

**REPORT ON EXAMINATION
OF
ARCH REINSURANCE COMPANY
AS OF
DECEMBER 31, 2020**

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
OF
ARCH REINSURANCE COMPANY
AS OF
DECEMBER 31, 2020

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.



Trinidad Navarro
Insurance Commissioner

Dated this 24th day of January, 2022

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December 21, 2021

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street
Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 21.018, dated February 1, 2021, an examination has been made of the affairs, financial condition and management of

ARCH REINSURANCE COMPANY

hereinafter referred to as the Company or ARC and incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1209 Orange Street, Wilmington, Delaware. Due to the COVID-19 Pandemic, the examination was conducted offsite. The administrative office of the Company is located at 445 South Street, Morristown, New Jersey. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The previous regulatory examination of the Company covered the three-year period from January 1, 2015 through December 31, 2017. This examination will cover the three-year period from January 1, 2018 through December 31, 2020, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well

as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2020. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of the multi-state coordinated examination of the Arch Group of regulated United States insurance companies as of December 31, 2020. Missouri is the lead state and all states participated in the examination. The examination was conducted concurrently with that of the Company's U.S. affiliates:

Company Name	NAIC Number	State of Domicile
Arch Insurance Company (AIC)	11150	MO
Arch Specialty Insurance Company (ASIC)	21199	MO
Arch Property Casualty Insurance Company (APCIC)	10946	MO
Arch Indemnity Insurance Company (AIIC)	30830	MO
Financial American Life Insurance Company (FALIC)	71455	KS
United Guaranty Residential Insurance Company (UGRIC)	15873	NC
United Guaranty Residential Insurance Company of North Carolina (UGRICNC)	16667	NC
Arch Mortgage Guaranty Company (AMGC)	18732	WI
Arch Mortgage Assurance Company (AMAC)	29114	WI
Arch Mortgage Insurance Company (AMIC)	40266	WI

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC 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.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* § 321, along with 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.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm PricewaterhouseCoopers LLC (PwC). Certain auditor work papers of the 2020 PwC audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

COMPANY HISTORY

On July 20, 1995, the Company was incorporated in the State of Nebraska as Risk Capital Reinsurance Company. The Company was a 100% subsidiary of Risk Capital Holdings, Inc., which was formed in March 1995. The Company commenced operations on November 6, 1995.

On April 24, 2000, the Company's name was changed to Arch Reinsurance Company. Likewise, the Company's parent changed its name to Arch Capital Group (U.S.) Inc. (Arch US) at

the same time. Effective September 15, 2014, the Company re-domesticated from Nebraska to Delaware.

On December 15, 2015, Arch Insurance Group (Arch Insurance) distributed and transferred ownership of 100% of the stock of AIC, directly to the Company. The Company then transferred 100% of the Arch Insurance shares to its parent, Arch US by way of a dividend. The purpose of the restructuring was to distribute and transfer Arch Insurance and its non-insurance subsidiaries from the ownership of the Company and leave AIC and its insurance subsidiaries directly under the Company's ownership.

On December 31, 2020, the Company's wholly owned subsidiary Arch Re Facultative Underwriters Inc. was dissolved and its assets and liabilities were absorbed into the Company.

Capitalization

The Company's Certificate of Incorporation authorizes the issuance of 1,000,000 shares of common stock with a \$5.00 par value. As of December 31, 2020, the Company had 1,000,000 common shares issued and outstanding totaling \$5,000,000. All outstanding common shares of the Company are owned by Arch US. As of December 31, 2020, the Company reported gross paid in and contributed surplus of \$1,139,075,377.

Dividends

The Company paid ordinary cash dividend to its sole shareholder during the period under examination as reflected in the Board of Directors (Board) meeting minutes and approved by the Department as follows:

<u>Date Declared</u>	<u>Notification Date</u>	<u>Date Paid</u>	<u>Dividend Paid</u>
03/14/2018	03/15/2018	03/30/2018	\$25,000,000

Dividend payments for the year noted above is in compliance with 18 *Del. C.* § 5005(b).

MANAGEMENT AND CONTROL

Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board.

Directors shall be elected annually by the sole shareholder and the number of directors is currently fixed by a Board resolution at seven members. The directors shall hold office until the next Annual Shareholders Meeting or until their successors are elected or appointed. Directors are not required to be Shareholders or residents of Delaware to qualify. Directors duly elected and serving as of December 31, 2020, were as follows:

<u>Name</u>	<u>Title</u>
Kenneth J. Vivian	Chairman of the Board, President and CEO
Barry E. Golub	Chief Financial Officer
Peder F. Moller	Chief Underwriting Officer
Gary Blumsohn	Executive Director – Underwriting and Actuarial
Timothy W. Forshay	Treasurer
Maamoun J. Rajeh	Chairman and CEO of Arch Worldwide Reinsurance Group
Vincent Laurenzano	Insurance Finance Consultant, Stroock & Stroock & Lavan

Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a Chairman of the Board, President, Managing Directors, Vice Presidents (including Executive Vice Presidents and Senior Vice Presidents), Treasurer, Secretary and such other officers as may be elected or appointed by the Board. Any two or more offices may be held by the same person, except that the President and the Secretary shall not be the same person. The primary officers serving as of December 31, 2020, were as follows:

<u>Name</u>	<u>Title</u>
Kenneth J. Vivian	President
Barry E. Golub	Chief Financial Officer
Anna Dechristofano	Secretary

Committees of the Board

The Company has an Investment Committee, which meets quarterly to review the Company's investments and investment guidelines. As of December 31, 2020, the Investment Committee consisted of the following three directors: Kenneth J. Vivian, Barry E. Golub and Gary Blumsohn.

The Audit Committee (AC) for Arch Capital Group Limited (ACGL) serves as the AC for the Company. The AC is composed of the following members: Brian S. Posner, Laurie S. Goodman, Eugene S. Sunshine and Thomas R. Watjen. The four members of the AC are outside directors and are considered independent.

Corporate Records

The recorded minutes of the Shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, the review of Company files indicated that written correspondence was submitted to the Department with regard to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

Insurance Holding Company System

The Company is a member the ACGL insurance holding company system as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. ACGL, a publicly traded holding company domiciled in Bermuda, is the ultimate controlling entity. Through its operations in Bermuda, Europe and the United States, the ACGL companies write insurance and reinsurance on a

worldwide basis. As of December 31, 2020, ACGL had consolidated assets of \$43.282 billion and total shareholders' equity of \$13.929 billion.

An abbreviated organizational chart of the ACGL holding company system as of December 31, 2020, is as follows (ownership of subsidiaries is 100% unless otherwise noted):

	% Ownership
Arch Capital Group Ltd. (Bermuda)	100%
Arch Reinsurance Ltd. (Bermuda)	100%
Arch Financial Holdings Europe I Limited (Ireland)	90%
Arch Capital Group (U.S.) Inc. (Delaware)	100%
Arch Reinsurance Company (Delaware)	100%
Arch Underwriters Inc. (Delaware)	100%
Arch Insurance Company (Missouri)	100%
Arch Property Casualty Insurance Company (Missouri)	100%
Arch Indemnity Insurance Company (Missouri)	100%
Arch Insurance Canada Ltd. (Canada)	100%
Arch Specialty Insurance Company (Missouri)	100%
Arch Insurance Group Inc. (Delaware)	100%
Arch Life Insurance Company of America (Kansas)	100%
Arch Capital Services LLC (Delaware)	100%
Arch Mortgage Funding, Inc. (Delaware)	100%
Arch U.S. MI Holdings Inc. (Delaware)	100%
Arch Mortgage Guaranty Company (Wisconsin)	100%
Arch Mortgage Insurance Company (Wisconsin)	100%
Arch U.S. MI Services Inc. (Delaware)	100%
Arch Mortgage Assurance Company (Wisconsin)	100%
Arch Capital Finance LLC (Delaware)	100%
United Guaranty Services, Inc. (North Carolina)	100%
United Guaranty Residential Insurance Company of NC (North Carolina)	100%
United Guaranty Residential Insurance Company (North Carolina)	100%

Agreements with Affiliates

Investment Management Agreement

Effective April 1, 2006, the Company entered into an Investment Management Agreement with Arch Investment Management Ltd. Under this agreement, the investment manager shall be responsible for the investment and reinvestment of assets in one or more accounts designated by

the Company. This management agreement includes powers, duties and responsibilities of all investment and reinvestment of assets. This agreement has been amended twice since its inception.

Support Services Agreement

Effective May 1, 2018, the company entered into an Amended and Restated Support Services Agreement with Arch Global Services Inc. (AGSI). Under the terms of this agreement, the Company will receive the following services from AGSI: IT related support services (application development and production support and quality assurance testing) and non-IT related support services (actuarial, finance, claims operations, premium audit, statistical and compliance reporting) as requested by the Company.

Tax Sharing Agreement

Effective January 1, 2002, the Company entered into a Tax Sharing Agreement with Arch US and its subsidiaries. Under this agreement, the Company's taxes are computed as if it filed a separate tax return. In addition, the Company will receive a current benefit for any of its net operating losses or other items that are utilized within the Arch US consolidated tax return. This agreement was last amended on January 1, 2017.

Employee Leasing Agreement

Effective October 1, 2015, the Company entered into an Employee Leasing Agreement with Arch Underwriters Inc. (AUI). Under the terms of this agreement, the Company provides support services to AUI. This agreement was last amended on October 1, 2016.

Service Agreement with Arch Insurance Group

Effective April 1, 2003, the Company entered into a Service Agreement with AIC. Under the terms of the agreement, AIC furnishes personnel, equipment, supplies, consultation services and offices in order to assist the Company in the transaction of its business.

Administrative Support Service Agreement with Arch Capital Services

Effective July 1, 2017, the Company entered into an Administrative Support Service Agreement with Arch Capital Services Inc. (ACS). Under the terms of the agreement, ACS agrees to provide various administrative support services to the Company.

Credit Facility

As of December 31, 2020, ACGL, and various designated subsidiary borrowers including the Company (together Credit Facility Group) had a \$250 million secured facility for letters of credit and a \$500 million unsecured facility for revolving loans and letters of credit (Credit Agreement). Obligations of each borrower under the secured facility for letters of credit are secured by cash and eligible securities of such borrower held in collateral accounts. Commitments under the credit facility may be increased by up to, but not exceeding \$1.3 billion. ACGL has a one-time option to convert any or all outstanding revolving loans of ACGL and/or Arch US to term loans with the same terms as the revolving loans except that any prepayments may not be re-borrowed. Borrowings of revolving loans may be made by ACGL and the Company at a variable rate based on LIBOR or an alternative base rate at the option of ACGL. Secured letters of credit are available for issuance on behalf of ACGL's insurance and reinsurance subsidiaries. The Credit Agreement and related documents are structured such that each party that requests a letter of credit or borrowing does so only for itself and for its own obligations.

The Credit Agreement contains certain restrictive covenants customary for facilities of this type, including restrictions on indebtedness, consolidated tangible net worth, minimum shareholders equity levels and minimum financial strength ratings. As of December 31, 2020, the Credit Facility Group was in compliance with all covenants contained in the Credit Agreement.

Under the \$250 million secured letter of credit facility, the Credit Facility Group had \$218.4 million of letters of credit outstanding and remaining capacity of \$31.6 million as of

December 31, 2020. In addition, certain of the Credit Facility Group's subsidiaries had outstanding secured and unsecured letters of credit of \$250 million and \$26.2 respectively (of which \$8 million relates to the Company). When issued, these letters of credit are secured by a portion of the Group's investment portfolio. As of December 31, 2020, these letters of credit were secured by investments with a fair value of \$262.4 million (of which \$9.9 million relates to the Company).

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2020, the Company was licensed or accredited as a reinsurer in all 50 states, the District of Columbia, Puerto Rico and Guam. In addition, they are licensed federally in Canada and in the Canadian Provinces of Ontario and Quebec.

Plan of Operation

The Company currently writes both treaty and facultative business and focuses primarily on the following areas:

- ***Casualty***: provides coverage to ceding company clients on third party liability and workers' compensation exposures from ceding company clients, primarily on a treaty basis. Exposures include, among others, executive assurance, professional liability, workers' compensation, excess and umbrella liability, excess motor and healthcare business.
- ***Marine and aviation***: provides coverage for energy, hull, cargo, specie, liability and transit, and aviation business, including airline and general aviation risks. Business written may also include space business, which includes coverages for satellite assembly, launch and operation for commercial space programs.
- ***Other specialty***: provides coverage to ceding company clients for proportional motor and other lines including surety, accident and health, workers' compensation catastrophe, agriculture, trade credit and political risk.
- ***Property catastrophe***: provides protection for most catastrophic losses that are covered in the underlying policies written by reinsureds, including hurricane, earthquake, flood, tornado, hail and fire and coverage for other perils on a case-by-case basis. Property catastrophe reinsurance provides coverage on an excess of loss basis when aggregate losses and loss adjustment expense from a single occurrence of a covered peril exceed the retention specified in the contract.

- ***Property excluding property catastrophe:*** provides coverage for both personal lines and commercial property exposures and principally covers buildings, structures, equipment and contents. The primary perils in this business include fire, explosion, collapse, riot, vandalism, wind, tornado, flood and earthquake. Business is assumed on both a proportional and excess of loss basis. In addition, facultative business is written which focuses on commercial property risks on an excess of loss basis.
- ***Other:*** includes reinsurance business on both a proportional and non-proportional basis, casualty clash business and, in limited instances, non-traditional business which is intended to provide insurers with risk management solutions that complement traditional reinsurance.

REINSURANCE

The Company reported the following distribution of premiums written for the years Ended December 31, 2020, and the prior examination date of December 31, 2017:

	<u>2020</u>	<u>% GPW</u>	<u>2017</u>	<u>% GPW</u>
Direct Business	\$ -	0%	\$ -	0%
Reinsurance assumed from affiliates	11,642,599	1.3%	904,657	0.2%
Reinsurance assumed from non-affiliates	861,636,389	98.7%	596,588,502	99.8%
Gross Premiums Written	<u>873,278,988</u>	<u>100.0%</u>	<u>597,493,159</u>	<u>100.0%</u>
Reinsurance ceded to affiliates	132,949,178	15.2%	377,048,829	63.1%
Reinsurance ceded to non-affiliates	30,807,486	3.5%	26,508,459	4.4%
Total Ceded Premium	<u>163,756,664</u>	<u>18.8%</u>	<u>403,557,288</u>	<u>67.5%</u>
Net Premiums Written	<u>\$ 709,522,324</u>	<u>81.2%</u>	<u>\$ 193,935,871</u>	<u>32.5%</u>

Ceded Reinsurance

Below is a breakdown of Ceded reinsurance for the year-ended December 31, 2020:

Arch Reinsurance Company

AIC - Affilaite	\$ 584,000	
Non Affiliate	16,745,923	
Watford - Affiliate	<u>603,656</u>	
Total Facultative		\$ 17,933,579
Canadian Branch - non affilaite:	\$ 2,628,849	
US - non affilaite:	<u>11,432,714</u>	
Total treaty non affiliates		\$ 14,061,563
Canadian Branch - ARL	\$ 61,764,996	
Mortgage - ARL	28,164,996	
Watford	<u>41,831,531</u>	
Total Ceded affilaite -treaty		<u>\$ 131,761,523</u>
Total Ceded Premium written		<u>\$ 163,756,665</u>

Ceded Treaty Reinsurance Affiliated

Effective January 1, 2014, the Company entered into a quota share reinsurance agreement with Watford Re Ltd. (Watford), an affiliated multi-line Bermuda reinsurance company. The agreement specifies that the Company will cede to Watford a ceded percentage equal to or less than 80% of the Company's gross liability that may accrue to the Company. The decision to cede any underlying contract shall be at the discretion of the Company.

Effective January 1, 2015, the prior quota share agreements between the Company and Arch Reinsurance Limited (ARL) were superseded by two new quota share branch agreements (U.S. and Canada) for all new and renewed contracts.

The first agreement, effective January 1, 2015, covers contracts issued or renewed in the Company's United States offices (the U.S. Agreement) issued and/or renewed by the Company during the term of this agreement or issued and/or renewed prior to the term of the 2015 U.S. Agreement with an effective date of inception on or after 2015. Under the U.S Agreement, the Company cedes 80% of its net liability under all contracts which are defined by the Company as

Personal Accident, Workers' Compensation Catastrophe, Casualty Clash – High Layer, Casualty Clash-Low Layer, Mortgage Reinsurance and contracts for which the gross estimated ultimate premium, where the Company's share is equal to or greater than \$25 million. All other lines are ceded at 50%. The agreement provides a limit of \$60 million for any one loss occurrence.

The second agreement, effective January 1, 2015, covers contracts issued or renewed by the Company's Canadian Branch (the Canadian Agreement) issued and/or renewed by the Company during the term of the Canadian Agreement or issued and/or renewed prior to the term of the 2015 Agreement with an effective date of inception on or after 2015. Under the Canadian Agreement, the company cedes 80% of its net liability under all contracts. The agreement provides a limit of \$175 million on any loss occurrence.

Effective January 1, 2018, the Company endorsed to cancel outright the prior quota share Agreements with ARL and endorsed to end the U.S. Branch quota share Agreement with ARL for underwriting years 2017 and prior with losses occurring on or after January 1, 2018, for all lines of business with the exception of Mortgage Reinsurance, which remains at an 80% quota share.

Effective December 31, 2018, the Company entered into a Multi-Line Loss Portfolio Transfer Reinsurance Agreement with ARL. Under the agreement, Arch Re cedes a 70% quota share of its net retained liability in respect of losses occurring on or prior to December 31, 2018.

Effective November 15, 2020, the Company entered into a Property Per Risk Excess of Loss Reinsurance Agreement (referred to by the Company as T-Listing Agreement) with AIC. Under the terms of the agreement, AIC would indemnify the Company in respect of the liability that may accrue to the Company as a result of loss or losses under all Reinsurance Contracts written by the Company. AIC's liability in respect of each Risk, each loss, for the Net Loss over and above an initial Net Loss of \$25,000,000 each Risk, each loss, will be 49.16% of \$40,000,000 each Risk, each loss.

Under the agreement AIC shall only be liable for any net loss that the Company cannot collect from its non T-Listed property per risk excess of loss retrocession treaty retrocessionaires due to financial impairment of such retrocessionaires.

Ceded Treaty Reinsurance Non-Affiliated

The significant non-affiliated reinsurance agreements covering the Company's treaty reinsurance segment are summarized below:

The Company cedes 27.253% of property business under various quota share reinsurance agreements as detailed below:

<u>Retrocessionaire</u>	<u>Participation Percentage</u>
Anadolu Anonim Turk Sigorta Sirketi	1.819%
CCR Re	2.250%
The Cincinnati Insurance Company	8.000%
Insurance Company of the West	3.750%
Secquaero Re Regent Insurance Company Ltd	<u>11.434%</u>
Total Percentage of Property XOL book ceded	27.253%

For Aviation Business underwritten by Coverx and Fidelis, the Company has an Aviation Excess of Loss Treaty in effect as follows:

- 1st excess \$2 million excess \$500,000
- 2nd excess \$2.5 million excess \$2.5 million
- 3rd excess \$5 million excess \$5 million

For Aviation Business Underwritten by Elseco the coverage is as follows:

- 1st excess \$1.155 million excess \$308,136 or original retention as noted below*
- 2nd excess \$1.155 million excess \$1.155 million which is excess of the original retention
- 3rd excess \$1.540 million excess \$2.311 million which is excess of the original retention

*For Priority A an amount equivalent to the reinsured's proportion of the original loss sustained by the original insured's \$150,000,000 or the currency equivalent each and every loss.

*For Priority B an amount equivalent to the reinsured's proportion of the original loss sustained by the original insured's \$125,000,000 or the currency equivalent each and every loss.

Ceded Facultative Reinsurance Non-Affiliated

Property per Risk Excess of Loss

1st Excess provides coverage for \$10 million excess \$15 million each risk each loss subject to reinstatement with the net loss for the contract not to exceed \$30 million in respect of all losses during the term of the contract. The contract is 100% placed 90% in the broker market and 10% with Watford. Since Watford is not authorized in Canada they do not participate on the Canadian business.

