

BEFORE THE DEPUTY INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and  
: 1403 of the Insurance Holding  
Application of Warburg Pincus (Bermuda) : Companies Act, Article XIV of the  
Private Equity Ltd. in Support of the : Insurance Company Law of 1921,  
Request for Approval to Acquire Control of : Act of May 17, 1921, P.L. 682,  
American Independent Insurance Company : as amended, 40 P.S. §§991.1401,  
: 991.1402, and 991.1403  
:  
: Order No. ID-RC-02-10

DECISION AND ORDER

AND NOW, on this \_\_\_25th\_\_\_ day of March, 2002, Stephen J. Johnson, Deputy Insurance Commissioner of the Commonwealth of Pennsylvania (“Deputy Commissioner”) hereby makes the following Decision and Order:

Pursuant to the Insurance Company Law and the Insurance Holding Company Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Deputy Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. American Independent Insurance Company (the “Domestic Insurer”) is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Plymouth Meeting, Pennsylvania.
2. Arch Capital Group Ltd. ("Arch Capital") is a business corporation organized under the laws of Bermuda with its principal place of business located Hamilton, Bermuda. Arch Capital indirectly controls 100% of the issued and outstanding

voting stock of the Domestic Insurer.

3. The voting stock of Arch Capital is publicly traded on the NASDAQ National Market.
4. Warburg Pincus (Bermuda) Private Equity Ltd. (“WP Private Equity”) is a business corporation organized under the laws of Bermuda with its principal place of business located in Hamilton, Bermuda.
5. WP Private Equity is owned directly by individuals, none of which is a controlling person.

#### Acquisition Filing

6. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that any transaction involving the control of a domestic insurer must be filed with the Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”) for approval or disapproval.
7. On December 17, 2001, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an initial application (which together with all material received subsequently is collectively referenced as “Application”) from WP Private Equity for approval to acquire control of Domestic Insurer.
8. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

#### Department Procedures

9. On February 2, 2002, the Department published notice in the Pennsylvania Bulletin that the Application was submitted by WP Private Equity, among others, and such notice invited interested persons to submit comments to the Department regarding the Application for a fourteen day period, ending February 16, 2002.
10. The Department received no comments regarding the Application during the fourteen day comment period.

#### Description of the Proposed Acquisition

11. As described in the Application, on October 24, 2002, Arch Capital and WP Private Equity (among others) signed a Subscription Agreement (“Agreement”) whereby WP Private Equity would acquire preference shares convertible to common stock of Arch Capital and warrants to purchase additional shares of

common stock of Arch Capital.

12. As described in the Application and pursuant to the Agreement, the monies to be exchanged for the stock and stock equivalents were transferred to Arch Capital with the caveat that WP Private Equity would be limited to voting not more than 9.9% of the issued and outstanding stock of Arch Capital until all regulatory approvals of the Agreement had been granted.
13. As described in the Application and pursuant to the Agreement, consummation of the Acquisition has resulted in WP Private Equity indirectly holding stock and stock equivalents that on a fully diluted basis would constitute approximately 17.41% of the issued and outstanding voting stock of Arch Capital.
14. As described in the Application and pursuant to the Agreement, Arch Capital received a total of approximately \$202,500,000 from WP Private Equity for its part of the Acquisition.
15. The final purchase price will be subject to certain post-closing adjustments.
16. As described in the Application, WP Private Equity funded its portion of the total purchase price from its existing corporate resources and no part of the purchase price was obtained from borrowed funds.
17. As described in the Application, it is not anticipated that Domestic Insurer will be required to issue extraordinary dividends to support Arch Capital in the payment of interest or dividends resulting from the Acquisition.

#### Standards for Review

18. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.
19. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

#### Licensing Requirements

20. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
21. The classes of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company

- Law (40 P.S. §382).
22. The minimum paid up capital stock and paid in surplus required of a stock insurer for each class of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
  23. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Domestic Insurer is required to maintain a minimum paid up capital stock of \$850,000 to write the classes of insurance for which it is presently licensed.
  24. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Domestic Insurer is required to maintain a minimum paid in surplus of \$425,000 to write the classes of insurance for which it is presently licensed.
  25. Upon completion of the transaction, Domestic Insurer will have paid up capital in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Domestic Insurer.
  26. Upon completion of the transaction, Domestic Insurer will have paid in surplus in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Domestic Insurer.

#### Competitive Impact

27. The acquisition of control of Domestic Insurer is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth.
28. The acquisition of control of Domestic Insurer will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of WP Private Equity, as stated in the Application, does not exceed the market share levels established in Section 1403.

#### Financial Condition of WP Private Equity

29. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring persons.

30. WP Private Equity reported December 31, 2001, unaudited GAAP account balances of:

Assets:	\$ 1,859,000
Liabilities:	\$ 0
Partners' Capital:	\$ 1,859,000

31. The financial condition of WP Private Equity would not pose any impediments to the change in control nor jeopardize the financial condition of Domestic Insurer.

Plans for the Acquired Insurer

32. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer.

33. As provided in the Application, WP Private Equity has disclosed that it intends to make no significant changes to the business plans of the Domestic Insurers.

Management

34. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurers.

35. Biographical affidavits for all directors and executive officers of WP Private Equity were provided as part of the Application and the Department reviewed all affidavits that were submitted.

36. The Department is satisfied that the persons who would control the operations of Domestic Insurer have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

37. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has jurisdiction to review and approve the change in control of the Domestic Insurers.

2. Pursuant to a properly completed instrument, the Commissioner has delegated authority to the Deputy Commissioner to review and approve acquisitions of control of domestic insurers for the period February 27, 2002, through and including March 29, 2002.
3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner must approve an application for a change in control unless the Department has found that:
  - a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which it is presently licensed;
  - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
  - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
  - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and not in the public interest;
  - e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control;
  - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or,
  - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.
4. Under Section 1402 of the Insurance Holding Companies Act, the Deputy Commissioner has not found that any of the above conditions are present with respect to the change in control of the Domestic Insurers.
5. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

BEFORE THE DEPUTY INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and  
: 1403 of the Insurance Holding  
Application of Warburg Pincus (Bermuda) : Companies Act, Article XIV of the  
Private Equity Ltd. in Support of the : Insurance Company Law of 1921,  
Request for Approval to Acquire Control of : Act of May 17, 1921, P.L. 682,  
American Independent Insurance Company : as amended, 40 P.S. §§991.1401,  
: 991.1402, and 991.1403  
: :  
: Order No. ID-RC-02-10

ORDER

Upon consideration of the foregoing, the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

The application of Warburg Pincus (Bermuda) Private Equity Ltd. (“WP Private Equity”) in support of the request for approval to acquire control of American Independent Insurance Company is hereby approved, subject to this Order and the following condition:

WP Private Equity shall provide notice of any conversion of preferred stock of Arch Capital Group Ltd. (“Arch Capital”) or exercise of warrants to purchase common stock of Arch Capital to the Insurance Department not later than the fifteenth of the month subsequent to such action.

This Order is effective immediately and valid for one year, provided no material changes are made to the transaction prior to consummation.

\_\_\_\_\_  
STEPHEN J. JOHNSON  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania