

EXAMINATION REPORT
OF THE
ARROWOOD SURPLUS LINES INSURANCE COMPANY
AS OF
DECEMBER 31, 2014

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2014 of the

ARROWOOD SURPLUS LINES INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By:  _____

Date: May 10, 2016

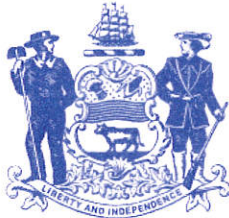


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 10th day of May, 2016.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
ARROWOOD SURPLUS LINES INSURANCE COMPANY
AS OF
DECEMBER 31, 2014

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.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 10th day of May, 2016

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SALUTATION

April 13, 2016

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
Delaware Department of Insurance
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 15-028, dated April 24, 2015, an examination has been made of the affairs, financial condition and management of the

ARROWOOD SURPLUS LINES INSURANCE COMPANY

hereinafter referred to as (“Company or ASLIC”), incorporated under the laws of the State of Delaware as a stock company with its home office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware. The examination was conducted at the main administrative office of the Company, located at 3600 Arco Corporate Drive, Charlotte, North Carolina.

The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our examination of Arrowood Surplus Lines Insurance Company, a multi-state insurer. The last examination covered the period from January 1, 2008 through December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2014.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (“NAIC Handbook”). 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 (e.g., subjective conclusions, proprietary information, etc.), 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 auditing firm, PricewaterhouseCoopers LLC. Certain auditor work papers have been incorporated into the work papers of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material adjustments to the Company's financial statements that warranted disclosure in this examination report.

COMPANY HISTORY

Arrowood Surplus Lines Insurance Company, formerly Royal Surplus Lines Insurance Company, was previously a member of the Royal & Sun Alliance USA, Inc. ("RSAUSA") insurance group whose ultimate parent was RSA Insurance Group plc. ("RSAIG").

In September 2003, RSAUSA announced a strategic change that resulted in the sale of the majority of its businesses under various renewal rights transactions. In 2004, RSAUSA also implemented a Plan of Reorganization and Consolidation that reduced the number of its insurance companies in the United States.

On March 3, 2007, Arrowpoint Capital Corp. ("Arrowpoint"), which was formed in 2006 and owned and operated by the Company's management and independent directors, purchased 100% of the interests of Arrowpoint General Partnership ("AGP"), the US holding entity which owned all of the RSAUSA businesses. The approval of the transaction by the Delaware Insurance Commissioner resulted in the Delaware Insurance Commissioner's Order ("Order") which subjected the Company to certain requirements. In accordance with the Order, the Company cannot pay dividends or sell or distribute assets, not in the ordinary course of business, without the Delaware Department of Insurance's approval. In addition, a number of additional operational conditions were imposed as part of the Order requiring the approval of the Delaware Insurance Department (Department). The Department also appointed a claims monitor to receive and act upon policyholder complaints, track indemnity reserve adequacy, monitor

litigation management, review claims denials and review all other aspects of sound claims practices.

Common Capital Stock

As of December 31, 2014, 50,000 shares authorized, issued and outstanding at \$100 per share par value represented the Company's common capital stock, for a total outstanding of \$5,000,000. The Company has no preferred stock authorized, issued or outstanding. Arrowood Indemnity Company ("AIC") owns 100% of the outstanding stock. AIC is a wholly owned subsidiary of Arrowpoint Group, Inc. ("AGI"), a Delaware corporation. AGI is ultimately owned by Arrowpoint, also a Delaware corporation.

Gross Paid In and Contributed Surplus

As of December 31, 2014, the Company reported gross paid in and contributed surplus of \$116,600,000. Gross paid in and contributed surplus decreased \$67,000,000 during the examination period from January 1, 2010 to December 31, 2014.

Dividends to Stockholders

On October 3, 2012, the Company notified the Delaware Department of Insurance requesting approval of payment of dividends in the amount of \$40,000,000 to its parent. The Company received approval from the Department on October 31, 2012 to pay an extraordinary dividend in the amount of \$40,000,000. On November 16, 2012, the Company paid its parent \$40,000,000 out of Gross Paid In and Contributed Capital as a return of capital. The dividend was paid with securities having a market value and accrued interest of \$39,963,894 and cash in the amount of \$36,106.

On November 14, 2014, and subsequently revised on December 5, 2014, the Company notified the Department requesting approval of payment of dividends in the amount of

\$35,000,000 to its parent. The Company received approval from the Department on December 5, 2014 to pay \$8,000,000 as an ordinary dividend, and an extraordinary dividend in the amount of \$27,000,000. On December 17, 2014, the Company paid its parent \$8,000,000 out of Unassigned Funds and the remaining \$27,000,000 out of Gross Paid In and Contributed Capital as a return of capital. The dividend was paid with securities having a market value and accrued interest of \$34,747,861 and cash in the amount of \$252,139.

All ASLIC dividends were paid in accordance with 18 Del. C. §5005(b).

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Articles of Incorporation and bylaws, all corporate powers are exercised by or under the direction of the Board of Directors. The bylaws, as amended and restated September 15, 2007, provide that the Company's business shall be managed by or under the direction of its Board of Directors.

The Board shall consist of not less than seven and no more than twenty-one directors. The number of directors shall be determined by the shareholders at each annual meeting and may be increased or decreased by vote of the shareholders at any special meeting, or by vote of the whole Board of Directors at any regular or special meeting.

At December 31, 2014, the members of the Board of Directors together with their principal business affiliations were as follows:

Name	Principal Occupation
John Tighe	Chairman of the Board of Directors; President and Chief Executive Officer

Sean A. Beatty	Senior Vice President and Chief Financial Officer
Dennis W. Cahill	Senior Vice President and Chief Operating Officer
Catherine A. Carlino	Senior Vice President; Corporate Operations, Planning & Governance Executive
Julie A. Fortune	Senior Vice President and Chief Claims Officer
Daniel R. Keddie	Vice President and Chief Actuary
Andre Lefebvre	Senior Vice President and Financial Risk Officer
James F. Meehan	Senior Vice President and General Counsel
David D. Shumway	Senior Vice President and Chief Investment Officer
Michael J. Crall	Outside Director, Retired
Edward J. Muhl	Outside Director, Retired
Larry G. Simmons	Outside Director, Retired

The minutes of the meetings of the shareholders and Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers, and approval of investment transactions were also noted.

Committees

Article IV of the amended bylaws authorizes an Executive Committee, which shall consist of three or more members of the Board of Directors, the number to be determined, from time to time, by the Board of Directors. The Board of Directors by the affirmative vote of a majority of the directors shall designate the members of the Executive Committee, one of whom may be designated by the Board of Directors as Chairman of the Executive Committee. The Executive Committee shall have and may exercise, between the meetings of the Board of Directors, all powers and authority of the Board of Directors in management of the business and affairs of the Company.

Directors serving on the Executive Committee as of December 31, 2014 were as follows:

Directors

John Tighe, Chairman
Sean A. Beatty
Dennis W. Cahill
Julie A. Fortune
Andre Lefebvre

In addition, the Board, by resolutions passed by a majority of the whole Board, may designate one or more committees in addition to the Executive Committee, each committee to consist of three or more of the directors of the Company, for such purposes as the Board may from time to time determine. Said committees shall, to the extent provided by resolution of the Board, have all the authority of the Board and shall have such functions and duties as the Board shall prescribe. Each committee shall fix its own rules governing the conduct of its activities, shall keep regular minutes of its meetings and report all actions taken to the Board of Directors.