2nd Excess provides coverage for \$40 million excess \$25 million each risk each loss subject to reinstatement with the net loss for the contract not to exceed \$80 million in respect of all losses during the term of the contract. The contract is 100% placed 90% in the broker market and 10% with Watford. Since Watford is not authorized in Canada they do not participate on the Canadian business.

Facultative Matching Line Facility

The agreement indemnifies the Company for the ceded percentage of the Company's ultimate net loss that may accrue in respect of its participation in contracts, certificates and binders of reinsurance written or renewed by the facultative divisions of the Company selected by the Company for cession under the agreement.

The reinsurer participation is subject to a maximum cession (100% basis) of:

- \$15 million any one risk covering fire lines as defined by the Company
- \$15 million any one risk covering catastrophic lines as defined by the Company

The contract is divided into two sections: Section A applies to cessions less than \$10 million and is placed 100% with Transatlantic Re and Section B applies to cessions between \$10 million and \$15 million and is placed 66.67% with Transatlantic Re and 33.33% with American Standard Insurance Company of Wisconsin (American Standard).

Facultative Simultaneous Line Facility

The agreement indemnifies the Company for the ceded percentage of the Company's ultimate net loss that may accrue in respect of its participation in contracts, certificates and binders of reinsurance written or renewed by the facultative divisions of the Company selected by the Company for cession under the agreement.

The reinsurer participation is subject to a maximum cession (100% basis) of

- \$5 million any one risk covering fire lines as defined by the Company
- \$5 million any one risk covering catastrophic lines as defined by the Company

The Contract is 100% placed with American Standard.

Assumed Reinsurance

Below is a summary of business assumed as of December 31, 2020:

Affiliates	\$ 721,861	
Non affiliates	<u>165,269,111</u>	
Total Facultative - US		\$ 165,990,972
Affiliates	\$ 647,852	
Non affiliates	<u>79,187,242</u>	
Total Canadian Branch		79,835,094
Affiliates	\$ 10,272,886	
Non affiliates	<u>617,180,172</u>	
Total Treaty - US		<u>627,453,058</u>
Total Assumed premium written		<u>\$ 873,279,124</u>

Assumed Reinsurance Affiliates

Effective January 1, 2015, the Company entered into a quota share reinsurance agreement with Arch Mortgage Guaranty Company (Arch Mortgage), an affiliated insurance company. This agreement specifies that the Company will assume from Arch Mortgage a 50% quota share

percentage on residential lenders mortgage guarantee insurance policies or certificates issued on or after the effective date.

Effective September 1, 2016, the Company entered into a quota share reinsurance agreement with Watford Insurance Company (WIC), a New Jersey domiciled insurance company. This agreement specifies that the Company has the ability to elect specific ceding percentage participation at the policy level of no more than 50% and no less than 15%. In respect to the program business ceded under this contract, the ceding percentage elected by the Company will apply to all policies that are part of such program.

Effective January 1, 2016, the Company entered into a quota share reinsurance agreement with Watford Specialty Insurance Company (WSIC), a New Jersey domiciled insurance company. This agreement specifies that the Company has the ability to elect specific ceding percentage participation at the policy level of no more than 50% and no less than 15%. In respect to the program business ceded under this contract, the ceding percentage elected by the Company will apply to all policies that are part of such program.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets as of December 31, 2020
- Statement of Liabilities and Surplus as of December 31, 2020
- Statement of Income for the year ended December 31, 2020
- Statement of Capital and Surplus Account for the year ended December 31, 2020
- Reconciliation of Capital and Surplus for the Period December 31, 2017 to December 31, 2020

ARCH REINSURANCE COMPANY
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2020

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 1,018,473,785	\$ -	\$ 1,018,473,785
Preferred Stock	-	-	-
Common Stock	1,137,328,316	1,094,711	1,136,233,605
Mortgage loans on real estate	17,670,416	-	17,670,416
Real estate	-	-	-
Cash	62,669,065	-	62,669,065
Cash equivalents	21,391,957	-	21,391,957
Short Term Investments	77,269,226	-	77,269,226
Derivatives	-	-	-
Securities lending reinvested collateral assets	-	-	-
Other Invested Assets	-	-	-
Receivables for securities	1,527,344	-	1,527,344
Subtotals, cash and invested assets	<u>\$ 2,336,330,109.00</u>	<u>\$ 1,094,711.00</u>	<u>\$ 2,335,235,398.00</u>
Investment income due and accrued	7,866,360	-	7,866,360
Uncollected premiums and agents' balances	43,656,665	2,079,318	41,577,347
Deferred premiums	182,817,965	-	182,817,965
Accrued retrospective premiums	-	-	-
Amounts recoverable from reinsurers	76,612,356	-	76,612,356
Funds held	30,648,637	-	30,648,637
Current federal and foreign income tax recoverable	4,472,858	-	4,472,858
Net deferred tax asset	27,985,920	14,026,019	13,959,901
Electronic data processing equipment and software	298,237	-	298,237
Furniture and equipment	731,224	731,224	-
Net adjustment in assets and liabilities due to foreign exchange rates	95,321	-	-
Receivables from parent; subsidiaries and affiliates	50,000,000	-	50,000,000
Aggregate write-ins for other than invested assets	531,787	486,291	45,496
Total Assets	<u>\$ 2,762,047,439</u>	<u>\$ 18,417,563</u>	<u>\$ 2,743,629,876</u>

ARCH REINSURANCE COMPANY
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2020

	<u>2020</u>	<u>Notes</u>
Losses	\$ 677,394,249	1
Reinsurance payable on paid losses and loss adjustment expenses	8,162,000	
Loss adjustment expenses	46,914,502	1
Other expenses	13,772,719	
Borrowed money	80,092,878	
Unearned premiums	306,848,791	
Ceded reinsurance premiums payable (net of ceding commissions)	55,817,000	
Funds held by company under reinsurance treaties	3,898,000	
Provision for reinsurance	3,375,000	
Payable to parent; subsidiaries and affiliates	50,000,000	
Derivatives	-	
Payable for securities	1,743,740	
Aggregate write-ins for liabilities	19,630,318	
Total liabilities excluding protected cell liabilities	<u>\$ 1,267,649,197</u>	
Total liabilities	<u>\$ 1,267,649,197</u>	
Aggregate write-ins for special surplus funds	-	
Common capital stock	\$ 5,000,000	
Preferred capital stock	-	
Gross paid in and contributed surplus	1,139,075,377	
Unassigned funds (surplus)	<u>331,905,302</u>	
Surplus as regards policyholders	<u>\$ 1,475,980,679</u>	
Totals of liabilities & surplus	<u><u>\$ 2,743,629,876</u></u>	

ARCH REINSURANCE COMPANY
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

Underwriting Income	2020
Premiums earned	<u>\$ 652,156,374</u>
Deductions	
Losses incurred	\$ 484,851,256
Loss adjustment expenses incurred	34,233,306
Other underwriting expenses incurred	187,691,790
Total underwriting deductions	<u>706,776,352</u>
Net underwriting gain (loss)	<u>\$ (54,619,978)</u>
Investment Income	
Net investment income earned	\$ 22,592,677
Net realized capital gains (losses) less capital gains tax of \$4,474,226	<u>15,903,005</u>
Net investment gain (loss)	<u>\$ 38,495,682</u>
Other Income	
Net gain (loss) from agents' or premium balances charged off	\$ -
Finance and service charges not included in premium	-
Aggregate write-ins for miscellaneous income	<u>2,888,086</u>
Total other income	<u>\$ 2,888,086</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ (13,236,210)</u>
Dividends to policyholders	<u>-</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ (13,236,210)</u>
Federal and foreign income taxes incurred	<u>319,619</u>
Net Income	<u><u>\$ (13,555,829)</u></u>

**ARCH REINSURANCE COMPANY
CAPITAL & SURPLUS ACCOUNT
AS OF DECEMBER 31, 2020**

	<u>2020</u>
Surplus as regards to policyholders; December 31, 2019	<u>\$ 1,301,802,781</u>
Net income	\$ (13,555,829)
Change in net unrealized capital gains (losses) less capital gains tax of (88,431)	(66,178,340)
Change in net unrealized foreign exchange capital gain (loss)	2,085,707
Change in net deferred income tax	4,241,647
Change in nonadmitted assets	3,932,479
Change in provision for reinsurance	(1,275,000)
Capital Changes: Paid in	-
Surplus adjustment: Paid in	252,498,811
Transferred to Capital (Stock Dividend)	-
Dividends to stockholders	-
Aggregate write-ins for gains and losses in surplus	<u>(7,571,577)</u>
Net change in capital and surplus for the year	<u>\$ 174,177,898</u>
Capital and surplus; December 31, 2020	<u><u>\$ 1,475,980,679</u></u>

ARCH REINSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
As of December 31, 2017 to December 31, 2020

	Common Capital Stock	Gross Paid-in and Contributed Surplus		Unassigned Surplus		Total
12/31/2017	\$ 5,000,000	\$ 779,598,405		\$ 502,987,416		\$ 1,287,585,821
12/31/2018				(118,506,473)	(1)	(118,506,473)
12/31/2018	-	101,943,910	(2) (5)			101,943,910
12/31/2018	-	-		(13,553,358)	(8)	(13,553,358)
12/31/2018	-	-		(25,000,000)	(3)	(25,000,000)
12/31/2019				48,772,320	(1)	48,772,320
12/31/2019	-	5,034,252	(2) (6)			5,034,252
12/31/2019	-	-		15,526,309	(8)	15,526,309
12/31/2020				(57,193,507)	(1)	(57,193,507)
12/31/2020	-	252,498,811	(2) (7)			252,498,811
12/31/2020	-	-		(13,555,829)	(8)	(13,555,829)
12/31/2020	-	-		(7,571,577)	(4)	(7,571,577)
	<u>\$ 5,000,000</u>	<u>\$ 1,139,075,378</u>		<u>\$ 331,905,301</u>		<u>\$ 1,475,980,679</u>

- (1) Represents change in unrealized capital gains(losses), change in net unrealized foreign exchange capital gain (loss), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance
- (2) Surplus adjustment – Paid In
- (3) Dividends to Arch US
- (4) Surplus adjustment due to merger of Arch Re Facultative Underwriters Inc.
- (5) Arch US contributed \$101,493,910 to the Company in 2018 in which \$96,000,000 was attributable to the Company's wholly owned subsidiary AIC.
- (6) Arch Re contributed \$3,000,000 to its wholly owned subsidiary, Arch Underwriters Inc.
- (7) Arch US contributed \$252,498,811 to the Company in 2020 in which \$233,093,859 was attributable to AIC. The \$233,093,859 was comprised of \$183,093,859 in cash and a \$50,000,000 receivable from Arch US and was approved by the Department. The remaining contribution of \$19,404,952 was attributable to the Company. The transaction did not meet the threshold requirements for prior notice and approval under the Delaware Insurance Code §5005 (a)(2)(a).
- (8) Represents net income

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes made to the Financial Statements as a result of this Examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

<u>Losses</u>	<u>\$677,394,249</u>
<u>Loss Adjustment Expenses</u>	<u>\$46,914,502</u>

The examination liability for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2020. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Statutory Accounting Principles, including NAIC *Accounting Practices and Procedures Manual*, Statement of Statutory Accounting Principles No. 55.

SUBSEQUENT EVENTS

On October 19, 2021, the Company's parent, Arch US, contributed \$150,000,000 as paid in capital to the Company. The Company on October 19, 2021, contributed the \$150,000,000 to its wholly owned subsidiary AIC. On November 30, 2021, the Company's Board approved a capital contribution of \$450,000,000 from their parent, Arch US, which subject to State review and non-disapproval will be paid on or after December 19, 2021 but no later than December 31, 2021. \$300,000,000 of this contribution will be contributed to the Company's subsidiary AIC.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations contained in the prior examination report issued by the Department as of December 31, 2017.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

The assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the consulting investment specialist, Rutter Associates LLC, the Company's outside audit firm, PwC and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Robert Redden, CFE
Examiner In-Charge
State of Delaware



Anthony Cardone, CPA, CFE
Supervising Examiner
State of Delaware

Arch Reinsurance Company

I, Robert Redden, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 21.018.

A handwritten signature in cursive script, appearing to read "Robert Redden", is positioned above a horizontal line.

Robert Redden, CFE