

**EXAMINATION REPORT**  
**OF THE**  
**ARROWOOD INDEMNITY COMPANY**  
**AS OF**  
**DECEMBER 31, 2018**

TRINIDAD NAVARRO  
COMMISSIONER



STATE OF DELAWARE  
DEPARTMENT OF INSURANCE

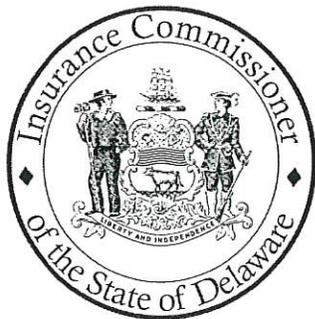
I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2018 of

**ARROWOOD INDEMNITY COMPANY**

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

Attest By: Regyn Brown

Date: 18 day of October, 2019



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 18 day of October, 2019.

Trinidad Navarro  
Trinidad Navarro  
Insurance Commissioner

TRINIDAD NAVARRO  
COMMISSIONER



STATE OF DELAWARE  
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION  
OF  
ARROWOOD INDEMNITY COMPANY  
AS OF  
DECEMBER 31, 2018

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 28<sup>th</sup> day of October, 2019

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## **SALUTATION**

September 3, 2019

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

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 19-012, dated May 15, 2019, an examination has been made of the affairs, financial condition and management of the

### **ARROWOOD INDEMNITY COMPANY**

hereinafter referred to as (Company or AIC), incorporated under the laws of the State of Delaware as a stock company with its statutory office located at 251 Little Falls Drive, 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 AIC, a multi-state insurer. The last examination was conducted as of December 31, 2014 by the Delaware Department of Insurance (Department). This examination covered the period of January 1, 2015 through December 31, 2018.

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 Laws 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 auditing firm, PricewaterhouseCoopers LLP (PwC). 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**

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

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, the US holding entity which owned all of the RSAUSA businesses. The approval of the transaction by the Department 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 Department's approval. In addition, a number of additional operational conditions were imposed as part of the Order requiring the approval of the 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.

#### **Capitalization**

The Company's Certificate of Incorporation provides that the Company has authority to issue 50,000 common stock shares with a par value of \$100 per share. As of December 31, 2018, 50,000 shares of common stock 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. Arrowpoint Group, Inc. (AGI), a Delaware corporation, owns 100% of the outstanding stock. AGI is ultimately owned by Arrowpoint, also a Delaware corporation.

As of December 31, 2018, the Company reported gross paid-in and contributed surplus in the amount of \$3,084,986,162, which has not changed since the previous examination.

#### Dividends to Stockholders

No dividends were paid to stockholders for the period under examination.

### **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 (Board). 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. The Company's bylaws state that 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 at any regular or special meeting. As of December 31, 2018, the members of the Board together with their respective titles were as follows:

<u>Name</u>	<u>Title</u>
John Tighe	Chairman, President & Chief Executive Officer
Sean A. Beatty	Senior Vice President & Chief Financial Officer
Dennis W. Cahill	Senior Vice President & Chief Operating Officer
Catherine A. Carlino	Senior Vice President; Corporate Operations, Planning & Governance Executive
Julie A. Fortune	Senior Vice President & Chief Claims Officer
Andre Lefebvre	Senior Vice President & Financial Risk Officer
David D. Shumway	Senior Vice President & Chief Investment Officer
Theodore G. Chandler	Vice President, General Counsel & Assistant Corporate Secretary
David M. Davenport	Vice President & Controller
Daniel R. Keddie	Vice President & Chief Actuary
Michael J. Crall	Outside Director - Retired
Edward J. Muhl	Outside Director - Retired

#### Committees

Article IV of the amended bylaws authorizes an Executive Committee, which shall consist of three or more members of the Board, with the number to be determined, from time to time, by the Board. The Board, 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 as Chairman of the Executive Committee. The Executive Committee shall have and may exercise, between the meetings of the Board, all powers and authority of the Board in management of the business and affairs of the Company. Directors serving on the Executive Committee as of December 31, 2018 were as follows:

<u>Name</u>	<u>Title</u>
John Tighe	Chairman, President & Chief Executive Officer
Sean A. Beatty	Senior Vice President & Chief Financial Officer
Dennis W. Cahill	Senior Vice President & Chief Operating Officer
Julie A. Fortune	Senior Vice President & Chief Claims Officer
Andre Lefebvre	Senior Vice President & Financial Risk Officer

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. Other Committees of the Board as of December 31, 2018 were as follows:

- Investment Committee
- Audit, Risk & Compliance Committee
- Pension & Benefits Committee
- Loss Reserve Committee
- Compensation Committee

#### Officers

Article V of the amended and restated bylaws states that the Company's officers shall be elected annually, at its meeting held after the annual meeting of shareholders, by the Board and shall consist of a President, one or more Vice Presidents (the number thereof and variations in title to be determined by the Board), a Corporate Secretary, and a Treasurer, all of whom shall hold office at the pleasure of the Board 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 may from time to time deem advisable. Two offices may be held by the same person, except the offices of President and Corporate Secretary. As of December 31, 2018, the Company's principal officers together with their respective titles were as follows:

<u>Name</u>	<u>Title</u>
John Tighe	Chairman, President & Chief Executive Officer
Sean A. Beatty	Senior Vice President & Chief Financial Officer
Dennis W. Cahill	Senior Vice President & Chief Operating Officer
Catherine A. Carlino	Senior Vice President; Corporate Operations, Planning & Governance Executive
Julie A. Fortune	Senior Vice President & Chief Claims Officer
Andre Lefebvre	Senior Vice President & Financial Risk Officer
David D. Shumway	Senior Vice President & Chief Investment Officer
Theodore G. Chandler	Vice President, General Counsel & Assistant Corporate Secretary
David M. Davenport	Vice President & Controller
Daniel R. Keddie	Vice President & Chief Actuary
Mark A. Graves	Vice President & Chief Information Security Officer
Linda Y. Pettigrew	Corporate Secretary
Gywn W. Fuller	Treasurer

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

#### Corporate Records

The minutes of meetings of the Shareholder and Board, which were held during the period under examination, were obtained and reviewed. The recorded minutes of the Shareholder and Board adequately documented its meetings, as well as the approval of Company transactions and events, including the authorization of investments as required by 18 *Del. C.* §1304 “Authorization; record of investments.” Additionally, the Company had a few changes 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 Department.

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 2018 indicated the Company had materially complied with 18 *Del. C.* §5004 “Registration of insurers” and 18 *Del. Admin.*

*Code* 1801 “Insurance Holding Company System Regulation with Reporting Forms and Instructions.”

Further, the Company maintains a formal written Code of Business Conduct, which sets out the ethical guidelines to which all directors, officers, and employees are expected to adhere to when conducting business at and on behalf of the Company. On an annual basis, officers and directors are required to complete a Conflict of Interest Questionnaire.

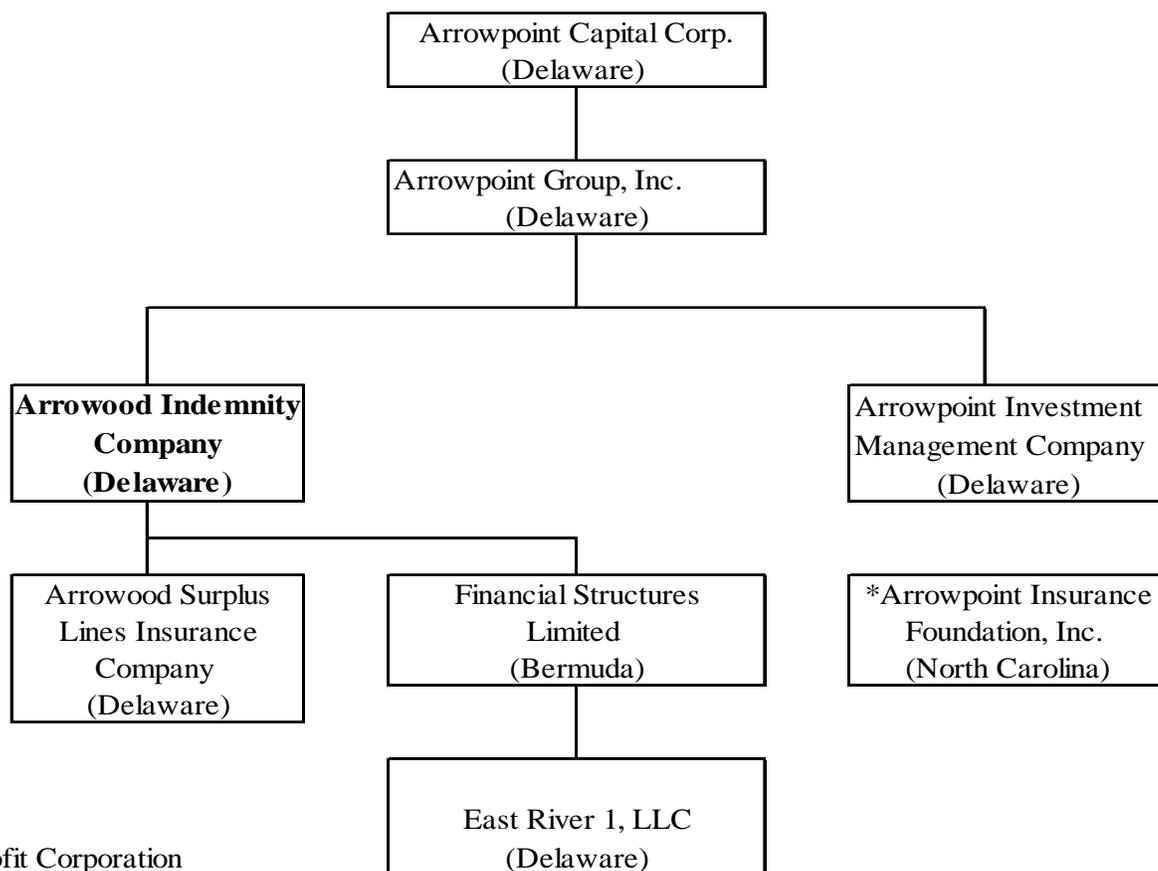
#### Articles of Incorporation and Bylaws

