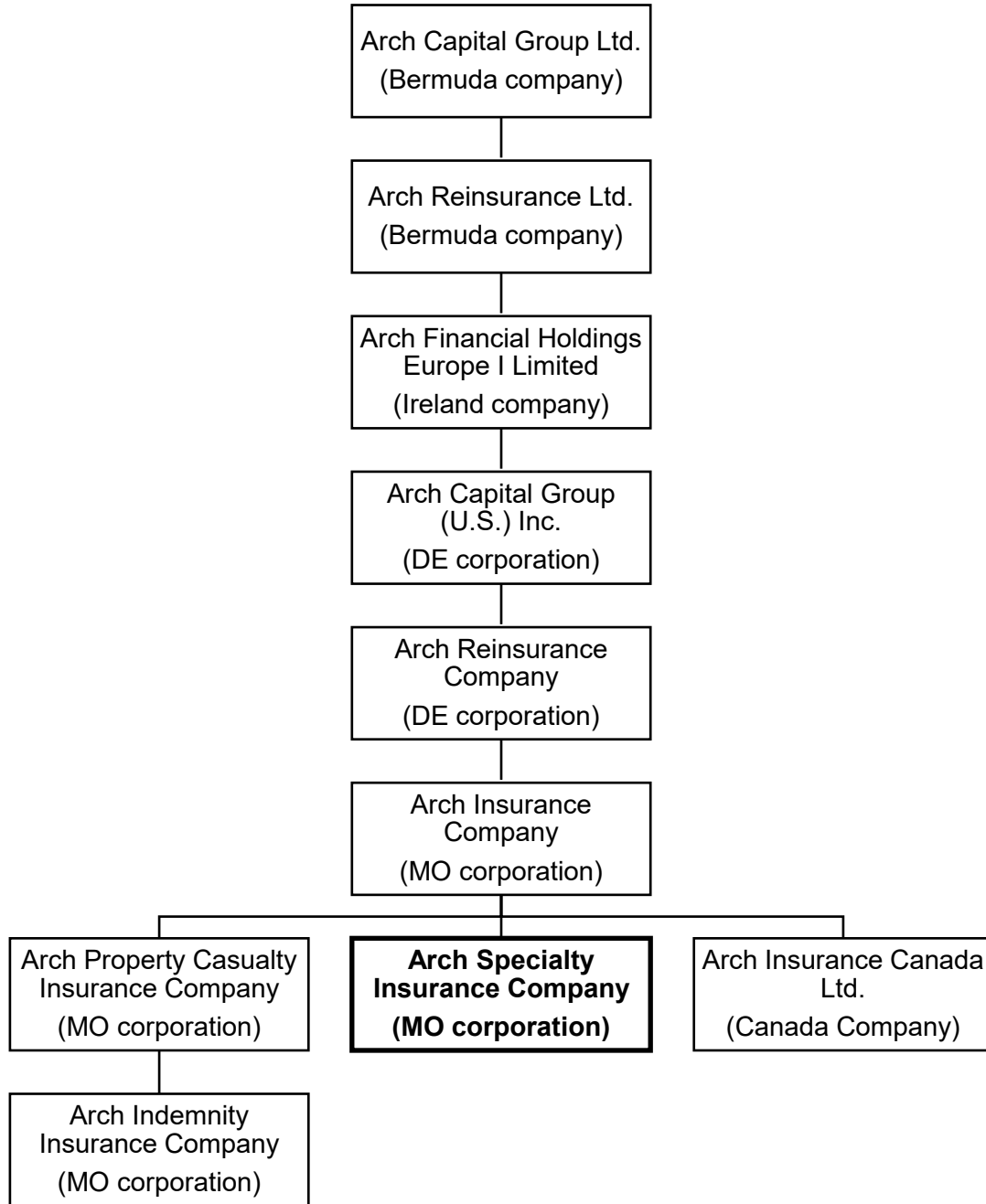


ASIC is affiliated with the following insurance companies within the North American insurance segment of ACGL:

- **Arch Insurance Company:** a Missouri-domiciled insurer that is licensed in all 50 states, the District of Columbia, and various other U.S. and alien territories. AIC writes mostly workers' compensation and liability lines of business and had direct written premium of \$2.6 billion in 2020.
- **Arch Indemnity Insurance Company:** a Missouri-domiciled insurer that is licensed in all 50 states and the District of Columbia. AIIIC currently writes only workers' compensation insurance and reported direct written premiums of \$88.6 million in 2020. AIIIC is a wholly-owned subsidiary of APCIC, making AIIIC an indirect subsidiary of AIC through AIC's ownership of APCIC.
- **Arch Property Casualty Insurance Company** (formerly Arch Excess & Surplus Insurance Company): a Missouri-domiciled insurer that is licensed in 35 other states/territories, including the District of Columbia and is an approved surplus lines writer in 15 other states. APCIC is not currently writing new business; however, some prior business remains in run-off.
- **Arch Insurance Canada, Ltd.:** a Canadian domestic insurer that is authorized in all provinces and territories and writes various lines of property and casualty business.

