

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 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.

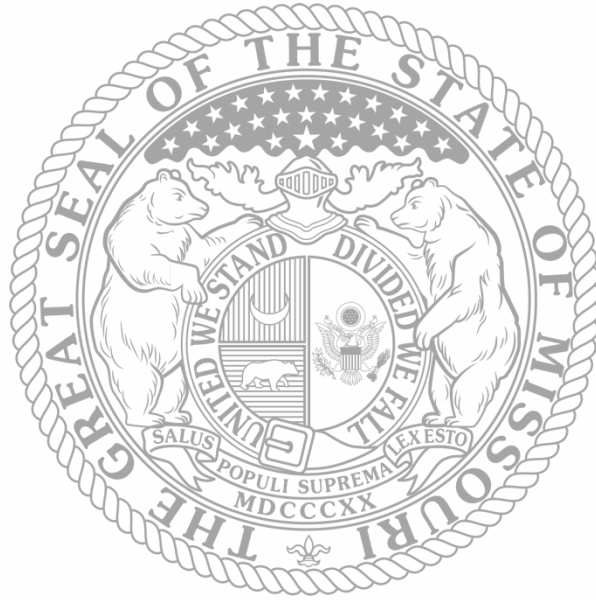
Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Arch Insurance Company as of December 31, 2020 be and is hereby ADOPTED as filed and for Arch Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement and verify compliance with each item 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 18th day of May, 2022.



Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

ARCH INSURANCE COMPANY

AS OF
DECEMBER 31, 2020

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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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 Insurance Company (NAIC #11150)

hereinafter referred to as such, as AIC, 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 AIC. 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 AIC 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 Specialty Insurance Company (ASIC), Arch Property Casualty Insurance Company (APCIC), and Arch Indemnity Insurance Company (AIIIC).

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 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 Department 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. (AIGI). On June 26, 2002, the Department approved the name change of First American Insurance Company to Arch Insurance Company.

A change in Arch Insurance Company's direct owner occurred on December 15, 2015, when AIGI issued a stock dividend to Arch Reinsurance Company (ARC), granting ARC 100% of its stock ownership in AIC. The stock dividend did not change AIC's ultimate controlling entity, Arch Capital Group Ltd. (ACGL), and had no impact on operations, management, or the directors/officers of AIC or its subsidiaries.

Mergers, Acquisitions, and Major Corporate Events

Effective December 6, 2018, AIC purchased 100% of McNeil & Company, Inc. (McNeil), a managing general agent (MGA). The purchase price was funded through a capital contribution from Arch Reinsurance Company. AIC made capital contributions to McNeil in the amounts of \$10,800,000 and \$2,000,000 in the fourth quarters of 2019 and 2020, respectively. The previous owners continue to manage and operate McNeil.

Dividends and Capital Contributions

AIC is a wholly-owned subsidiary of Arch Reinsurance Company, a Delaware-domiciled insurer. During the examination period, ARC made the following capital contributions to AIC.

Year	Amount
2018	\$ 96,000,000
2019	-
2020	233,093,859
Total	\$ 329,093,859

In 2018, AIC's subsidiary, Arch Insurance Canada, Ltd., returned capital to AIC in the amount of \$3,717,472. No dividends were declared or paid by AIC 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:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
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	Executive 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:

<u>Name</u>	<u>Office</u>
Nicolas A.E. Papadopoulo	Chairman
Matthew A. Shulman	Chief Executive Officer
John P. Mentz	President
Andrew S. Becker	Executive Vice President
Patrick K. Nails	Executive Vice President and Chief Claims Officer
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
Thomas J. Ahern	Executive Vice President, Chief Financial Officer, and Treasurer
Regan A. Shulman	Executive Vice President, General Counsel, and Secretary

Principal Committees

Pursuant to AIC'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. Papadopoulo (Chairman), Thomas J. Ahern, John P. Mentz, and Patrick K. Nails.

AIC'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, AIC 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-Fraud Controls Steering Committee.

Holding Company, Subsidiaries, and Affiliates

AIC is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). The Company is directly owned by ARC, a Delaware-domiciled insurer and is 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.

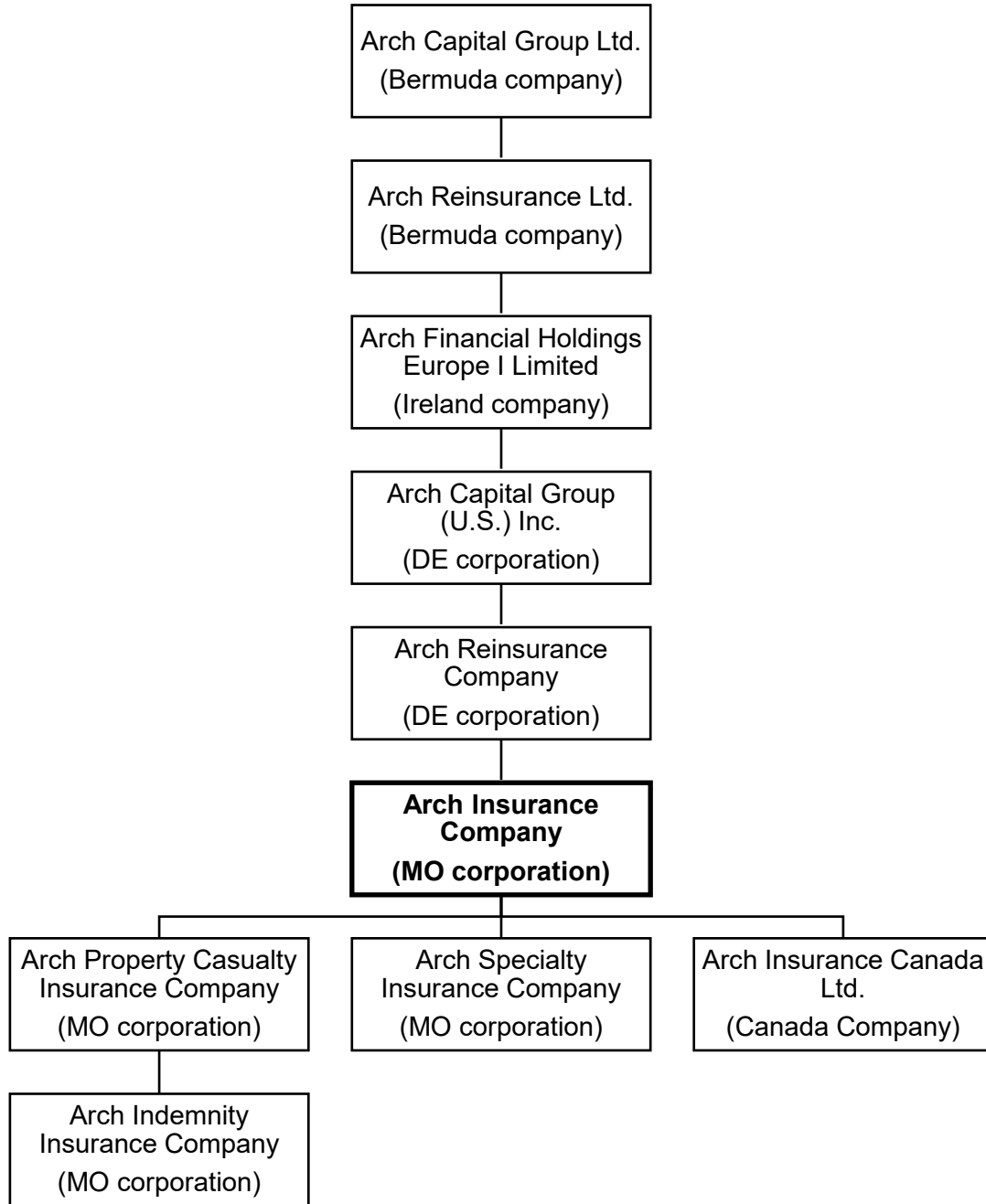
ACGL was formed in September 2000 and focuses on writing specialty lines of insurance and reinsurance on a global basis through its wholly-owned subsidiaries. ACGL classifies its business operations into three underwriting segments and two other operating segments. The three underwriting segments are 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 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.

AIC either directly or indirectly owns 100% of the following insurance subsidiaries:

- **Arch Specialty Insurance Company:** a Missouri-domiciled insurer that is licensed in Missouri and is approved as an excess and surplus lines insurer in the remaining 49 states and the District of Columbia. ASIC writes mostly commercial property and liability lines of business and had direct written premium of \$701.0 million in 2020.
- **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 Indemnity Insurance Company:** a Missouri-domiciled insurer that is licensed in all 50 states and the District of Columbia. AIIC currently writes only workers' compensation insurance and reported direct written premiums of \$88.6 million in 2020. AIIC is a wholly-owned subsidiary of APCIC, making AIIC an indirect subsidiary of AIC through AIC's ownership of APCIC.
- **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 executed 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, AIIC, 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. 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.

Producer Agreement: This agreement, effective November 1, 2013, is between AIC and Arch Insurance Solutions, Inc. (AISI). Per the agreement, AISI is appointed as an agent to underwrite and sell travel insurance products. AISI also performs other services, including claims administration services and account management services.

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.

MGA (A&H) Agreement: This agreement, effective January 1, 2020, is between AIC and McNeil & Co, Inc. (McNeil). Per the agreement, McNeil is responsible for soliciting, underwriting, collecting premiums, settling and paying claims, etc. for products detailed in the agreement. In addition to this agreement, AIC is party to numerous other agreements with McNeil, including a claims services agreement, a producer agreement, a program administrator agreement, and a surety agency agreement.

The Company also has significant reinsurance agreements with affiliate Arch Reinsurance Ltd. that are described in the Ceded Reinsurance section of this report. The Company also has several cost allocation agreements with ASIC, AESIC, AIIC, and other affiliates in regards to joint reinsurance agreements with unaffiliated reinsurers. The cost allocation agreements define methodologies to allocate reinsurance premiums and loss recoveries in the event that the amounts are not identifiable to individual parties.

TERRITORY AND PLAN OF OPERATION

AIC is licensed as a property and casualty insurer by the Department under Chapter 379 RSMo (Insurance Other than Life). The Company is licensed and writes direct business in all 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. The states with the largest percentage of direct written premium in 2020 were as follows: California – 15.3%, New York – 9.2%, Texas – 8.3%, Florida – 5.1%, New Jersey – 4.7%.

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

Line of Business	Direct Written Premiums	Percentage of Total
Workers' Compensation	\$ 542,807,934	20.9%
Other Liability – Claims Made	498,870,488	19.2%
Other Liability – Occurrence	427,709,340	16.5%
Commercial Auto Liability	331,533,340	12.8%
Inland Marine	151,723,796	5.8%
All Other	643,565,647	24.8%
Total	\$2,596,210,545	100.0%

As noted under the Holding Company, Subsidiaries, and Affiliates subsection above, AIC and its subsidiaries write business under ACGL's insurance underwriting segment. The insurance segment is managed through various underwriting units that offer specialty product lines on a worldwide basis. Descriptions of the largest underwriting units are listed below:

- **Construction and National Accounts** – Workers' compensation and other liability coverages provided to middle and large sized customers.
- **Programs** – Managing general agents and program administrators produce and service property and casualty package policies for various industries.
- **Professional Lines** – Various liability coverages are provided, including directors' and officers' liability, errors and omissions liability, employment practices liability, fiduciary liability, and professional liability. Customer classes include accountants, lawyers, insurance agents, securities broker-dealers, partnerships, and non-profit organizations.
- **Travel, Accident and Health** – Trip cancellation or interruption insurance is provided for sickness, emergencies, and other unforeseen events. Medical coverage is provided for individual, group, and corporate travelers.

GROWTH OF COMPANY AND LOSS EXPERIENCE

While the Company's gross premiums written increased 32.6% (or approximately \$806 million) over the examination period, the Company's net premiums written (NPW) fluctuated over the three-year period, with a 17.36% decrease in NPW from 2018 to 2019, followed by 7.13% increase in NPW from 2019 to 2020. The Company's NPW in 2018 was higher than previous years due to the termination of the quota share agreement with Bermuda affiliate Arch Reinsurance Ltd. (ARL), which resulted in a return of ceded premiums of approximately \$423 million recorded in 2018. However, in 2019, AIC and ARL entered into another quota share agreement, under which AIC ceded \$236.9 million in premiums to ARL, causing the decrease in NPW. The increase in NPW from 2019 to 2020 was the result of growth within the fire, allied lines, other liability, commercial auto liability, and credit annual statement lines of business. See additional detail in the table on the following page, which summarizes the Company's premium writings and writing ratios for the period under examination:

(\$000s omitted)

Year	Net Premiums Written	Change in Net Premiums	Capital and Surplus	Ratio of Net Premiums to Surplus
2018	\$ 2,111,246	N/A*	\$ 912,693	2.31
2019	1,744,784	-17.36%	955,456	1.83
2020	1,869,107	7.13%	1,132,465	1.65

*The 2018 results compared to prior year are distorted due to the prospective accounting treatment of the loss portfolio transfer reinsurance agreements with ARL, under which AIC ceded to ARL approximately \$1.36 billion in premiums, offset by an equal amount of net losses and loss adjustment expenses (LAE).

