



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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, 2017, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the 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, territory and plan of operation, growth of company, loss experience, reinsurance, financial statements, examination changes, comments on financial statement items, 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, 2017 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) 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 20th day of June, 2019.

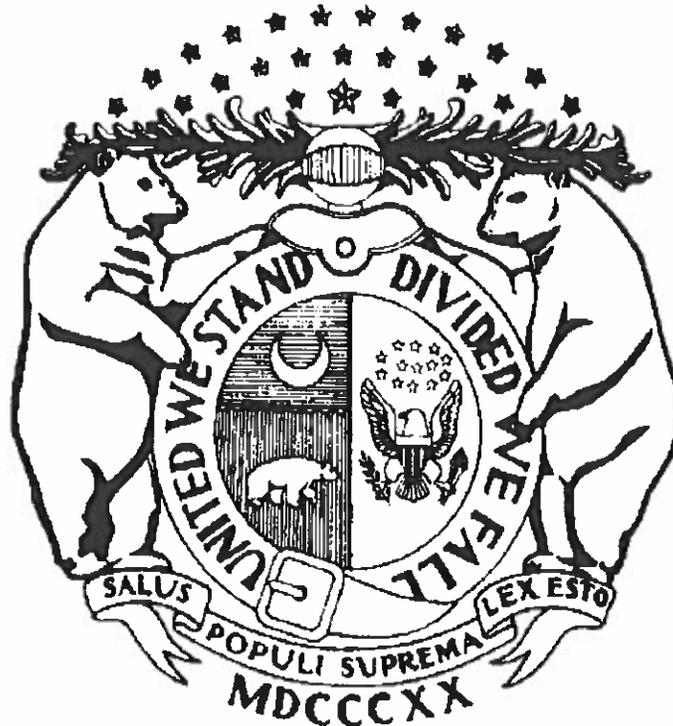


Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF
ARCH SPECIALTY
INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2017**



STATE OF MISSOURI

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION**

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
PERIOD COVERED	1
PROCEDURES.....	1
RELIANCE UPON OTHERS	2
SUMMARY OF SIGNIFICANT FINDINGS.....	2
SUBSEQUENT EVENTS.....	2
COMPANY HISTORY	2
GENERAL	2
DIVIDENDS	3
CAPITAL CONTRIBUTIONS	3
MERGERS AND ACQUISITIONS	3
CORPORATE RECORDS.....	3
MANAGEMENT AND CONTROL.....	3
BOARD OF DIRECTORS	3
SENIOR OFFICERS	5
PRINCIPAL COMMITTEES	5
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES	6
ORGANIZATIONAL CHART	7
INTERCOMPANY TRANSACTIONS	8
TERRITORY AND PLAN OF OPERATION	9
GROWTH OF COMPANY	10
LOSS EXPERIENCE	10

REINSURANCE 11

 GENERAL 11

 ASSUMED 11

 CEDED 11

FINANCIAL STATEMENTS..... 12

 ASSETS..... 13

 LIABILITIES, SURPLUS AND OTHER FUNDS..... 14

 STATEMENT OF INCOME 15

 RECONCILIATION OF SURPLUS 15

EXAMINATION CHANGES 16

COMMENTS ON FINANCIAL STATEMENT ITEMS 16

SUMMARY OF RECOMMENDATIONS 16

ACKNOWLEDGMENT..... 17

VERIFICATION..... 17

SUPERVISION 18

Jersey City, New Jersey
April 30, 2019

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
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

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. This examination began on May 21, 2018 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of ASIC. The last examination was completed as of December 31, 2014. This examination covers the period of January 1, 2015, through December 31, 2017. This examination also included the material transactions or events occurring subsequent to December 31, 2017.

This examination was performed concurrently with the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) examinations of Arch Insurance Company (AIC), Arch Indemnity Insurance Company (AIIC), and Arch Excess & Surplus Insurance Company (AESIC).

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 DIFP or the Revised Statutes of the State of Missouri (RSMo) 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 identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements. The following key activities were identified during the examination: Investments, Underwriting, Claims Handling, Reserving, Reinsurance, and Related Party Transactions.

The examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

Reliance Upon Others

The examiners relied upon information and workpapers provided by the Company's independent auditor, PricewaterhouseCoopers LLP (PwC) of New York, New York, for its audit covering the period from January 1, 2017 through December 31, 2017. Such reliance included, but was not limited to, fraud risk analysis, adjusting journal entry testing, internal control narratives, tests of internal controls, and substantive testing.

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.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2017 through the date of this report.

COMPANY HISTORY

General

Arch Specialty Insurance Company (formally known as Rock River Insurance Company) was incorporated on December 22, 1964, under the laws of Illinois, and commenced the business of insurance effective January 1, 1965. On September 30, 1999 the Company was purchased by Sentry Insurance, and redomesticated to Wisconsin in July, 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 sole 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 an admitted excess and surplus lines insurer.

Dividends

No dividends were declared or paid by ASIC during the examination period.

Capital Contributions

ASIC did not receive any capital contributions during the examination period.

Mergers and Acquisitions

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

CORPORATE RECORDS

ASIC's Articles of Incorporation and Bylaws were reviewed for any changes or updates during the period under examination. The Articles were not amended during the examination period. The Bylaws were amended in 2015 to address administrative items recommended in the prior examination. These amendments included changes in administrative office address, date of annual shareholder meeting, and definitions of executive roles and reporting structure. The Bylaws were also amended in 2016 to change the administrative office address and delete certain previously required officer positions.

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, 2017 were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Nicolas A.E. Papadopoulo Paget, Bermuda	Chairman and Chief Executive Officer Arch Insurance Worldwide
John P. Mentz Lakeville, MN	President Arch Insurance U.S.
Thomas J. Ahern Ridgewood, NJ	Senior Vice President, Chief Financial Officer, and Treasurer Arch Insurance Company and subsidiaries
Michael D. Price Westfield, NJ	Executive Vice President and Chief Underwriting Officer Arch Insurance Company and subsidiaries
Patrick K. Nails Yardley, PA	Senior Vice President, General Counsel and Chief Claims Officer Arch Insurance Company and subsidiaries
Marita A. Oliver New York, NY	Executive Vice President Arch Insurance Company and subsidiaries
John A. Rafferty Western Springs, IL	Executive Vice President Arch Insurance Company and subsidiaries
David M. Siesko New York, NY	Senior Executive Vice President Arch Insurance Company and subsidiaries
Thomas C. Connolly New York, NY	Vice President and Deputy Chief Financial Officer Arch Insurance Company and subsidiaries

Although all of the members of ASIC'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 ASIC 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 ASIC. ACGL's current Board of Directors is comprised of ten directors, three of whom are employees. ACGL's Board of Directors concluded that the seven 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, 2017:

<u>Name</u>	<u>Office</u>
Nicolas A.E. Papadopoulo	Chairman
John P. Mentz	President
John S. Edack	Senior Executive Vice President, Casualty
David M. Siesko	Senior Executive Vice President & Chief Claims Officer
Glenn R. Yanoff	Senior Executive Vice President, Contract Binding Operations
William J. Casey, Jr.	Executive Vice President, Chief Regional & Marketing Officer
David M. Finkelstein	Executive Vice President, Surety
Brian D. First	Executive Vice President, P&C Programs & Alternative Markets
Michael L. Kmetz	Executive Vice President, Property
Mark H. Lima	Executive Vice President, Southeast Region Branch Administrator
Patrick J.R. Mailloux	Executive Vice President, Executive Corporate
Kevin L. O'Brien	Executive Vice President, Healthcare
Marita A. Oliver	Executive Vice President, Corporate Underwriting
William A. Palmer	Executive Vice President, Midwest Region Branch Administrator
Michael D. Price	Executive Vice President, Chief Underwriting Officer
Justin F. Psaki	Executive Vice President, Executive Assurance
John A. Rafferty	Executive Vice President, Executive Assurance, Healthcare & Professional Liability
Richard A. Stock	Executive Vice President, Construction, National Accounts & Excess Workers Compensation
Thomas J. Ahern	Senior Vice President, Chief Financial Officer, and Treasurer
Patrick K. Nails	Senior Vice President, General Counsel, and Secretary

Principal Committees

Pursuant to ASIC'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 two members. The Board committee in existence at December 31, 2017 was the Investment and Finance Committee. Appointed members of the Investment and Finance Committee as of December 31, 2017 were Nicholas A.E. Papadopoulo (Chairman), Thomas J. Ahern, John P Mentz, and Patrick K. Nails.