Other Committees of the Board of Directors as of December 31, 2014 were as follows:

Investment Committee
Audit, Risk & Compliance Committee
Loss Reserve Committee

Officers

Article V of the amended bylaws states that the Company's officers shall be elected annually, at its meeting held after the annual meeting of shareholders, by the Board of Directors and shall consist of a President, one or more Vice Presidents (the number thereof and variations in title to be determined by the Board of Directors), a Corporate Secretary, and a Treasurer, all of whom shall hold office at the pleasure of the Board of Directors or until their successors have been elected and qualified. There may also be one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as the Board of Directors may from time to time

deem advisable. Two offices may be held by the same person, except the offices of President and Corporate Secretary

At December 31, 2014, the Company's principal officers and their respective titles were as follows:

Name	Principal Occupation
John Tighe	Chairperson of the Board, President and Chief Executive Officer
Sean A. Beatty	Senior Vice President and Chief Financial Officer
Dennis W. Cahill	Senior Vice President and Chief Operating Officer
Julie A. Fortune	Senior Vice President and Chief Claims Officer
Andre Lefebvre	Senior Vice President and Financial Risk Officer
James F. Meehan	Senior Vice President and General Counsel
David D. Shumway	Senior Vice President and Chief Investment Officer
Catherine A. Carlino	Senior Vice President and Corporate Operations, Planning & Governance Executive
David M. Davenport	Vice President and Controller
Daniel R. Keddie	Vice President and Chief Actuary
Linda Y. Pettigrew	Corporate Secretary
Gwyn W. Fuller	Treasurer

In addition to the above officers, additional Vice Presidents and other officers were also appointed.

There was one change in directors and officers that occurred during the period under review. As required pursuant to 18 Del. C. §4919 "Change of directors, officers; notice", proper notification was provided to the Delaware Department of Insurance.

Corporate Records

The recorded minutes of the sole shareholder and Board of Directors 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 the authorization of investments as required by 18 Del. C. §1304 "Authorization; record of investments".

A review of the Insurance Holding Company Annual Registration Statement filings (Form B and Form C) made by and on behalf of the Company for 2014 indicated the Company

had materially complied with 18 Del. C. §5004 “Registration of insurers” and 18 Del. Admin. Code 1801 “Registration of Insurance Holding Companies”.