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

#### Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* §5001(6) “Insurance Holding Company System.” The Company’s Insurance Holding Company Registration Statement (Annual Form B) was filed timely with the Department for the years under examination. As of December 31, 2018, AIC had two wholly owned insurance subsidiaries, Arrowood Surplus Lines Insurance Company (ASLIC), a Delaware domiciled company, and Financial Structures Limited (FSL), a Bermuda domiciled company.

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, 2018:



\*Nonprofit Corporation

### Affiliated Agreements

The Company was party to several affiliated agreements, which were disclosed in the Company’s Form B filings with the Department. For affiliated agreements that were newly entered into, and amendments to previously approved agreements, the Company submitted notification to, and received approval from the Department in accordance with 18 *Del. C.* §5005 “Standards and management of an insurer within an insurance holding company system.” As of December 31, 2018, the Company was party to the following affiliated agreements:

#### *Administrative Services and Expense Sharing Agreement*

Effective April 1, 2007, as restated July 27, 2007, and amended September 1, 2018, the Company entered into an Administrative Services and Expense Sharing Agreement with AGI

and affiliates of the Company, whereby the Company provides certain services to the Arrowpoint affiliated companies. Such services include, but are not limited to, financial, legal and regulatory, information services, human resources, senior management, and claims. 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.

*Investment Management Services Agreement*

Effective April 1, 2007, as amended January 1, 2018, the Company entered into an Investment Management Services Agreement with Arrowpoint Investment Management Company (Arrowpoint Investment), whereby Arrowpoint Investment provides services relating to the management of the Company's investment portfolio, as well as the invested assets of The Pension Plan of Arrowood Indemnity Company. Such services include, but are not limited to, investment analysis, research, and purchase and sale of investments.

*Tax Allocation Agreement*

Effective December 31, 2007, as amended December 31, 2012, the Company entered into a Tax Allocation Agreement with Arrowpoint, AGI, and various subsidiaries of Arrowpoint, whereby Arrowpoint will prepare and file all tax returns on behalf of the Affiliated Group. AGI will act as the settlement intermediary for the Affiliated Group with regards to any tax payments. The Tax Allocation Agreement sets forth the methodology and procedures for the allocation and apportionment of the consolidated Federal Income Tax Liability between the Members of the Affiliated Group.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2018, the Company was licensed in all 50 states, as well as in the District of Columbia. Effective February 19, 2016, the Company's Canadian Branch's authority to insure risks in Canada was deemed revoked.

The Company is authorized as a stock insurer to transact the business of health, property, surety, marine and transportation, and casualty insurance as defined in 18 *Del. C.* Ch. 9 "Kinds of Insurance." The principal office facilities of the Company are located in Charlotte, North Carolina.

The Company and its affiliate, ASLIC, are currently in runoff and are no longer writing new business. Management's focus is to successfully meet policyholder obligations and to achieve a solvent runoff.

As of December 31, 2018, 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 optimize cash inflow.
- Investment Management: Optimize asset type and maturity mix such that all expected liability outflows are funded with expected investment asset inflows.
- Legal: Provide proper management and resolution of claim, corporate litigation and regulatory risks.
- Operational Effectiveness: Maintain the processes, systems, cyber security, vendor management and collaboration to support a solvent runoff.
- Expense Management: Continually ensure that our expense base is commensurate with the work needed to be done.

## **REINSURANCE**

### Assumed

The Company is in runoff and is not assuming any new business. As of year-end 2018, the Company reported \$56,072 in reinsurance payable on paid losses and loss expenses and \$106,258,000 in assumed case losses and loss adjustment expenses.

### Ceded

As the Company is in runoff, its focus for the reinsurance activity is the collection of existing reinsurance balances. The Company's reinsurance recoverable balances on paid losses and paid loss adjustment expenses substantially decreased from \$64,854,856 at year end 2014 to \$33,788,566 at year end 2018. As of year-end 2014, ceded loss and loss adjustment expense reserves were \$424,400,000 and \$148,300,000 respectively. As of year-end 2018, ceded loss and loss adjustment expense reserves were \$206,598,000 and \$77,715,000 respectively. This was attributed to timely collection of related balances, resolution of arbitration and challenged balances and the negotiation of commutations of appropriate reinsurance balances.

The Company provides reinsurance and a cut-through arrangement on residual value insurance policies underwritten by FSL, a subsidiary domiciled in Bermuda. As of December 31, 2018, the Company had a reinsurance payable on paid losses and loss expenses of \$27,000. The ultimate loss that may be incurred by the Company will depend on the performance of underlying collateral related to the insured transactions and FSL's ability to pay claims. As of December 31, 2018, FSL had cash and investments of \$17,700,000 and balance sheet reserves, net of reinsurance, of \$2,200,000.

**FINANCIAL STATEMENTS**

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

- Statement of Assets and Liabilities as of December 31, 2018
- Statement of Income for the year ended December 31, 2018
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2014 to December 31, 2018

Statement of Assets and Liabilities  
As of December 31, 2018

	Ledger	Assets Not	Net Admitted
	<u>Assets</u>	<u>Admitted</u>	<u>Assets</u>
Bonds	\$639,906,279	\$ 0	\$639,906,279
Preferred Stock	1,042,953	0	1,042,953
Common Stock	173,106,717	0	173,106,717
Mortgage Loans	0	0	0
Properties occupied by the company	155,920	0	155,920
Properties held for sale	8,500	8,500	0
Cash and Short-Term Investments	151,991,719	0	151,991,719
Other Invested Assets	57,185,938	0	57,185,938
Receivable for Securities	1,134,076	0	1,134,076
Investment Income Due and Accrued	3,371,968	0	3,371,968
Uncollected Premiums and Agents' Balances in			
Course of Collection	267,669	267,669	0
Deferred Premiums	702,627	0	702,627
Accrued Retrospective Premiums	1,200,000	1,200,000	0
Reinsurance Recoverables from Reinsurers	33,788,566	0	33,788,566
Funds held by or Deposited with Reinsured Companies	222,715	0	222,715
Current Federal and Foreign Income Tax	10,495,778	0	10,495,778
Electronic data processing equipment and software	48,878	48,878	0
Furniture and Equipment	249,148	249,148	0
Receivable from Parent, Subsidiaries and Affiliates	10,085,224	8,477,163	1,608,061
Aggregate Write-ins for Other Than Invested Assets	<u>3,863,747</u>	<u>1,469,611</u>	<u>2,394,136</u>
Total Assets	<u>\$1,088,828,422</u>	<u>\$ 11,720,970</u>	<u>\$1,077,107,452</u>

Arrowood Indemnity Company

Losses	\$ 550,669,516 <i>Note 1</i>
Reinsurance payable on paid losses and loss adjustment expenses	56,072
Loss adjustment expenses	264,012,355 <i>Note 1</i>
Commissions payable, contingent commissions and other similar charges	500,000
Other expenses	14,524,997
Taxes, licenses and fees	8,390,959
Unearned premiums	1,673,458
Ceded reinsurance premiums payable	1,752,085
Funds held by company under reinsurance treaties	1,993,974
Amounts withheld or retained by company for account of others	11,466,124
Provision for reinsurance	6,638,000
Post retirement benefit plans	25,300,001
Self insured and deductibles	12,267,354
Miscellaneous	3,946,695
Additional write-ins for liabilities	<u>761,380</u>
 Total Liabilities	 <u>\$ 903,952,968</u>
 Aggregate write-ins for special surplus funds	 \$ 4,950,599
Common Capital Stock	5,000,000
Gross Paid in and Contributed Surplus	3,084,986,162
Unassigned Funds (surplus)	<u>(2,921,782,277)</u>
 Total Surplus as Regards Policyholders	 <u>\$ 173,154,483</u>
 Total Liabilities, Surplus and Other Funds	 <u><u>\$ 1,077,107,452</u></u>

Statement of Income  
For the Year Ended December 31, 2018

UNDERWRITING INCOME

Premiums earned \$ 408,480

DEDUCTIONS

Losses incurred \$ (13,267,056)

Loss adjustment expenses incurred 35,220,737

Other underwriting expenses incurred 35,126,557

Total Underwriting Deductions \$ 57,080,238

Net Underwriting Gain or (Loss) \$ (56,671,758)

INVESTMENT INCOME

Net investment income earned \$ 37,656,794

Net realized capital gains (losses) less capital gains tax 13,264,867

Net Investment Gain or (Loss) \$ 50,921,661

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off \$ 22,585

Aggregate write-ins for miscellaneous income (9,619,529)

Total Other Income \$ (9,596,944)

Net income after dividends to policyholders and before federal  
income taxes \$ (15,347,041)

Federal and foreign income taxes incurred (6,513,286)

Net Income (Loss) \$ (8,833,755)

Reconciliation of Capital and Surplus  
December 31, 2014 to December 31, 2018

Capital and Surplus, December 31, 2014		<u>\$ 249,047,542</u>
Net loss		\$(120,564,325)
Additions:		
Change in net unrealized capital gains (losses)	\$ 3,689,598	
Change in nonadmitted assets	13,310,561	
Change in provision for reinsurance	24,087,452	
Aggregate write-ins for gains and losses in surplus	<u>7,457,071</u>	
Total Additions		<u>48,544,682</u>
Deductions		
Change in net unrealized foreign exchange	\$ (1,934,232)	
Change in net deferred income tax	(1,939,184)	
Aggregate write-ins for gains and losses in surplus	<u>-</u>	
Total Deductions		<u>(3,873,416)</u>
Capital and Surplus, December 31, 2018		<u>\$ 173,154,483</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There were no changes in financial statements resulting from the examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

<i>Note 1.</i> Losses	\$550,669,516
Loss Adjustment Expenses	264,012,355

The examination liability for the aforementioned captioned items of \$550,669,516 and \$264,012,355 are the same as reported by the Company as of December 31, 2018. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with *Generally Accepted Actuarial Principles and Statutory Accounting Principles*, including *NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principle No. 55*.

**SUMMARY OF RECOMMENDATIONS**

There are no recommendations that warrant disclosure in the report.

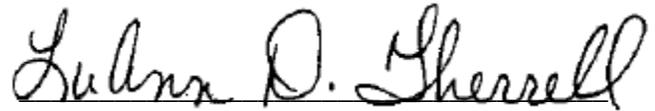
**SUBSEQUENT EVENTS**

On May 9, 2019, the Company signed a Share Purchase Agreement to sell ASLIC to Transverse Insurance Group, LLC. Prior to the closing, the Company will enter into a 100% Quota Share Reinsurance Agreement and related agreements with ASLIC to assume ASLIC's gross loss and loss expense reserves and gross unearned premium reserves on policies written prior to the effective date. Under the terms of the Quota Share agreement, ASLIC will assign all its rights, title and interests under all reinsurance agreements relating to the reinsured business to the Company.

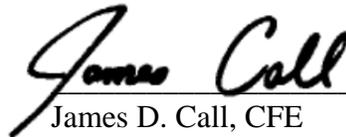
**CONCLUSION**

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

Respectfully submitted,



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



James D. Call, CFE  
Supervising Examiner  
Delaware Department of Insurance