The Company's Board of Directors designated the ACGL Audit Committee to act as its Audit Committee. As of December 31, 2017, ACGL's Audit Committee consisted of Brian S. Posner (Chairman), Yiorgis Lillikas, Louis Paglia, 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.

Besides the Board committees discussed above, ASIC has established various management committees to provide oversight and guidance. These include the Enterprise Risk Management Committee, the Reserve Review Committee, the Reinsurance Steering Committee, the IT Steering Committee, Claims Escalation Committee, and the Anti-Fraud 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 a wholly owned subsidiary of AIC. AIC is a wholly owned subsidiary of Arch Reinsurance Company (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. Funds associated with Artisan Partners Holdings LP (Artisan) owned 13.3% of the shares of ACGL as of December 31, 2017. Artisan submitted to the 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.

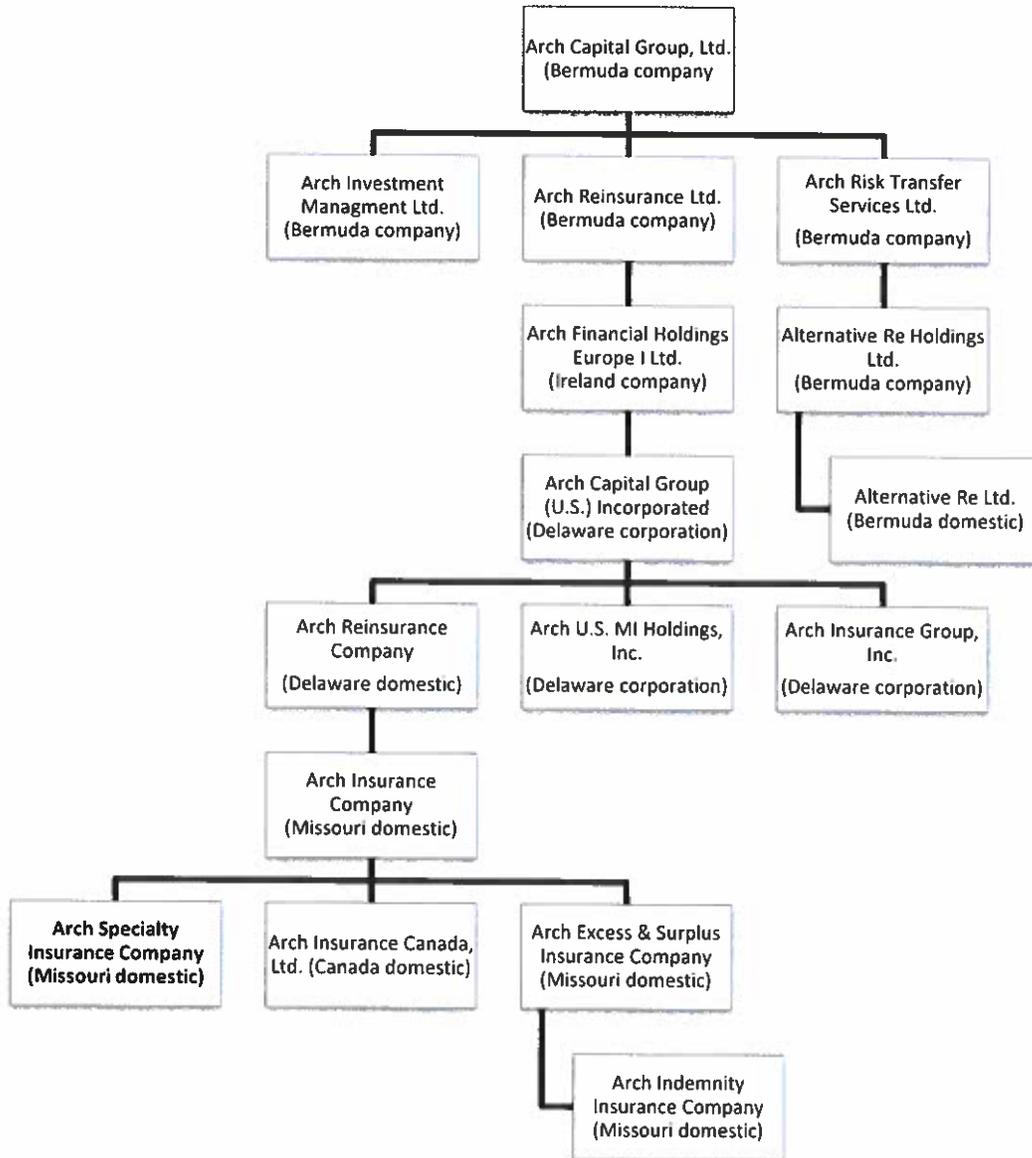
The three underwriting segments of ACGL are insurance, reinsurance, and mortgage. The U.S. operations of AIC and its insurance subsidiaries comprise approximately 80% of the net written premiums for ACGL's insurance segment. This segment also has operations in Bermuda, Europe, and Australia.