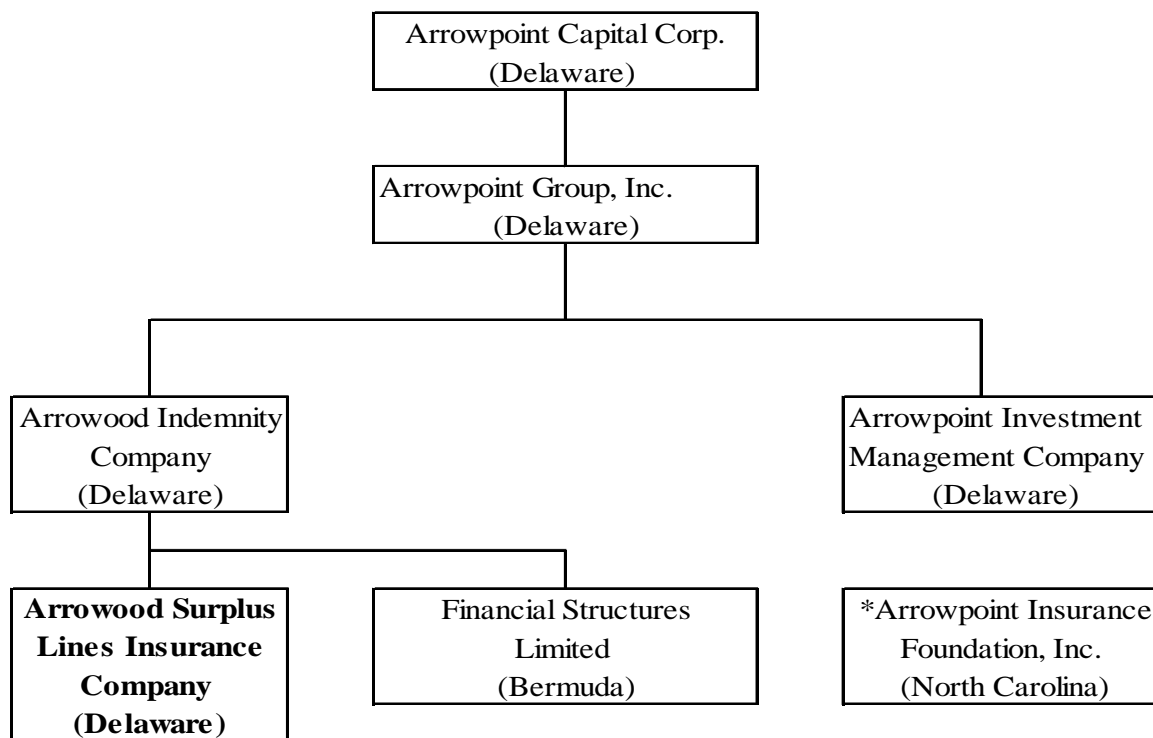
Articles of Incorporation and Bylaws

The Company did not amend its Articles of Incorporation or bylaws during the exam period.

Holding Company System

The Company is a member of an insurance holding company system as defined under 18 Del. C. §5001(5) “Insurance holding company system”. The Company’s Holding Company Registration Statements were filed timely with the Delaware Insurance Department for the years under examination.

The following is an organizational chart that reflects the identities and interrelationships between the Company, its Parent, all affiliated insurers and other members of the holding company system as of December 31, 2014:



*Nonprofit Corporation

Affiliated Agreements

The Company is party to several affiliated agreements, which were disclosed in the Form B filings with the Delaware Insurance Department.

The Company is party to agreements with its parents and affiliates, which were entered into prior to the period covered by this examination, and remain in effect as of December 31, 2014. These agreements are summarized as follows:

Administrative Services and Expense Sharing Agreement

Effective April 1, 2007, as restated July 27, 2007, the Company entered into an Administrative Services and Expense Sharing Agreement with AGI and affiliates of the

Company. The agreement is for a term of one year unless cancelled at any time by agreement of the companies. It shall automatically renew for successive one-year terms.

In accordance with the terms of the agreement, AIC provides certain services, such as financial, legal and regulatory, information services, human resources, senior management, and claims, and allocate expenses to its affiliates. Allocation of the expenses is based on the actual cost of the service received and used by the affiliated companies, or pro-rated or based on a pre-set formula using premium or other factors, such as time spent. The allocation of the expenses will be no greater than that which a company would expend in providing services for its own company. Each of the affiliates reimburse AIC within 30 days following the preceding month in an amount equal to the expenses it incurred for the preceding month.

Effective April 1, 2007, the agreement was amended and restated to provide for the reimbursement of AGI by AIC for contributions to, and expenses associated with, The Maccabees Staff Pension Plan, formerly the Royal Maccabees Official Staff Pension Plan (Maccabees Plan). Royal Maccabees Life Insurance Company was a former affiliate of the Company. The Maccabees Plan was merged into The Pension Plan of Arrowood Indemnity Company effective December 31, 2010.

Investment Management Services Agreement

Effective April 1, 2007, the Company entered into an Investment Management Services Agreement with Arrowpoint Investment Management Company (“Arrowpoint Investment”).

The agreement is to remain in effect until terminated.

In accordance with the terms of the agreement and investment guidelines, Arrowpoint Investment shall purchase, invest in or otherwise, acquire, sell, transfer, exchange or dispose of, and generally deal in and with any and all forms of investments on behalf of the Company’s

investment portfolio. All investment guidelines and instructions given by the Company shall be in accordance with the applicable investment provisions of the Delaware Insurance Code, and the Company shall be responsible for assuring that all investment guidelines and instructions comply with such Code.