**Organizational Chart**

The following organizational chart depicts an abbreviated section of insurance companies within the holding company group as of December 31, 2020. All subsidiaries are wholly-owned unless otherwise noted.



**Intercompany Transactions**

The following is a brief description of significant agreements with affiliated entities that were in effect as of December 31, 2020.

**Amended and Restated Investment Manager Agreement:** This agreement, effective January 1, 2015, is between AIC, ASIC, APCIC, AIIIC, and Arch Investment Management Ltd. (AIML). Per

the agreement, AIML provides investment management services on behalf of the companies. The services include the investment and reinvestment of companies' assets, the reporting of the market value of investments, the reconciliation of accounting, transaction, and investment summary data with custodian reports, and the appointment of brokers. Services by AIML also include the engagement of third-party investment managers as deemed necessary, as well as the supervision and oversight of any third-party investment manager's activities. The companies compensate AIML on a monthly basis, in arrears, based upon their individual account balances managed by AIML.

**Service Agreement – General Services:** This agreement, effective January 1, 2004, is between AIC, ASIC, APCIC, AIIC and Arch Insurance Group, Inc. (AIGI). Per the agreement, AIGI provides the companies with supervision of all phases of their operations, including, but not limited to, accounting services, data processing services, information technology services, legal services, underwriting services, claims handling services, and actuarial services. AIGI is compensated the direct costs incurred in providing services without any additional mark-ups or fees.

**Amended and Restated Tax Sharing Agreement:** This agreement, effective January 1, 2014, is between Arch Capital Group (U.S.) Inc. (ACGI) and various subsidiaries (including AIC, ASIC, APCIC, and AIIC). Per the agreement, ACGI collects from, or refunds to each subsidiary the amount of taxes or benefits determined as if the subsidiary filed a separate return.

**Claims Services Agreement:** This agreement, effective December 6, 2018, is between AIC, ASIC, APCIC, AIIC, and McNeil & Company, Inc. (McNeil). Per the agreement, McNeil is responsible for processing and settling claims associated with the Program and Producer agreements. McNeil is compensated based on a percentage of gross written premium.

**Program Agreement:** This agreement, effective December 6, 2018, is between ASIC and McNeil. Per the agreement, McNeil is responsible for soliciting, underwriting, collecting premiums, etc. for certain products in exchange for a commission.

**Program Administration Agreement:** This agreement, effective September 1, 2019, is between ASIC and Ventus Risk Management, Inc. (Ventus). Under the terms of the agreement, Ventus is appointed as an administrator on a non-exclusive basis to produce and manage certain property coverages for various commercial properties as outlined in the agreement. Ventus is paid a commission based on a percentage of gross written premium.

The Company also has a reinsurance agreement with AIC that is described under the Ceded Reinsurance section of this report.

## **TERRITORY AND PLAN OF OPERATION**

ASIC is licensed as a domestic surplus lines insurer in Missouri under Chapter 384 RSMo (Surplus Line Insurance) and is approved to write excess and surplus lines insurance in the other 49 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The Company focuses on writing specialty lines of insurance and provides a wide range of excess and surplus lines property and casualty insurance for business and professional firms nationwide. The five states with the largest percentage of direct written premium in 2020 were as follows: Florida – 19.9%, California– 12.8%, Texas – 10.5%, New York – 8.7%, Louisiana– 3.2%.

The major annual statement lines of business for ASIC, based upon 2020 direct written premiums are listed in the table below:

Line of Business	Direct Written Premiums	Percent of Total
Fire	\$ 231,434,216	33.0%
Other Liability – Occurrence	140,166,256	20.0%
Allied Lines	106,405,743	15.2%
Medical Professional Liability	61,981,106	8.8%
Other Liability – Claims made	59,212,322	8.4%
Earthquake	51,837,887	7.4%
All Other	49,885,243	7.1%
<b>Total</b>	<b>\$ 700,922,773</b>	<b>100.0%</b>

### GROWTH OF COMPANY AND LOSS EXPERIENCE

The Company cedes 100% of its business to AIC and other non-affiliated reinsurers. Therefore, ASIC's net premiums written and earned for the examination period were essentially zero, and the Company reported immaterial credit balances for losses incurred during each year under examination. ASIC's direct premiums written increased significantly (54.4%) over the examination period, from \$454.0 million in 2018 to \$700.9 million in 2020. This increase was attributable to material increases in the Fire, Allied, Earthquake, and Auto Physical Damage annual statement lines of business, offset by lesser decreases in the Other Liability – Occurrence and Other Liability – Claims-Made lines.