Affiliates of ASIC in the insurance segment of ACGL are described below:

- AIC is a Missouri domiciled insurer that is licensed in all 50 states, the District of Columbia, and various U.S. territories. AIC writes mostly workers' compensation and liability lines of business and had direct written premium of \$1.9 billion in 2017.
- AESIC is a Missouri domiciled insurer that is only licensed in Missouri, but is an approved excess and surplus lines insurer in 48 states. AESIC does not currently have any active business.
- AIIC is a Missouri domiciled insurer that is licensed in 49 states and the District of Columbia and currently writes only workers' compensation insurance. AIIC had direct written premium of \$64 million in 2019.
- Arch Insurance Canada, Ltd. is 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 the applicable portion of the holding company group as of December 31, 2017 (all subsidiaries shown are wholly owned unless otherwise noted):



Intercompany Transactions

The Company's significant intercompany agreements in effect, as of December 31, 2017, are outlined below:

1. Type: Service Agreement

Parties: AIGI and ASIC

Effective: July 1, 2004

Terms: AIGI provides ASIC 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: Amended and Restated Investment Manager Agreement

Parties: Arch Investment Management Ltd. (AIM) and ASIC

Effective: January 1, 2015

Terms: AIM is to provide investment management services on behalf of ASIC. The services are to include the investment and reinvestment of the ASIC'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. ASIC shall compensate AIM on a monthly basis in arrears based upon its asset account balances managed by AIM. AIM shall receive 14.5 basis points for directly managed accounts and 11.0 basis points for indirectly managed accounts.

3. Type: Fourth Amended and Restated Tax Sharing Agreement

Parties: Arch Capital Group, Inc. (ACGI) and subsidiaries, including AIC, ASIC, AESIC, and AIIC

Effective: January 1, 2017

Terms: ACGI 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.

The Company has a reinsurance agreement with AIC that is described in the Reinsurance Ceded section of this report. The Company also has several cost allocation agreements with AIC, AIIC, AESIC, and other affiliates in regard 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

Arch Specialty Insurance Company is licensed as a surplus lines insurer under Chapter 384 RSMo (Surplus Line Insurance). The Company is licensed in Missouri and is also an approved excess and surplus lines insurer in the other 49 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The states with the largest percentage of direct written premium in 2017 were as follows: Florida – 20%, New York – 20%, California – 10%, Texas – 8%, Illinois – 3%.

The major lines of business for ASIC, based upon 2017 direct written premiums, are listed in the table below.

<u>Line of Business</u>	<u>Direct Written Premiums</u>	<u>Percent of Total</u>
Other Liability – Occurrence	\$159,040,261	33.5%
Fire	101,723,826	21.4%
Other Liability – Claims Made	69,953,092	14.7%
Medical Professional Liability	61,010,866	12.8%
Products Liability	26,063,340	5.5%
All Other	<u>57,405,897</u>	<u>12.1%</u>
Total	<u>\$475,197,282</u>	<u>100.0%</u>

The Company's operations are managed in various specialty product lines within the insurance segment of ACGL. Descriptions of the product lines applicable to ASIC are listed below:

- Property – Provides primary and excess general property insurance, including catastrophe exposed property coverages for commercial clients.
- 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

The table below shows the Company's premium writings and surplus changes for the most recent four years, which includes the current examination period.