The Company pays Arrowpoint Investment a monthly management fee equal to the Company's proportional share, based on the value of their assets managed, of the actual operating costs and expenses incurred by Arrowpoint Investment, less any fees collected from other clients of Arrowpoint Investment. Arrowpoint Investment shall invoice the Company for the fee, which should be paid within 30 days of the invoice date.

Tax Allocation Agreement

Effective December 31, 2007, the Company entered into a Tax Allocation Agreement with Arrowpoint, AGI, and various subsidiaries of Arrowpoint.

In accordance with the terms of the agreement, Arrowpoint prepares and files all tax returns on behalf of the affiliated group. The purpose of the Tax Allocation Agreement is to provide the rules to govern the allocation and apportionment of tax liability between the members of the affiliated group.

Effective December 31, 2012, the agreement was amended to correct an ambiguity in the agreement relating to the use of tax loss carryforwards and carrybacks by the individual companies.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to do business in Delaware and Connecticut as of December 31, 2014, but is currently in run-off and is no longer underwriting new business. Management's focus is to successfully meet policyholder obligations and to achieve a solvent run-off.

At December 31, 2014, the Company's business plan continues to focus on the following major areas:

- Claim Management: Meet policyholder obligations and provide stewardship over corporate assets.
- Reinsurance Recoverables: Effectively manage the reinsurance recoverable assets to maximize cash inflow.
- Investment Management: Optimize asset type and maturity mix such that all expected liability outflows are matched with equivalent investment asset inflows.
- Legal: Provide proper management and resolution of claim, corporate litigation and regulatory risks.
- Operational Effectiveness: Maintain the processes, systems and operating platforms to support a solvent run-off.
- Expense Management: Continually ensure that our expense base is commensurate with the work that needs to be done.

REINSURANCE

Assumed

The Company is in runoff and is not assuming any new business.

Ceded

The Company has not entered into any new reinsurance contracts since 2004. The Company's focus for the reinsurance activity is the collection of existing recoverable balances. The Company maintains treaty reinsurance for property, casualty, environmental and terrorism business.

ASLIC's reinsurance recoverable balances on paid losses and paid loss adjustment expenses increased slightly from \$437,000 at year end 2013 to \$544,000 at year end 2014. The 2014 liability for the Provision for Reinsurance decreased from \$234,000 at year end 2013 to

\$160,000 as result of a decrease in overdue reinsurance for ASLIC. At year-end 2014, ceded case loss and loss adjustment expense reserves were \$4,800,000 and \$3,300,000, respectively.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2010:

Statement of Assets and Liabilities
Statement of Income
Reconciliation Capital and Surplus

Statement of Assets and Liabilities
December 31, 2014

	Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$109,192,349	\$ 0	\$109,192,349
Preferred Stock	1,380,180	0	1,380,180
Common Stock	10,673,783	0	10,673,783
Cash and Short-Term Investments	10,286,699	0	10,286,699
Other Invested Assets	2,710,905	0	2,710,905
Receivable for Securities	11,825	0	11,825
Investment Income Due and Accrued	904,755	0	904,755
Amounts Recoverables from Receivable from Parent, Subsidiary and Affiliates	544,194	0	544,194
	<u>458,995</u>	<u>0</u>	<u>458,995</u>
 Total Assets	 <u>\$136,163,685</u>	 <u>\$ 0</u>	 <u>\$136,163,685</u>

Arrowood Surplus Lines Insurance Company

Losses	\$ 4,603,034 <i>Note 1</i>
Loss adjustment expenses	5,511,016 <i>Note 1</i>
Current foreign and federal income taxes	2,530,210
Remittances and items not allocated	8,270
Provision for reinsurance	160,377
Payable to parent, subsidiaries, and affiliates	28,365
Payable for securities	<u>25,500</u>
 Total Liabilities	 <u>\$ 12,866,772</u>
 Common Capital Stock	 \$ 5,000,000
Gross Paid in and Contributed Surplus	116,600,000
Unassigned Funds (surplus)	<u>1,696,913</u>
 Total Surplus as Regards Policyholders	 <u>\$ 123,296,913</u>
 Total Liabilities, Surplus and Other Funds	 <u><u>\$ 136,163,685</u></u>

Statement of Income
December 31, 2014

UNDERWRITING INCOME	
Premiums earned	\$ -0-
DEDUCTIONS	
Losses incurred	\$ (553,710)
Loss adjustment expenses incurred	(2,514,931)
Other underwriting expenses incurred	1,046,888
Total Underwriting Deductions	<u>\$ (2,021,753)</u>
Net Underwriting Gain or (Loss)	<u>\$ 2,021,753</u>
 INVESTMENT INCOME	
Net investment income earned	\$ 5,647,343
Net realized capital gains (losses) less capital gains tax	1,474,559
Net Investment Gain or (Loss)	<u>\$ 7,121,902</u>
 Net income after dividends to policyholders and and before federal income taxes	
	\$ 9,143,655
Federal and foreign income taxes incurred	2,998,823
Net Income (Loss)	<u>\$ 6,144,832</u>

Reconciliation of Capital and Surplus
December 31, 2010 to December 31, 2014

Capital and Surplus, December 31, 2010		<u>\$ 175,477,020</u>
Net income		\$ 25,184,581
Additions:		
Change in nonadmitted assets	\$ 3,832	
Change in provision for reinsurance	<u>608,644</u>	
Total Additions		<u>612,476</u>
Deductions		
Change in net unrealized capital gains (losses)	\$ (1,673,349)	
Change in net unrealized foreign exchange capital gain (loss)	(1,303,814)	
Surplus Adjustments:		
Paid In	(67,000,000)	
Dividends to Stockholders	<u>(8,000,000)</u>	
Total Deductions		<u>(77,977,163)</u>
Capital and Surplus, December 31, 2014		<u><u>\$ 123,296,913</u></u>

NOTES TO THE FINANCIAL STATEMENTS

<i>Note 1.</i> <u>Losses</u>	\$4,603,034
<u>Loss Adjustment Expenses</u>	5,511,016

The Delaware Department of Insurance contracted with INS Consultants, Inc. (Consulting Actuary) to perform an actuarial review of the Company's reserves. The Consulting Actuary performed the actuarial review on the Arrowpoint Group, which included AIC and the Company. The actuarial staff at the Company provided the Consulting Actuary with their statement of actuarial opinion and the supporting actuarial data and documents. The Consulting Actuary's review consisted of separately analyzing the Arrowpoint Group's book of business on both a net and gross basis (via a ceded reserve analysis approach) for loss and defense and cost containment expense. The examiners reviewed samples of claim files in order to test the underlying data supporting the reserves. No material exceptions were noted during that review.

In the Consulting Actuary's opinion, the Company's booked net loss and LAE reserves as of December 31, 2014 are reasonably stated.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no prior examination recommendations.

SUMMARY OF RECOMMENDATIONS

There are no recommendations that warrant disclosure in the report.

SUBSEQUENT EVENTS

There were no significant subsequent events that warranted disclosure in this examination report.

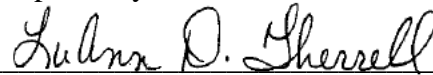
CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2014</u>	<u>December 31, 2010</u>	<u>(Decrease)</u>
Assets	\$136,163,685	\$240,849,636	(\$104,685,951)
Liabilities	\$12,866,772	\$65,372,616	(\$52,505,844)
Capital and Surplus	\$123,296,913	\$175,477,020	(\$52,180,107)

The assistance of the Delaware Insurance Department's consulting actuarial firm, INS Consultants, Inc. is acknowledged.

Respectfully submitted,



Lu Ann D. Therrell, CFE
Examiner In-Charge
Delaware Department of Insurance