STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Arch Insurance Company for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Arch Insurance Company for the period ended December 31, 2011, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration 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, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Arch Insurance Company as of December 31, 2011, be and is hereby ADOPTED as filed and for Arch 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, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (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 14th day of June, 2013.

John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration

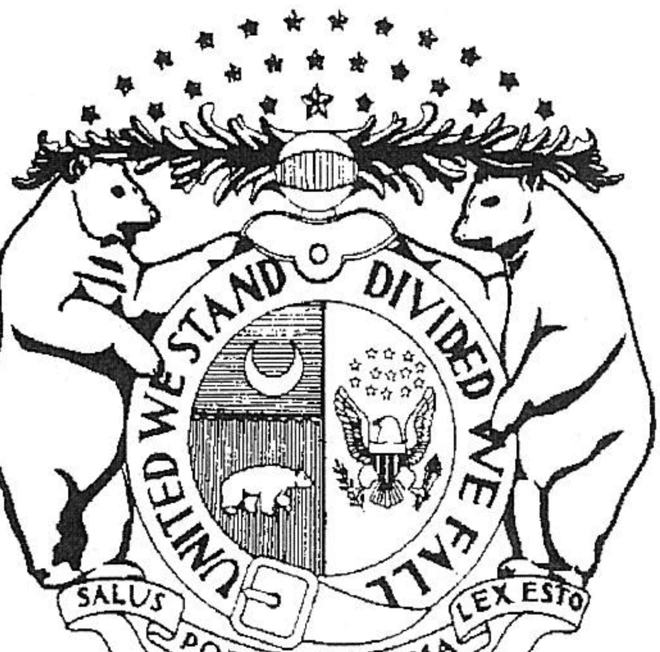
REPORT OF THE

FINANCIAL EXAMINATION OF

ARCH INSURANCE COMPANY

AS OF

DECEMBER 31, 2011



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Jersey City, New Jersey
May 8, 2013

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

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

Arch Insurance Company

hereinafter referred to as such, as AIC, or as the Company. Its primary office is located at 300 Plaza Three, 3rd Floor, Jersey City, New Jersey, 07311, telephone number (201) 743-4000. This examination began on June 19, 2012 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of Arch Insurance Company. The last examination was completed as of December 31, 2008. This examination covers the period of January 1, 2009 through December 31, 2011. This examination also included material transactions or events occurring subsequent to December 31, 2011.

This examination was performed in coordination with the Nebraska Department of Insurance examinations of Arch Specialty Insurance Company (ASIC), Arch Excess & Surplus Insurance Company (AESIC), and Arch Indemnity Insurance Company (AIIC), direct and indirect subsidiaries of AIC.

Procedures

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (FCEH) except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (MO DIFP) and statutes of the State of Missouri prevailed. The FCEH requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

SUMMARY OF SIGNIFICANT FINDINGS

Arch Insurance Company is a participant, in the role of cedent, along with other affiliates, in a number of multi-cedent reinsurance contracts. Most of these multi-cedent reinsurance contracts do not have a written allocation agreement as required by SSAP #62, Property and Casualty Reinsurance. Only one written allocation agreement has received the required approval from the appropriate regulatory authorities.

SUBSEQUENT EVENTS

A significant change in management occurred, effective September 1, 2012, when Mark Lyons, Chairman and CEO of Arch Insurance Group, Inc. and Chairman, President and CEO of AIC, AESIC, ASIC and AIIC, succeeded John Hele in the position of Executive Vice President and CFO of Arch Capital Group Ltd. (ACGL). Mr. Lyons resigned from the Board of Directors of AIC, AESIC, ASIC, AIIC and AIGI. David H. McElroy was promoted to Chairman and Chief Executive Officer of AIC, ASIC, AESIC, and AIIC. Michael R. Murphy was promoted to President and Chief Underwriting Officer of AIC, AESIC, ASIC, and AIIC.

The Company received approval from the MO DIFP to establish Arch Insurance Canada, Ltd, (ArchCanada) effective June 29, 2012. ArchCanada became a wholly owned subsidiary of Arch Insurance Company. The Company entered into an Assumption Reinsurance Agreement with ArchCanada effective January 1, 2013 under which ArchCanada acquired all of the assets and assumed 100% of all obligations relating to written or assumed insurance or reinsurance carried on by AIC through its Canadian branch prior to January 1, 2013. The Agreement was approved by the Office of the Superintendent of Financial Institutions of Canada.

In 2012, after receiving approval from the Nebraska Department of Insurance, ASIC paid extraordinary dividends to AIC totaling $45 million. These dividends were paid in increments of $15 million on August 31, 2012, September 28, 2012 and November 11, 2012.

COMPANY HISTORY

General

Arch Insurance Company, formerly known as First American Insurance Company, was incorporated on December 15, 1971, as a stock casualty insurance company, and was granted authority pursuant to the provisions of Chapter 379 RSMo (Insurance other than Life) to commence the business of insurance effective June 30, 1980. AIC was incorporated as a wholly owned subsidiary of First American Financial Corporation (FAFC).

On June 4, 2001, the MO DIFP approved the acquisition of FAFC and the Company by Arch Capital Group Ltd. In 2002, the name of First American Financial Corporation was changed to Arch Insurance Group, Inc. On June 26, 2002, the MO DIFP approved the name change of First American Insurance Company to Arch Insurance Company.

Dividends

AIC paid a $30 million cash dividend in 2010. No other dividends were declared or paid by AIC during the examination period.

Capital Contributions

AIC received capital contributions during each year of the period under examination as follows: $11,386,594 in 2009, $16,788,594 in 2010, and $16,502,473 in 2011.

Mergers and Acquisitions

No mergers or acquisitions occurred during the period under examination. In December 2011, AIC transferred the stock of Arch Indemnity Insurance Company to Arch Excess & Surplus Insurance Company making AIIC an indirect subsidiary of AIC instead of a direct subsidiary. The value of AIIC's stock was below the materiality threshold requiring prior MO DIFP approval pursuant to Section 382.195.1(1) RSMo (Prohibited Transactions, Exceptions).

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. The Articles of Incorporation were amended in 2009 to add information on the principal administrative office, update the registered agent, remove the need for the consent of a majority of the stockholders to authorize major changes to the Company, and make other minor changes. There were no amendments to the Bylaws during the period under examination.

The minutes of the Board of Directors' meetings and the shareholder's meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The Company's Articles of Incorporation specifies that the Board of Directors 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, 2011 were as follows:

Name and Address	Business Affiliation
Mark D. Lyons Deer Park, IL	Chairman, Chief Executive Officer and President[1] Arch Insurance Company and its subsidiaries
Thomas J. Ahern Ridgewood, NJ	Senior Vice President, Chief Financial Officer and Treasurer Arch Insurance Company and its subsidiaries
Dennis R. Brand Harvard, IL	Senior Executive Vice President and Chief Administrative Officer Arch Insurance Company and its subsidiaries
John S. Edack Oakland, CA	Senior Executive Vice President, Casualty Arch Insurance Company and its subsidiaries
Lawrence F. Harr Omaha, NE	Practicing Attorney Lamson, Dugan and Murray, LLP
David H. McElroy West Simsbury, CT	Senior Executive VP, Financial and Professional Liability Group[1] Arch Insurance Company and its subsidiaries
Michael R. Murphy Short Hills, NJ	Senior Executive Vice President, Property and Casualty Group[1] Arch Insurance Company and its subsidiaries
Martin J. Nilsen Rockville Center, NY	Senior VP, Secretary, General Counsel & Chief Compliance Officer[2] Arch Insurance Company and its subsidiaries
Mark G. Wade New York, NY	Senior Executive Vice President, Chief Claims Officer Arch Insurance Company and its subsidiaries

Although all but one of the members of AIC's Board of Directors as indicated above are employees of ACGL entities, indicating a lack of independence in the Company's governance, this is not unusual given the ownership structure of AIC as a subsidiary of a publicly-held corporation. To ascertain independence and prudent corporate governance standards, the examination reviewed the composition of the Board of Directors of ACGL, the ultimate controlling entity of AIC. ACGL's current Board of Directors is comprised of eleven directors, two of which are employees. ACGL's Board of Directors concluded that the nine non-employee directors are independent as defined under the applicable listing standards of The NASDAQ Stock Market LLC (NASDAQ). The audit, compensation and nominating committees of the ACGL Board are composed entirely of independent directors.

Senior Officers

The following officers were elected and serving as of December 31, 2011:

Name	Office
Mark D. Lyons	Chairman, Chief Executive Officer, and President[1]
Dennis R. Brand	Senior Executive Vice President, Chief Administrative Officer
John S. Edack	Senior Executive Vice President, Casualty
David H. McElroy	Senior Executive VP, Financial and Professional Liability Group[1]
Michael R. Murphy	Senior Executive Vice President, Property and Casualty Group[1]
Mark G. Wade	Senior Executive Vice President, Chief Claims Officer
William J. Casey, Jr.	Executive Vice President, Chief Marketing Officer
David M. Finkelstein	Executive Vice President, Surety
Lyle S. Hitt	Executive Vice President, Professional Liability
Mark Lima	Executive Vice President, Southeast Region Branch Administrator
Roy G. Mahlstedt	Executive Vice President, Programs
John P. Mentz	EVP, National Accounts, Construction, and Alternative Markets
Steven D. Nelson	Executive Vice President, Healthcare
William A. Palmer	Executive Vice President, Midwest Region Branch Administrator
John A. Rafferty	Executive Vice President, Executive Assurance
Richard L. Richiski	Executive Vice President, Accident and Health
Thomas J. Ahern	Senior Vice President, Chief Financial Officer, and Treasurer
Marita A. Oliver	Senior Vice President, Corporate Underwriting & Compliance[1]
Martin J. Nilsen	Sr. VP, Secretary, General Counsel & Chief Compliance Officer[2]

Principal Committees

Pursuant to AIC's Bylaws, the Board of Directors may designate one or more committees comprised solely of members of the Board, each of which shall consist of at least three members. At the June 1, 2011 meeting, the Board appointed members to an Executive Committee and an Investment and Finance Committee; however, the only active Board committee was the Investment and Finance Committee. Its appointed members as of December 31, 2011 were Mark

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[1] During the third quarter of 2012, Mark Lyons was promoted to Executive Vice President and CFO of ACGL and resigned his positions as Director and Officer of AIC. David H. McElroy was appointed as Chairman and Chief Executive Office of AIC. Michael R. Murphy was appointed as President and Chief Underwriting Officer of AIC. Marita A. Oliver was appointed as a Director of AIC to fill the AIC Mark Lyons' Board vacancy.

[2] During the first quarter of 2012, Mr. Nilsen's duties as General Counsel and Chief Compliance Officer were transferred to Senior Vice President Patrick Nails. Mr. Nilsen retained his role as Secretary and as Director.

D. Lyons (Chairman), Thomas J. Ahern, Dennis R. Brand, David H. McElroy, and Martin J. Nilsen.

AIC's Board of Directors designated the ACGL Audit Committee to act as its Audit Committee. The ACGL Audit Committee Charter states "The primary purpose of the Audit Committee is to assist the Board of Directors in monitoring (1) the integrity of the financial statements of the Company, (2) the independent auditor's qualifications and independence, (3) the performance of the Company's internal audit function and independent auditors and (4) the compliance by the Company with legal and regulatory requirements." As of December 31, 2011, ACGL's Audit Committee consisted of James J. Meenaghan (Chairman), Wolfe "Bill" H. Bragin, Brian S. Posner and Robert F. Works. AGCL'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. Meenaghan qualifies as an "audit committee financial expert" under the rules of the Securities and Exchange Commission.

Besides the Board committees discussed above, AIC has established various management committees to provide oversight and guidance. These include the Executive Committee, the Enterprise Risk Management Committee, the Reserve Committee, and the Reinsurance Steering Committee.

Holding Company, Subsidiaries and Affiliates

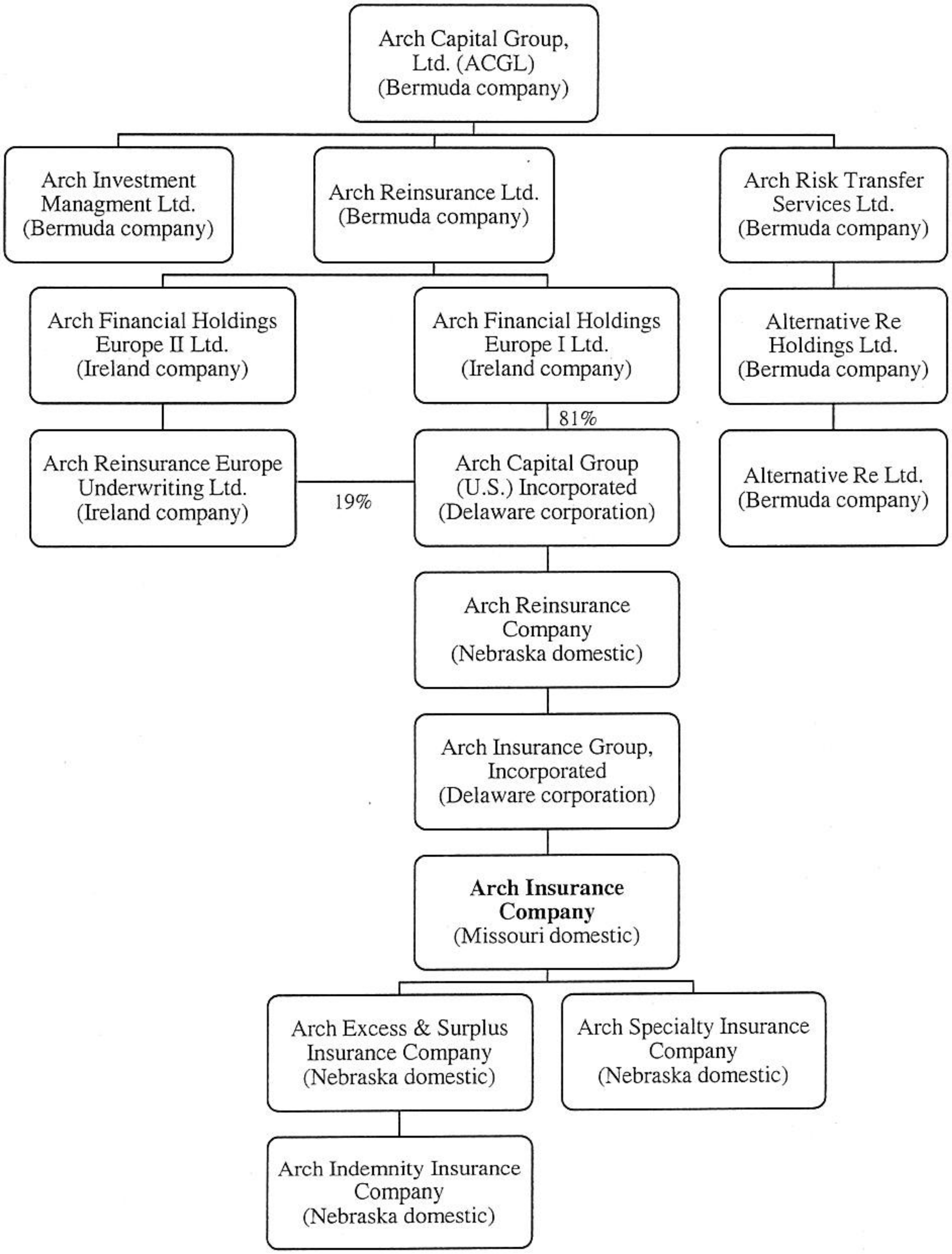
Arch Insurance Company is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). As of December 31, 2011, AIC was the sole owner of Arch Specialty Insurance Company and Arch Excess & Surplus Insurance Company. Arch Specialty Insurance Company is a Nebraska-domiciled approved excess and surplus lines insurer in 49 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands and an admitted insurer in one state. Arch Excess & Surplus Insurance Company, which is not currently writing business, is a Nebraska-domiciled approved excess and surplus lines insurer in 47 states and the District of Columbia and an admitted insurer in one state. AESIC is the sole owner of Arch Indemnity Insurance Company. Arch Indemnity Insurance Company (AIIC), which is not currently writing business, is a Nebraska-domiciled admitted insurer in 49 states and the District of Columbia.

AIC is a wholly owned subsidiary of Arch Insurance Group Inc. (AIGI). AIGI is ultimately owned by Arch Capital Group Ltd. (ACGL), a Bermuda-based publicly held limited liability company whose assets primarily consist of its investments in subsidiaries. ACGL provides insurance and reinsurance on a worldwide basis through its wholly owned subsidiaries in Europe, Bermuda, the United States, and Canada.

ACGL is a publicly-held company traded on the NASDAQ National Market under the symbol ACGL. Funds associated with Artisan Partners Holdings LP (Artisan) owned 15.2% and 11.9% of the shares of ACGL in 2011 and 2010 respectively. Artisan submitted to the MO DIFP a disclaimer of affiliation stating the holdings in ACGL are held for investment purposes only. No other stockholder owned 10% or more of ACGL.

Organizational Chart

The following organizational chart depicts the applicable portion of the holding company group as of December 31, 2011:


Arch Capital Group, Ltd. (ACGL) (Bermuda company)
Arch Investment Managment Ltd. (Bermuda company)
Arch Reinsurance Ltd. (Bermuda company)
Arch Risk Transfer Services Ltd. (Bermuda company)
Arch Financial Holdings Europe II Ltd. (Ireland company)
Arch Financial Holdings Europe I Ltd. (Ireland company)
Alternative Re Holdings Ltd. (Bermuda company)
81%
Arch Reinsurance Europe Underwriting Ltd. (Ireland company)
19%
Arch Capital Group (U.S.) Incorporated (Delaware corporation)
Alternative Re Ltd. (Bermuda company)
Arch Reinsurance Company (Nebraska domestic)
Arch Insurance Group, Incorporated (Delaware corporation)
Arch Insurance Company (Missouri domestic)
Arch Excess & Surplus Insurance Company (Nebraska domestic)
Arch Specialty Insurance Company (Nebraska domestic)
Arch Indemnity Insurance Company (Nebraska domestic)

Intercompany Transactions

The Company's intercompany agreements in effect as of December 31, 2011 are outlined below:

1. Type: Service Agreement
   Parties: Arch Insurance Company and Arch Insurance Group Inc.
   Effective: July 1, 2004
   Terms: AIGI provides AIC with supervision of all phases of its operations, including, but not limited to, the following: underwriting, actuarial studies, claims service, accounting, data processing, and other responsibilities. For the services provided, AIGI is compensated for the direct costs incurred in providing services.

2. Type: Commission Agreement
   Parties: AIC and Arch Specialty Insurance Agency, Inc. (ASIA)
   Effective: November 1, 1997
   Terms: AIC will provide services and facilities to allow ASIA to produce business for AIC. ASIA will be paid commission on business produced for AIC, subject to a limit based on the net operating results of ASIA. AIC has not written any premium through ASIA since 1999 when its nonstandard auto business went into runoff. However, this agreement remains in effect because ASIA acts as an administrator for the GAP program in Indiana on behalf of AIC. ASIA does not receive any fees for this pass through service.

3. Type: Tax Sharing Agreement
   Parties: Arch Capital Group (U.S.), Inc. and subsidiaries, including AIC
   Effective: January 1, 2002
   Terms: The parent is to collect from, or refund to, each subsidiary the amount of federal income taxes or benefits determined as if the subsidiary filed a separate return. Balances arising out of the agreement are to be settled no less often than quarterly.

4. Type: Service Agreement
   Parties: AIC and First American Service Corporation (FASC)
   Effective: November 10, 2000
   Terms: FASC agrees to administer an approved GAP Waiver Program, collecting fees from participating Lenders/Lessors, distributing fees to agents representing said Lenders/Lessors, and purchasing insurance protection through AIC. The GAP coverage insures the Lenders/Lessors for the difference between the fair market value of a totaled vehicle and the loan balance on the vehicle. Per the Agreement, FASC is allowed to retain up to $25 out of the fees collected from Lenders/Lessors; however, FASC did not retain any fees during the exam period. No compensation is due to FASC from AIC.

5. Type: (Computer Equipment) Cost Allocation Agreement
   Parties: AIGI, AIC, ASIC, AESIC, and AIIC
   Effective: June 1, 2004
   Terms: The parent of AIC, AIGI, has the primary responsibility for purchases of computer equipment; however, this agreement is in place in the event management determines a purchase should be made by an insurance entity. Depreciation shall be allocated among AIC, ASIC, AESIC, and AIIC in direct proportion to the ratio of direct premiums written by each of the Companies to total direct premiums written. AIC will bill ASIC, AESIC, and AIIC for their share of the depreciation expense on no less than a quarterly basis with payment due within thirty days of receipt of the bill. AIC had not purchased any equipment subject to this agreement through the date of the examination.

6. Type: Cost Allocation Agreement - Property Catastrophe Excess of Loss Reinsurance
   Parties: ACGL, Arch Reinsurance, Ltd. (ArchReBermuda), Arch Reinsurance Company (ArchReNE), AIC, AESIC, ASIC, AIIC, and Arch Insurance Company (Europe) Limited (ArchEurope)
   Effective: December 31, 2003
   Terms: ACGL is to purchase property catastrophe excess of loss reinsurance protection on behalf of its subsidiaries. Costs of the reinsurance protection are to be allocated to each business line written by the subsidiaries based upon each business line's loss exposure and then allocated to each subsidiary based upon gross net earned premiums. Payments are to be made to ACGL within ten business days after each deposit premium quarterly installment. Annual adjustments are to be paid within 10 business days after notification of the final amount. Any recoveries under the coverage are to be paid to the subsidiaries which paid the losses.

7. Type: Cost Allocation Agreement(s) for multi-cedent reinsurance contracts other than the Property Catastrophe Excess of Loss Reinsurance
   Parties: ACGL, ArchReBermuda, AIC, AESIC, ASIC, AIIC, ArchEurope, and ArchReNE
   Effective: There are a number of underlying multi-cedent reinsurance agreements, many of which renew annually. The individual contract effective dates of these underlying contracts are spread throughout the year.
   Terms: Costs for reinsurance protection under the various excess of loss contracts are allocated to each business line based on each business line's loss exposure and then allocated to each cedent based on direct premiums written in each line. Costs under the quota share agreements are allocated on a pro-rata basis. Cedents pay that percentage of their premiums written as described in the individual contracts. Recoveries under all coverages are paid to the cedent which incurred and paid the losses.
   Exception: Pursuant to SSAP #62, Property and Casualty Reinsurance, paragraph 9, multi-cedent reinsurance contracts require written allocation agreements

as either a part of the reinsurance contract or as separate intercompany agreements. The underlying reinsurance contracts do not contain an allocation agreement and most have no separate written allocation agreement(s). The only written allocation agreement provided by the Company which has received the required regulatory approval is the agreement for the Property CAT reinsurance coverage discussed above.

8. Type: Investment Manager Agreement
   Parties: AIC and Arch Investment Management Ltd. (AIM)
   Effective: April 1, 2006
   Terms: AIM is to provide investment management services on behalf of AIC. The services are to include the investment and reinvestment of the AIC's 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. AIM is also to advise, oversee, and review any third-party investment manager's services. AIC shall compensate AIM on a quarterly basis in arrears based upon its pro-rata portion of the average of the total assets of the ACGL Companies managed by AIM. AIM shall receive 10 basis points for the first $500 million of assets and 8 basis points for assets over $500 million for directly managed accounts and 7.5 basis points for indirectly managed accounts.

9. Type: Power of Attorney (POA) and Bond Administration Agreement
   Parties: AIC and ArchReNE
   Effective: August 14, 2003
   Terms: ArchReNE authorizes AIC to issue and administer on behalf of ArchReNE bonds that require a United States Treasury Department authorized surety. ArchReNE cedes and AIC assumes on a 100% quota share basis all liabilities of subject bonds under a Surety Quota Share Agreement.

10. Type: Co-Surety Facility Agreement
    Parties: AIC and ArchReNE
    Effective: August 14, 2003
    Terms: ArchReNE grants AIC the authority to issue and administer co-surety bonds on behalf of ArchReNE where non-federal bond obligees require only one of the bond co-sureties to be authorized by the United States Treasury Department. In consideration for ArchReNE issuing subject bonds, AIC pays ArchReNE a fee of 1% of gross written premium generated by subject bonds.

11. Type: Intercompany Short Term Advance Agreement
    Parties: AIGI, AIC, ASIC, AESIC, and AIIC
    Effective: December 31, 2007
    Terms: Parties to the agreement are authorized to make advances to one another for a maximum term of thirty (30) days. No advances may exceed more

than three percent (3%) of the lending or borrowing party's policyholders' surplus as of December 31 of the preceding year. The rate of interest will be the prime rate plus 100 basis points.

12. Type: Omnibus Intercompany Settlement Agreement
    Parties: AIGI, AIC, ASIC, AESIC, and AIIC
    Effective: December 31, 2007
    Terms: Parties to the agreement agree to settle any intercompany payments which are not subject to another written intercompany agreement as soon as practical but no later than 90 days after receipt from third parties, No intercompany fees are charged or due under this agreement.

In addition to the above listed agreements, AIC also has reinsurance transactions with various affiliates, the most significant of which are described in the Reinsurance section of this report.

The amounts incurred to (earned from) affiliates during the period under examination, under the various intercompany agreements were as follows:

	2009	2010	2011
Arch Insurance Group Inc. -			
Service Agreement – U.S. Operations	$168,141,000	$182,842,000	$173,411,000
Service Agreement - Canadian Branch	240,000	240,000	250,000
Arch Investment Management Ltd. –			
Investment Manager Agreement	690,282	884,407	987,956
Totals	$169,071,282	$183,966,407	$174,648,956

FIDELITY BOND AND OTHER INSURANCE

AIC is a named insured, along with other subsidiaries of Arch Capital Group Ltd., on a financial institution bond with a single loss limit of liability of $10 million, an aggregate loss liability limit of $20 million, and a $100,000 single loss deductible. Coverage is also provided under an excess policy for losses above the single and aggregate limits included in the primary policy. The excess policy provides coverage up to $10 million per loss and $20 million aggregate. This coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

AIC is also a named insured on the following other insurance policies: property and general liability, commercial automobile liability, workers compensation, umbrella coverage, special crime, employment practices liability, aviation, various international policies, directors' and officers' liability and fiduciary liability coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

AIC had seventy-two direct employees as of December 31, 2011 dedicated to its Canadian branch of operations. Employee benefits available to these employees include a defined contribution pension plan, health care, dental, disability, and group life insurance. AIC contributes 8 percent of employee compensation to the defined contribution pension plan.

Services are also provided to Arch Insurance Company by employees of affiliates of AIC, as described in the Intercompany Transactions section of this report. Employees of the ACGL holding company system are provided certain benefits including life insurance, accidental death and dismemberment insurance, short-term and long-term disability, vision coverage, retirement pension plan, and group travel accident insurance. Employees may also pay for additional benefits such as medical, dental, 401 (k), and supplemental insurance coverage. The expenses for these benefits are charged to AIC through intercompany service fees. Other than any unpaid billings under intercompany agreements at year-end 2011, AIC had no additional liability for the benefits provided.

The Company has stated that employees of the ACGL holding company system are encouraged to share in its economic growth and success. To that end, on May 11, 2007, ACGL, the indirect parent of AIC, adopted the 2007 Employee Share Purchase Plan (ESPP). The purpose of the ESPP is to give employees of the holding company system an opportunity to purchase common shares through payroll deductions. During the examination period, ACGL continued to offer certain employees of AIC's affiliates as well as AIC's Canadian direct employees restricted stock awards and /or stock options.

TERRITORY AND PLAN OF OPERATION

During the period under examination, AIC was licensed to transact the business of insurance in all 50 states, the District of Columbia, the Virgin Islands, Puerto Rico, and Guam. The Company also operates in Canada through a branch. The largest jurisdictions in 2011, by volume of written premium, were California 15.3%, New York 11.0%, and Texas 10.1%; no other jurisdiction exceeded 10%.

Arch Insurance Company's stated overall strategy is to continue to focus on writing specialty lines of business with underwriting and technical skills focused appropriately. It is management's belief that the existing underwriting platform, a strong management team, and capital unencumbered by significant exposure to pre-2002 risks have enabled the Company to establish a strong presence in the insurance marketplace. Specialty lines, as defined by the Company, can involve an unusual set of exposures, coverage that is uniquely crafted, brokerage or customer access that is exclusive or difficult to replicate, or a combination of these characteristics. The Company states that brokerage based or program business that fits these criteria will continue to be entertained by the Company and any expansion opportunities will be viewed through this lens particularly if it improves the Company's diversification.

Arch Insurance Company's insurance operations currently consist of twelve product lines: (1) casualty (including excess, umbrella, and railroad), (2) programs, (3) property and energy, (4) executive assurance (including, but not limited to, financial and commercial institution directors' and officers' liability and errors and omissions coverage), (5) healthcare, (6) professional liability (including, but not limited to, architects and engineers, large law and accounting firms, and other professional programs), (7) construction, (8) surety, (9) national accounts casualty, (10) accident and health, (11) travel and accident, and (12) other (including but not limited to collateralized protection business, other lenders products, and excess workers' compensation).

AIC's largest lines, defined in Annual Statement terms, by direct written premiums in 2011, were: Other Liabilities-Claims Made 21.1%, Worker's Compensation 18.6%, and Other Liability-Occurrence 12.9%.

GROWTH OF COMPANY AND LOSS EXPERIENCE

AIC's admitted assets grew steadily during the exam period of 2009, 2010, and 2011. Policyholder surplus decreased from 2009 to 2010 and again from 2010 to 2011. The 2010 decrease was primarily due to a $30 million stockholder dividend, partially offset by net income of $5 million. The 2011 decrease was primarily due to the $28 million 2011 net loss and an increase in the provision for reinsurance related to the Canadian operations. The net Loss and LAE ratio remained relatively stable from 2009 to 2011 but other underwriting expenses incurred increased from 2009 to 2010 and again from 2010 to 2011 in terms of both dollars and as a percentage of earned premium. From 2009 to 2010, net premiums written remained stable while gross written premiums decreased by $104 million, resulting in lower total ceding commissions offsetting rising direct other underwriting costs, which drove the rising ratio of underwriting expenses incurred to net premium.

The following table depicts the financial growth and loss experience of the Company during the period under examination summarized in the preceding paragraph:

	2009	2010	2011
Total Admitted Assets	$1,824,135,663	$1,928,002,645	$2,213,086,884
Total Capital and Surplus	637,879,198	615,782,867	569,736,207
Gross Written Premiums	1,727,552,268	1,623,990,072	1,613,589,829
Net Written Premiums	304,328,794	304,668,347	618,518,785
Net Earned Premiums	304,774,868	299,703,404	475,507,775
Net Losses & LAE Incurred	226,114,875	217,978,835	350,782,065
Net Loss & LAE Ratio	74.2%	72.7%	73.8%
Other Underwriting Expenses Incurred	61,443,474	106,369,408	189,028,868
Other Underwriting Expenses Incurred to Net Earned Premium	20.2%	35.5%	39.8%
Other Underwriting Expenses Incurred to Net Written Premium	20.2%	34.9%	30.6%

Net Underwriting Gain (Loss)	17,216,519	(24,644,839)	(64,303,158)
Net Income (Loss)	36,506,241	5,241,055	(28,210,967)

REINSURANCE

General

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

	2009	2010	2011
Direct Business	$1,389,711,822	$1,318,654,715	$1,324,943,212
Reinsurance Assumed:			
Affiliates	260,508,507	246,479,434	244,706,402
Non-affiliates	77,331,939	58,855,923	43,940,215
Reinsurance Ceded:			
Affiliates	(1,022,044,246)	(941,322,081)	(662,782,340)
Non-affiliates	(401,179,228)	(377,999,644)	(332,288,704)
Net Premiums Written	$304,328,794	$304,668,347	$618,518,785

Assumed

During this examination period, the majority of the Company's assumed business is from its three direct and indirectly owned insurance subsidiaries, Arch Specialty Insurance Company, Arch Excess & Surplus Insurance Company, and Arch Indemnity Insurance Company. These three subsidiaries accounted for 85% of all 2011 assumed reinsurance premiums.

The majority of the remaining non-affiliated business was either assumed on a facultative basis or from mandatory pools.

Ceded

Arch Insurance Company has a complex ceded reinsurance program which varies by the type of business written and/or the business division. AIC's stated general purpose of its reinsurance program is to protect the assets of the Company and thereby its capital & surplus. AIC varies the retention, limit, and structure of its reinsurance program based on management's view of the volatility of the subject business, the gross limits underwritten, and the availability of acceptable reinsurance in regards to terms and cost from reinsurers meeting the Company's specific standards for financial strength.

During the examination period, AIC's most significant reinsurer in terms of reinsurance premium and reinsurance recoverables was a Bermuda affiliate, Arch Reinsurance, Ltd. (ArchReBermuda). In 2011, AIC ceded $608 million or 61% of its total ceded premiums to

ArchReBermuda. AIC's December 31, 2011 net reinsurance recoverable from ArchReBermuda, fully collateralized by assets held in a trust account, was $2.5 billion or 71.0% of AIC's total net reinsurance recoverable. Under its agreements with ArchReBermuda, AIC ceded on a quota share basis a percentage of its net retained liability after other reinsurance. These agreements covered the majority of AIC's business with the exceptions of AIC's Casualty Profit Center, its Alternative Market business, and business produced by the Canadian branch. The ceded percentage during the period under examination for covered business varied from 30% to 80%, depending upon the year and the business segment covered.

Of the remaining premium AIC ceded to affiliates during the examination period, the majority, 90% or more, was ceded to Alternative Re Ltd. and related to the Alternative Market Program that is excluded from AIC's quota share agreements with ArchReBermuda. AIC writes policies for middle market commercial clients who want to self-insure their workers compensation or general liabilities exposures. AIC writes the policy and cedes to Alternative Re Ltd. through facultative quota-share agreements in a structure sometimes referred to as rent-a-captive. In 2011, AIC ceded $50 million in premium to Alternative Re Ltd.

Effective January 1, 2013, AIC entered into an Assumption Reinsurance Agreement with its new subsidiary, Arch Insurance Canada Ltd., whereby Arch Insurance Canada Ltd. acquired all of the assets and assumed 100% of all obligations relating to written or assumed insurance or reinsurance carried on by AIC through its Canadian branch prior to January 1, 2013. AIC ceased writing business through its Canadian branch after that date.

AIC ceded business to other unaffiliated authorized and unauthorized reinsurers under a variety of treaty and facultative reinsurance contracts on a quota share and excess of loss basis. In 2011, premium ceded to these non-affiliated reinsurers totaled $332 million or 33% of all premiums ceded, with the largest reinsurer accounting for $30 million. As of December 31, 2011, the amount recoverable from unaffiliated unauthorized US reinsurers was $15 million, all fully secured. As of December 31, 2011, 84% of the $308 million recoverable from unaffiliated unauthorized foreign reinsurers was secured by funds held, letters of credit, or trust accounts.

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 CPA firm, PricewaterhouseCoopers LLP (PWC), issued audited statutory financial statements of the Company for all years under examination.

Appointed Actuary

The actuarial opinion regarding the Company's reserves for losses and loss adjustment expenses was issued for all years under examination by Janet Lindstrom, FCAS, MAAA, Senior Vice President and Corporate Actuary of AIC.

Information Systems

The Company's primary data center is located in Secaucus, New Jersey. A secondary data center is located in Elmsford, New York, with a tertiary center in Chantilly, Virginia.

The Company's significant financial applications are indicated below:

- Great Plains is the general ledger financial reporting system developed and supported by Microsoft Business Solutions and running on Citrix Windows 2003.
- Archlink is a policy management, underwriting and issuance system developed and supported internally and running on Windows 2003.
- ARMS is an accounts receivable, premium billing program, vendor developed and supported and running on Citrix Windows 2003.
- CPAS is Company's main claims adjudication system, internally developed, supported and running on Citrix Windows 2003.
- BAMS is a separate Surety processing system supported by Arch and running on Windows 2003.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the MO DIFP as of December 31, 2011, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Securities to be Deposited by all Companies). AIC's required deposit for Missouri is $1,200,000. The funds on deposit as of December 31, 2011 were as follows:

Type of Bond	Par Value	Fair Value	Statement Value
U.S. Treasury & MO State General Obligation and Special Revenue	$2,200,000	$2,423,479	$2,245,582

Deposits with Other States, Territories, and Canada

The Company also had funds on deposit with various other states, Canada, and the territories of Puerto Rico, the United States Virgin Islands, and Guam. Those funds on deposit as of December 31, 2011 were as follows:

State, Territory Or Country	Type of Bond	Par Value	Fair Value	Statement Value
Arizona	U.S. Treasury, Municipal General Obligation and Special Revenue	$5,400,000	$6,440,422	$5,831,814
Arkansas	Municipal Special Revenue	250,000	252,038	250,525
California	Municipal General Obligation and Special Revenue and Corporate	180,645,000	202,512,748	188,497,303
Delaware	Municipal Special Revenue	100,000	109,425	108,882
Florida	Municipal Genl Obligation	250,000	304,385	267,581
Georgia	Municipal Genl Obligation	80,000	101,460	89,966
Idaho	U.S. Treasury	731,000	746,741	729,041
Massachusetts	U.S. Treasury	150,000	150,840	150,013
Montana	U.S. Treasury	30,000	30,168	30,003
Nevada	Corporate	100,000	102,367	100,281
New Mexico	Municipal Genl Obligation	400,000	457,916	414,773
North Carolina	Municipal Genl Obligation	500,000	554,690	526,324
Oregon	U.S. Treasury, Municipal General Obligation and Special Revenue	14,210,000	15,977,229	14,726,405
Virginia	Municipal Special Revenue	250,000	271,768	256,061
Guam	Certificate of Deposit	55,000	55,000	55,000
Puerto Rico	Municipal Special Revenue	1,000,000	1,147,520	1,077,488
U.S. Virgin Islands	Municipal Genl Obligation	520,000	595,291	539,205
Canada	Canadian Government, Municipal, and Corporate	144,123,742	169,733,361	164,268,625
Totals		**$348,794,742**	**$399,543,369**	**$377,919,290**

Deposits with the Department of Labor

The Company has funds on deposit required by the U.S. Department of Labor with the Federal Reserve Bank. Those funds on deposit as of December 31, 2011, were as follows:

Type of Bond	Par Value	Fair Value	Statement Value
U.S. Treasury	$450,000	$464,783	$448,476

Deposits for Assumed Reinsurance

In addition, the Company has the following trust deposit related to assumed reinsurance as of December 31, 2011:

Deposit Holder	Type of Bond	Par Value	Fair Value	Statement Value
UMB Trust Bank	U.S. Treasury	$200,000	$205,242	$199,618

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Arch Insurance Company for the period ending December 31, 2011. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the Comments on Financial Statement Items section of the report. 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 section. 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 key activity.

Assets

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$1,258,246,334		$1,258,246,334
Common Stocks	366,270,043		366,270,043
Cash, Cash Equivalents, and Short-term Investments	117,690,832		117,690,832
Other Invested Assets	3,538,684		3,538,684
Receivable for Securities	42,592		42,592
Securities Lending Reinvested Collateral Assets	19,356,648		19,356,648
Investment Income Due and Accrued	12,477,497		12,477,497
Premiums and Considerations:			
Uncollected Premiums and Agents' Balances in the Course of Collection	53,677,618	$19,544,182	34,133,436
Deferred Premiums , Agents' Balances and Installments Booked but Deferred	114,974,994	1,342	114,973,652
Reinsurance:			
Amounts Recoverable from Reinsurers	90,168,302		90,168,302
Funds Held by Reinsured Companies	2,742,696		2,742,696
Amounts Recoverable from Reinsurers	530,106		530,106
Federal Income Tax Recoverable	9,249,914		9,249,914
Net Deferred Tax Asset	82,172,360	41,674,471	40,497,889
Electronic Data Processing Equipment	153,858	153,858	
Furniture and Equipment	1,699,345	1,699,345	
Receivables from Parent, Subsidiaries and Affiliates	4,698,598		4,698,598
Aggregate Write-Ins for Other Assets:			
Advance Claim Payments	98,962,441		98,962,441
Deductible Recovery	20,903,395	3,557,363	17,346,032
Equity and Deposits in Pools	15,114,957		15,114,957
Claim Deposits	6,977,086		6,977,086
Other Assets	12,283,473	12,214,328	69,145
TOTAL ASSETS	**$2,291,931,773**	**$78,844,889**	**$2,213,086,884**

Liabilities, Surplus and Other Funds

Losses	$686,299,921
Reinsurance Payable on Paid Losses and LAE	24,386,423
Loss Adjustment Expenses	169,914,703
Commissions Payable	25,196,021
Other Expenses	6,926,441
Taxes, Licenses and Fees	29,615,688
Unearned Premium	282,067,655
Advance Premium	7,318,617
Policyholders Dividend Declared and Unpaid	1,524,475
Ceded Reinsurance Premiums Payable	76,916,745
Funds Held Under Reinsurance Treaties	42,811,755
Amounts Withheld by Company for Account of Others	143,263,809
Remittances and Items Not Allocated	21,553,123
Provision for Reinsurance	53,104,102
Payable to Parent, Subsidiaries and Affiliates	11,602,837
Payable for Securities Lending	19,356,648
Aggregate Write-ins for Liabilities:	
Deferred Ceding Commission Liability	22,699,522
Claims Payable	9,029,372
Return Premium Payable	5,094,431
Other Liabilities	4,668,389
TOTAL LIABILITIES	**$1,643,350,677**
Common Capital Stock	5,000,000
Gross Paid-In and Contributed Surplus	477,774,055
Unassigned Funds (Surplus)	86,962,152
Capital and Surplus	**$569,736,207**
TOTAL LIABILITIES AND SURPLUS	**$2,213,086,884**

Statement of Income

Underwriting Income	
Premiums Earned	$475,507,775
Losses Incurred	271,402,915
Loss Expenses Incurred	79,379,150
Other Underwriting Expenses Incurred	189,028,868
Total Underwriting Deductions	$539,810,933
Net Underwriting Gain/(Loss)	**$(64,303,158)**
Investment Income	
Net Investment Income Earned	31,163,375
Net Realized Capital Gains or (Losses)	1,969,863
Net Investment Gain or (Loss)	**$33,133,238**
Other Income	
Net Gain (Loss) from Agents' or Premium Balances Charged Off	(488,823)
Finance and Service Charges not Included in Premiums	231,965
Miscellaneous Other Income	(50,559)
Total Other Income	**$(307,417)**
Net Income Before Dividends to Policyholders and Federal Income Taxes	$(31,477,337)
Dividends to Policyholders	370,555
Net Income Before Dividends to Policyholders and Federal Income Taxes	$(31,847,892)
Federal and Foreign Income Taxes Incurred	(3,636,925)
Net Income	**$(28,210,967)**

Capital and Surplus Account

Surplus as Regards Policyholders, December 31, 2010	**$615,782,867**
Net Income	(28,210,967)
Change in Net Unrealized Capital Gains or (Losses)	(5,338,520)
Change in Net Unrealized Foreign Exchange Capital Gain (Loss)	(1,930,566)
Change in Net Deferred Income Tax	13,691,810
Change in Nonadmitted Assets	(11,227,045)
Change in Provision for Reinsurance	(29,533,845)
Paid in Surplus	16,502,473
Net Change in Surplus as Regards Policyholders for the Year	**(46,046,660)**
Surplus as Regards Policyholders, December 31, 2011	**$569,736,207**

EXAMINATION CHANGES

None.

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

As discussed in the Intercompany Transactions section on page 9, AIC is a participant in a number of multi-cedent reinsurance contracts, most of which do not have a written allocation agreement as required by SSAP #62, Property and Casualty Reinsurance. AIC should develop one or more written intercompany agreement(s) which detail how reinsurance premiums due and reinsurance payments received are split between the ACGL group companies and which establish a timeframe for making the disbursements. Prior to executing the agreements, the Company must obtain approval from the domiciliary states of the parties to the agreement. MO DIFP approval is required pursuant to RSMo 382.195 (Prohibited Transactions, Exceptions).

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Arch Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Steve Koonse, CFE, Alvin Garon, CFE, and Kim Dobbs, CFE, examiners for the MO DIFP also participated in this examination. As a coordinated examination, a material portion of the examination was performed by the Nebraska Department of Insurance. Jon Michelson, FCAS, MAAA, of Expert Actuarial Services, LLC, also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Vicki L. Denton, 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 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.

Vicki L. Denton

Vicki L. Denton, CFE
Examiner-In-Charge
MO DIFP

Sworn to and subscribed before me this 13th day of May, 2013.

My commission expires: 04-14-2016

Beverly M. Webb
Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12464070

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.

Mark A. Nance, CPA, CFE
Audit Manager
MO DIFP

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Senior Vice President &
General Counsel
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Direct Tel.: 201.743.4136

June 13, 2013

Via Email and Regular Mail

Mr. Frederick G. Heese, CFE, CPA
Department of Insurance,
Financial Institutions and Professional Registration
Division of Insurance Company Regulation
301 West High Street, Room 530
P.O. Box 690
Jefferson City, MO 65102-0690

Attention: Ms. Tammy Rodieck (via e-mail)

Re: Examination Report of Arch Insurance Company

Dear Mr. Heese:

This will acknowledge receipt of your letter dated May 15, 2013, addressed to Mr. Michael Murphy, President of Arch Insurance Company ("AIC" or the "Company"), and the Examination Report (the "Report") of Arch Insurance Company for the period ending December 31, 2011, which accompanied your letter.

Your letter states that the Company has 30 days in which to submit to the Missouri Department of Insurance, Financial Institutions and Professional Registration (the "MO DIFP") in writing any response or rebuttal to the Report, and further states that the Company should indicate in such response whether it is the Company's wish that such response or rebuttal is to be included in the Report as a public document. In addition, your letter requires that the Company set forth its responses to the General Comments and/or Recommendations section of the Report, and indicate any corrective action that has been or will be taken by the Company. This letter will constitute our response to the Recommendations set forth on page 23 of the Report.

The Company has submitted Form B filings containing Cost Allocation Agreements for its affiliated multi-cedent Property Excess of Loss Reinsurance Contracts and Marine Excess of Loss Reinsurance Contracts to the Missouri and Nebraska Departments of Insurance. It is currently working with both Departments in finalizing the language of these Cost Allocation Agreements, and it believes it is close to gaining approvals. Once these Cost Allocation Agreements have been approved by both Departments, the Company will file Cost Allocation Agreements for its other multi-cedent reinsurance contracts.

We wish this response to be included in the report and understand that it will be a public document.

Please do not hesitate to contact the undersigned in the event you have any questions.

Sincerely,

Patrick K. Nails

cc: Ms. Vicki L. Denton – via e-mail
Mr. Thomas Ahern
Mr. Andres Prieto
Mr. Thomas Connelly