<u>Year</u>	<u>Direct Premiums Written</u>	<u>Change in Direct Premiums</u>	<u>Capital and Surplus</u>	<u>Change in Capital and Surplus</u>
2014	\$552,696,270	7.1%	\$292,438,007	3.2%
2015	533,042,853	-3.6%	305,928,109	4.6%
2016	532,496,931	-0.1%	301,873,546	-1.3%
2017	475,197,282	-10.8%	300,746,433	-0.4%

Most of the decrease in direct premiums written in 2017 was from a \$37 million decrease in property lines of business. Net income totaled \$31 million from 2015 to 2017, but was offset by a \$20 million increase in non-admitted assets. These offsetting factors were primarily responsible for only minimal growth in surplus of \$8 million for the examination period.

LOSS EXPERIENCE

The table below shows the Company's incurred losses and loss ratios for the most recent four years, which includes the current examination period.

<u>Year</u>	<u>Direct Premiums Earned</u>	<u>Direct Losses and Loss Adjustment Expenses Incurred</u>	<u>Direct Loss Ratio</u>
2014	\$514,690,968	\$217,622,043	42.3%
2015	517,410,935	244,226,569	47.2%
2016	519,950,230	278,475,203	64.2%
2017	492,821,701	450,110,559	91.3%

The poor loss ratio in 2017 was due to significant property losses from hurricanes and wildfires.

REINSURANCE

General

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Direct Business	\$533,042,853	\$532,496,931	\$475,197,282
Assumed:			
Affiliates	0	0	0
Non-affiliates	3,735,553	3,687,682	2,756,242
Ceded:			
Affiliates	(440,623,431)	(425,447,253)	(364,524,505)
Non-affiliates	<u>(95,884,104)</u>	<u>(110,634,622)</u>	<u>(113,435,324)</u>
Net Premiums Written	<u>\$ 270,871</u>	<u>\$ 102,738</u>	<u>(\$ 6,305)</u>

Assumed

The Company assumes immaterial amounts of business was various ceding companies and pools and associations. Assumed premiums were less than 1% of gross premiums written for each year of the examination period.

Ceded

ASIC's reinsurance program is structured to first obtain coverages from numerous external reinsurers that meet the Company's standards for financial strength. Quota share reinsurance is obtained on an intercompany basis after the application of external reinsurance agreements.

External reinsurance is obtained separately for each of the Company's product lines for the combined book of business from ASIC, AIC and other insurance affiliates. External reinsurance agreements provide coverage on a quota share, per risk excess of loss, per occurrence excess of loss, and catastrophe excess of loss basis. ASIC's ceded risk is spread among a diversified portfolio of reinsurers. Total non-affiliated ceded reinsurance recoverables totaled \$388 million, as of December 31, 2017, and the reinsurer with the largest recoverable amount only represented 14% of the total.

ASIC's most significant reinsurer is its direct parent, AIC. In 2017, ASIC ceded \$365 million or 76% of its total ceded premiums to AIC. ASIC's December 31, 2017 net reinsurance recoverable from AIC was \$1.2 billion, representing 76% of its total net reinsurance recoverable. ASIC has a quota share agreement with AIC to cede 100% of its net retained liability under all policies, contracts, agreements, binders, endorsements, etc.

The Company, AIC and other affiliates have a joint reinsurance agreement that provides catastrophe excess of loss coverage for workers' compensation risks. The reinsurance covers losses up to \$75 million in excess of a \$50 million retention.

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.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of the Company for the period-ending December 31, 2017. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

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 activity.

ASSETS
as of December 31, 2017

	<u>Assets</u>	Non- Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$304,943,331	\$ 0	\$304,943,331
Cash and Short-Term Investments	3,140,956	0	3,140,956
Other Invested Assets	13,097,400	0	13,097,400
Securities Lending Reinvested Collateral	5,684,945	0	5,684,945
Investment Income Due and Accrued	2,087,198	0	2,087,198
Uncollected Premiums	32,583,189	17,489,769	15,093,420
Deferred Premiums	2,344,754	0	2,344,754
Accrued Retrospective Premiums	3,082,850	115,300	2,967,550
Amounts Recoverable from Reinsurers	79,972,451	0	79,972,451
Federal Income Tax Recoverable	623,785	0	623,785
Net Deferred Tax Asset	8,950,461	5,120,163	3,830,298
Receivable from Parent, Sub., Affiliates	4,867	0	4,867
Aggregate Write-In Assets	<u>60,651,682</u>	<u>11,036,635</u>	<u>49,615,047</u>
TOTAL ASSETS	<u>\$517,167,869</u>	<u>\$33,761,867</u>	<u>\$483,406,002</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
as of December 31, 2017