### REINSURANCE

#### General

ASIC's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

<i>(\$000s omitted)</i>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Premium Type</b>			
Direct Premiums Written	\$ 454,030	\$ 568,800	\$ 700,923
Reinsurance Assumed:			
Affiliates	-	-	-
Non-Affiliates	2,934	1,969	2,040
Reinsurance Ceded:			
Affiliates	346,093	442,011	576,449
Non-Affiliates	110,872	128,758	126,514
<b>Net Premiums Written</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

#### Assumed Reinsurance

The Company assumes immaterial amounts of business from various non-affiliated insurers, mostly on a facultative basis. Assumed premiums accounted for less than 1% of gross premiums written for each year of the examination period.

**Ceded Reinsurance**

ASIC and its other North American ACGL affiliates manage gross and net exposures through various reinsurance treaties with external reinsurers on a facultative, quota share, per risk excess of loss, and catastrophe excess of loss basis. ASIC and its other North American affiliates purchased workers compensation catastrophe coverage up to \$75 million in excess of \$50 million. Catastrophe reinsurance is purchased by ACGL on behalf of ASIC and other ACGL subsidiaries. For 2020, the property catastrophe agreements covered losses up to \$550 million in excess of a \$150 million.

ASIC's most significant reinsurer during the examination period was its affiliate, AIC, with ceded premiums of \$576.4 million (82.0% of total premiums ceded) in 2020 and a net amount recoverable of \$1.3 billion (76.9% of total net amounts recoverable from reinsurers) at year-end 2020. ASIC ceded premiums of \$126.5 million (18.0% of total premiums ceded) to non-affiliated reinsurers in 2020 and reported a net recoverable of \$399.2 million (22.9% of total net amounts recoverable from reinsurers) from non-affiliated reinsurers at year-end 2020. None of the non-affiliated reinsurers had net amounts recoverable that exceeded 5% of the total net amounts recoverable.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

**ACCOUNTS AND RECORDS****Independent Auditor**

The certified public accounting (CPA) firm, PricewaterhouseCoopers LLP, in New York, NY, performed the statutory audit of the Company for the years under exam. Reliance was placed upon the CPA workpapers as deemed appropriate. Such reliance included, but was not limited to, fraud risk analysis, journal entry testing, internal control narratives, tests of internal controls, and substantive testing.

**Actuarial Opinion**

The Company's actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Gregory Babushkin, FCAS, MAAA for all years in the examination period. Mr. Babushkin is employed by Arch Insurance Company in Jersey City, New Jersey.

**Consulting Actuary**

Pursuant to a contract with the Department, Robert Daniel, ACAS, MAAA (Examination Actuary) of Merlinos and Associates, reviewed the underlying actuarial assumptions and methodologies used by ASIC to determine the adequacy of loss reserves and LAE reserves. Robert Daniel determined that the Company made a reasonable provision for the loss and LAE reserves that were reported in the statutory financial statements, as of December 31, 2020. However, there were two findings and associated recommendations in regard to the Appointed Actuary's Report. The findings were related to the documentation in the reconciliation of actuarial data to Schedule P, and the documentation within the Appointed Actuary's Report supporting the Statement of Actuarial Opinion.

**Information Systems**

In conjunction with this examination, Kimberly Dobbs, CFE, AES, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of ASIC for the period ending December 31, 2020. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items.” These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

**ASSETS**

As of December 31, 2020

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 362,908,523	\$ -	\$ 362,908,523
Cash, Cash Equivalents, and Short- Term Investments	43,354,176	-	43,354,176
Other Invested Assets	16,282,202	-	16,282,202
Investment Income Due and Accrued	1,421,633	-	1,421,633
Premiums and Considerations:			
Uncollected Premiums and Agents' Balances in the Course of Collection	40,811,753	24,472,272	16,339,481
Deferred Premiums, Agents' Balances, and Installments Booked but Deferred and Not Yet Due	3,139,435	-	3,139,435
Reinsurance:			
Amounts Recoverable from Reinsurers	83,796,450	-	83,796,450
Net Deferred Tax Asset	13,010,695	5,435,474	7,575,221
Receivables from Parent, Subsidiaries, and Affiliates	3,187,427	-	3,187,427
Aggregate Write-Ins for Other-Than- Invested Assets	59,928,137	11,302,746	48,625,391
<b>TOTAL ASSETS</b>	<b>\$ 627,840,432</b>	<b>\$ 41,210,493</b>	<b>\$ 586,629,939</b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

As of December 31, 2020

Losses	\$	120,569
Loss Adjustment Expenses		45,342,085
Commissions Payable, Contingent Commissions, and Other Similar Charges		3,124,692
Other Expenses		299,874
Taxes, Licenses, and Fees		272,963
Unearned Premiums		(209)
Advance Premium		109,132
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)		112,322,330
Funds Held by Company Under Reinsurance Treaties		2,767,555
Amounts Withheld or Retained by Company for Account of Others		30,119,482
Remittances and Items Not Allocated		8,001,038
Provision for Reinsurance		337,178
Payable to Parent, Subsidiaries, and Affiliates		10,045,904
Aggregate Write-Ins for Liabilities		34,390,300
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>247,252,894</b>
Common Capital Stock		5,000,000
Gross Paid In and Contributed Surplus		233,419,614
Unassigned Funds (Surplus)		100,957,432
<b>TOTAL CAPITAL AND SURPLUS</b>	<b>\$</b>	<b>339,377,045</b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>\$</b>	<b>586,629,939</b>



**STATEMENT OF INCOME**  
For the Year Ended December 31, 2020

Premiums Earned	\$	221
DEDUCTIONS:		
Losses Incurred		(476,119)
Loss Adjustment Expenses Incurred		21,992,864
Other Underwriting Expenses Incurred		(24,940,700)
Total Underwriting Deductions	\$	<u>(3,423,955)</u>
<b>Net Underwriting Gain (Loss)</b>	<b>\$</b>	<b>3,424,176</b>
Net Investment Income Earned		8,016,370
Net Realized Capital Gains		14,797,488
<b>Net Investment Gain (Loss)</b>	<b>\$</b>	<b>22,813,858</b>
Net Gain (Loss) from Agents' or Premium Balances Charged Off		(4,584,416)
Aggregate Write-Ins for Miscellaneous Income		4,799
Federal and Foreign Income Taxes Incurred		3,184,903
<b>NET INCOME (LOSS)</b>	<b>\$</b>	<b><u>18,473,513</u></b>

**RECONCILIATION OF CAPITAL AND SURPLUS**  
Changes from January 1, 2018 to December 31, 2020

*(\$000s omitted)*

	<b>2018</b>	<b>2019</b>	<b>2020</b>
Capital and Surplus, Beginning of Year	\$ 300,746	\$ 299,791	\$ 317,547
Net Income (Loss)	8,739	14,575	18,474
Change in Net Unrealized Capital Gains (Losses) Less Capital Gains Tax	640	669	(1,016)
Change in Net Deferred Income Tax	2,668	1,347	123
Change in Nonadmitted Assets	(10,795)	(605)	3,951
Change in Provision for Reinsurance	(2,209)	1,772	298
Net Change in Capital and Surplus	\$ (956)	\$ 17,756	\$ 21,830
<b>Capital and Surplus, End of Year</b>	<b>\$ 299,791</b>	<b>\$ 317,547</b>	<b>\$ 339,377</b>

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None.

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

None.

**SUMMARY OF RECOMMENDATIONS**

Consulting Actuary

Page 9

The Company should implement the recommendations of the Examination Actuary related to the Appointed Actuary's Report and fully follow the related guidelines included in the NAIC Annual Statement Instructions and the Actuarial Standards of Practice.

**SUBSEQUENT EVENTS**

The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of Arch Specialty Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Kimberly Dobbs, CFE, AES, Kim Waller, AFE, Alicia Galm, CFE, Bernie Troop, CFE, Lisa Li, CPA, CFE, James Le, CPA, CFE, CPCU, ARE, examiners for the Missouri Department of Commerce and Insurance, also participated in this examination. Robert Daniel, ACAS, MAAA of Merlino and Associates, also participated as a consulting actuary.

**VERIFICATION**

State of Missouri                    )  
  )    ss  
County of Cole                    )

I, Marc Peterson, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of Arch Specialty Insurance Company, its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

*Marc Peterson*  
\_\_\_\_\_  
Marc Peterson, CFE  
Examiner-In-Charge  
Missouri Department of Commerce and  
Insurance

Sworn to and subscribed before me this 6<sup>th</sup> day of April, 2022.

My commission expires: March 30, 2023  
*Hailey Liebert*  
\_\_\_\_\_  
Notary Public



HAILEY LIEBERT  
My Commission Expires  
March 30, 2023  
Osage County  
Commission #15634366

**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



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Sara McNeely, CFE  
Assistant Chief Financial Examiner  
Missouri Department of Commerce and  
Insurance