The table below summarizes the Company's incurred losses and loss ratios for the period under examination:

(\$000s omitted)

Year	Net Premiums Earned	Net Losses and Loss Adjustment Expenses	Loss Ratio
2018	\$ 1,692,856	\$ 1,198,470	70.8%
2019	1,714,913	1,226,764	71.5%
2020	1,734,837	1,375,299	79.3%

The increase in losses and LAE over the exam period was largely driven by increase in catastrophe losses, including those attributed to the COVID-19 pandemic, as well as unfavorable development within the Surety division.

REINSURANCE

General

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

(\$000s omitted)

Premium Type	2018	2019	2020
Direct Premiums Written	\$ 2,028,385	\$ 2,344,313	\$ 2,596,211
Reinsurance Assumed:			
Affiliates	420,333	531,247	660,095
Non-Affiliates	27,083	26,057	25,476
Reinsurance Ceded:			
Affiliates	(335,465)	268,751	307,934
Non-Affiliates	700,019	888,082	1,104,741
Net Premiums Written	\$ 2,111,246	\$ 1,744,784	\$ 1,869,107

Assumed Reinsurance

The Company primarily assumes business of affiliated entities under various quota share reinsurance agreements. A majority of the premiums were assumed from ASIC, accounting for over 84% of assumed premiums for each year under examination. The remaining premiums were assumed from other affiliates, pools, and third-party cedents.

Ceded Reinsurance

AIC manages 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. Additional quota share and/or excess of loss reinsurance is obtained on an intercompany basis as deemed necessary. The retention, limit, and structure of the treaties varies on the product line being protected.

External, or non-affiliated, property catastrophe reinsurance is purchased by ACGL on behalf of AIC and other ACGL subsidiaries. AIC also entered into a catastrophe excess of loss agreement with its affiliate ARL to provide additional coverage for property losses. For 2020, the property catastrophe agreements with external reinsurers and ARL covered losses up to \$550 million in excess of \$150 million. The ARL agreement also covers losses in excess of \$700 million, up to a \$550 million limit. AIC also purchased external workers' compensation catastrophe coverage, which covers losses up to \$75 million of in excess of \$50 million.

AIC's most significant reinsurer during the examination period was its affiliate, ARL, with ceded premiums of \$289 million (20.5% of total premiums ceded) in 2020 and a net amount recoverable of \$2.2 billion (53.3% of total net amounts recoverable from reinsurers) at year-end 2020. AIC ceded premiums of \$1.1 billion (78.2% of total premiums ceded) to non-affiliated reinsurers in 2020 and reported \$1.8 billion in net amounts recoverable from reinsurers (44.9% of total) 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 fails to perform its obligations under the reinsurance contract.

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, 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 AIC 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 AIC 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

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 3,620,730,816	\$ -	\$ 3,620,730,816
Stocks:			
Common Stocks	653,208,881	-	653,208,881
Cash, Cash Equivalents, and Short- Term Investments	293,990,621	-	293,990,621
Other Invested Assets	93,763,551	-	93,763,551
Receivables for Securities	616,270	-	616,270
Investment Income Due and Accrued Premiums and Considerations:	19,099,367	-	19,099,367
Uncollected Premiums and Agents' Balances in the Course of Collection	197,872,731	55,051,935	142,820,796
Deferred Premiums, Agents' Balances, and Installments Booked but Deferred and Not Yet Due	357,480,108	-	357,480,108
Accrued Retrospective Premiums	25,548,192	277,609	25,270,583
Reinsurance:			
Amounts Recoverable from Reinsurers	107,813,216	-	107,813,216
Funds Held by or Deposited with Reinsured Companies	1,028,750	-	1,028,750
Other Amounts Receivable Under Reinsurance Contracts	30,628	-	30,628
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	5,439,504	-	5,439,504
Net Deferred Tax Asset	114,439,359	49,707,422	64,731,937
Receivables from Parent, Subsidiaries, and Affiliates	50,032,240	-	50,032,240
Aggregate Write-Ins for Other-Than- Invested Assets	280,585,274	29,892,153	250,693,121
TOTAL ASSETS	\$ 5,821,679,508	\$ 134,929,119	\$ 5,686,750,389

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2020

Losses	\$ 2,140,788,607
Reinsurance Payable on Paid Losses and Loss Adjustment Expenses	76,542,843
Loss Adjustment Expenses	436,597,981
Commissions Payable, Contingent Commissions, and Other Similar Charges	13,727,563
Other Expenses	3,763,349
Taxes, Licenses, and Fees	28,604,298
Unearned Premiums	946,480,428
Advance Premiums	6,400,938
Dividends Declared and Unpaid:	
Policyholders	2,223,807
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	377,159,781
Funds Held by Company Under Reinsurance Treaties	147,653,411
Amounts Withheld or Retained by Company for Account of Others	170,189,032
Remittances and Items Not Allocated	35,853,374
Provision for Reinsurance	10,845,787
Payable to Parent, Subsidiaries, and Affiliates	54,309,065
Payable for Securities	14,000,000
Aggregate Write-Ins for Liabilities	89,145,127
TOTAL LIABILITIES	\$ 4,554,285,393
Common Capital Stock	5,000,000
Gross Paid In and Contributed Surplus	952,167,750
Unassigned Funds (Surplus)	175,297,246
TOTAL CAPITAL AND SURPLUS	\$ 1,132,464,997
TOTAL LIABILITIES AND SURPLUS	\$ 5,686,750,389

STATEMENT OF INCOME
For the Year Ended December 31, 2020

Premiums Earned	\$ 1,734,836,846
DEDUCTIONS:	
Losses Incurred	1,128,864,359
Loss Adjustment Expenses Incurred	246,434,476
Other Underwriting Expenses Incurred	582,060,115
Total Underwriting Deductions	<u>\$ 1,957,358,950</u>
Net Underwriting Gain (Loss)	\$ (222,522,104)
Net Investment Income Earned	75,597,862
Net Realized Capital Gains	68,003,642
Net Investment Gain (Loss)	\$ 143,601,505
Net Gain (Loss) from Agents' or Premium Balances Charged Off	(709,452)
Aggregate Write-Ins for Miscellaneous Income	14,669
Dividends to Policyholders	1,206,890
Federal and Foreign Income Taxes Incurred	(9,329,523)
NET INCOME (LOSS)	\$ (71,492,749)

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

(\$000s omitted)

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital and Surplus, Beginning of Year	\$ 929,779	\$ 912,693	\$ 955,456
Net Income (Loss)	(99,763)	5,974	(71,493)
Change in Net Unrealized Capital Gains (Losses) Less Capital Gains Tax	(6,331)	17,126	25,007
Change in Net Unrealized Foreign Exchange Capital Gain (Loss)	(222)	-	-
Change in Net Deferred Income Tax	29,497	15,578	27,326
Change in Nonadmitted Assets	(41,546)	2,642	(40,373)
Change in Provision for Reinsurance	1,561	1,443	3,448
Surplus Adjustments:			
Paid In	99,717	-	233,094
Net Change in Capital and Surplus	<u>\$ (17,087)</u>	<u>\$ 42,763</u>	<u>\$ 177,009</u>
Capital and Surplus, End of Year	\$ 912,693	\$ 955,456	\$ 1,132,465

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

Consulting Actuary

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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

Subsequent to the examination period, the Company received additional capital contributions from its parent Arch Reinsurance Company. The first, on October 19, 2021, was a cash contribution in the amount of \$150 million. The second was in the amount of \$300 million received on December 16, 2021, and was in the form of cash and investments.

On October 5, 2021, AIC entered into a loss portfolio transfer (LPT) agreement with affiliate ARL, effective February 25, 2021. Under this LPT agreement, AIC agrees to cede to ARL 100% of the net retained liability with respect to AIC's contract binding operations (CBO) business unit for business written prior to January 1, 2020. This resulted in AIC ceding to ARL approximately \$134.7 million in net losses and loss adjustment expenses, in return for an equal amount of ceded premium.

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 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, and 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 Merlinos 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 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 17th day of April, 2022.

My commission expires: March 30, 2023 *Hailey Luebbert*

Notary Public



HAILEY LUEBBERT
My Commission Expires
March 30, 2023
Osage County
Commission #15634386

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.



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