Losses	\$ 310,474
Loss Adjustment Expenses	44,633,557
Commissions Payable	2,970,877
Other Expenses	1,999,637
Unearned Premiums	765
Ceded Reinsurance Premiums Payable	72,688,494
Funds Held by Reinsured Companies	3,587,782
Amounts Withheld	21,717,746
Remittances and Items Not Allocated	2,820,662
Provision for Reinsurance	198,647
Payable to Parent, Subsidiaries and Affiliates	3,881,005
Payable for Securities Lending	5,684,945
Aggregate Write-In Liabilities	<u>22,164,977</u>
TOTAL LIABILITIES	\$182,659,568
Common Capital Stock	5,000,000
Gross Paid In and Contributed Surplus	233,419,614
Unassigned Funds (Surplus)	<u>62,326,819</u>
CAPITAL AND SURPLUS	<u>\$300,746,433</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$483,406,001</u>

STATEMENT OF INCOME
For the Year Ended December 31, 2017

Premium Earned	\$ 47,868
DEDUCTIONS:	
Losses Incurred	468,580
Loss Adjustment Expenses Incurred	19,628,147
Other Underwriting Expenses Incurred	(20,406,962)
Aggregate Write-Ins for Underwriting Deductions	<u>0</u>
Total Underwriting Deductions	(\$ 310,235)
Net Underwriting Gain	\$358,103
Net Investment Income Earned	6,881,231
Net Realized Capital Gains	<u>197,115</u>
Net Investment Gain	\$7,078,346
Other Income	(744,737)
Federal Income Taxes Incurred	<u>973,579</u>
NET INCOME	<u>\$5,718,133</u>

RECONCILIATION OF SURPLUS
Changes from January 1, 2015 to December 31, 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital and Surplus, Beginning of Year	\$292,438,007	\$305,928,109	\$301,873,546
Net Income	23,298,284	2,115,619	5,718,133
Change in Net Unrealized Capital Gains	99,854	(453,944)	798,573
Change in Net Deferred Income Tax	(3,828,624)	4,871,110	(5,107,877)
Change in Non-Admitted Assets	(6,331,058)	(9,875,084)	(3,744,685)
Change in Provision for Reinsurance	<u>251,646</u>	<u>(712,264)</u>	<u>1,208,743</u>
Change in Capital and Surplus for the Year	<u>\$ 13,490,102</u>	<u>(\$ 4,054,563)</u>	<u>(\$ 1,127,113)</u>
Capital and Surplus, End of Year	<u>\$305,928,109</u>	<u>\$301,873,546</u>	<u>\$300,746,433</u>

EXAMINATION CHANGES

None.

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

SUMMARY OF RECOMMENDATIONS

None.

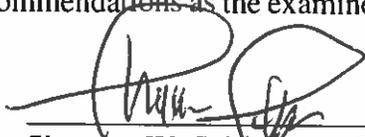
ACKNOWLEDGMENT

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, Sara McNeely, Examiner-In-Charge, CFE, Ronald Musopole, AFE, Alicia Galm, Kimberly Dobbs, CFE, AES, and Bernie Troop, CFE, examiners for the Missouri DIFP, also participated in this examination. Kristine Fitzgerald, ACAS, MAAA, of Actuarial & Technical Solutions, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Shannon W. Schmoeger, 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.



Shannon W. Schmoeger, CFE, ARE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

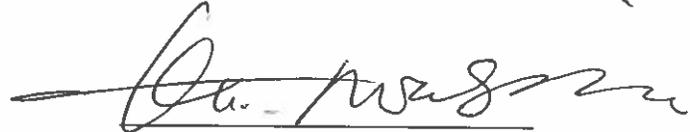
Sworn to and subscribed before me this 3rd day of May, 2019.
My commission expires: March 30, 2023 

Notary Public

 **HAILEY LUEBBERT**
My Commission Expires
March 30, 2023
Osage County
Commission #15634368

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 DIFP and statutes of the State of Missouri prevailed.

A handwritten signature in black ink, appearing to read "Levi Nwasoria", written over a horizontal line.

Levi Nwasoria, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration