

BEFORE THE DEPUTY INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402,
	:	and 1403 of the Insurance
Application of Arch Capital Group Ltd.	:	Holding Companies Act, Article
Requesting Exemption from the	:	XIV of the Insurance Company
Requirements of 40 P.S. §991.1402 for the	:	Law of 1921, Act of May 17, 1921,
Restructuring of its Holding Company	:	P.L. 682, <u>as amended</u> , 40 P.S.
System, which includes American	:	§§991.1401, 991.1402, and
Independent Insurance Company	:	991.1403
	:	
	:	Order No. ID-RC-02-33

DECISION AND ORDER

AND NOW, on this ___12th___ day of December, 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 Holding Companies 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 the Parties

1. American Independent Insurance Company (the “Domestic Insurer”) is a domestic stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Conshohocken, Pennsylvania.
2. American Independent Insurance Holding Company (“AI Holding”) is an insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Conshohocken, Pennsylvania.

AI Holding currently directly holds 100% of the issued and outstanding capital stock of the Domestic Insurer.

3. Arch Capital Holdings Ltd (“Arch Capital”) is a business corporation organized under the laws of Bermuda with its principal place of business in Hamilton, Bermuda.
4. Arch Capital Group Ltd (“Parent”) is a business corporation organized under the laws of Bermuda with its principal place of business in Hamilton, Bermuda. Parent directly holds 100% of the issued and outstanding capital stock of AI Holdings and indirectly controls 100% of the capital stock of Arch Capital.

Filing of the Application

5. On November 25, 2002, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an initial request (which together with all material received subsequently is collectively referenced as “Application”) from Parent for approval to effectuate a plan of reorganization of the holding company system that includes the Domestic Insurer.
6. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that all transactions affecting the control of a domestic insurer must be filed with the Department for approval or disapproval.
7. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.
8. Section 1402(g) of the Insurance Holding Companies Act provides for the exemption from the requirements of Section 1402(b) if the transaction:
 - a) does not have the effect of changing or influencing the control of a domestic insurer, or
 - b) is otherwise not comprehended within the purposes of the section.

The Transaction

9. As described in the Application, Parent proposes to cause the direct ownership of the Domestic Insurer to change from AI Holding to Arch Capital.
10. As described in the Application, Arch Capital would hold 100% of the issued and outstanding voting stock of the Domestic Insurer.

11. The Deputy Commissioner finds that the transaction described in the Application do not have the effect of changing or influencing the control of a domestic insurer.
12. 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 Department has jurisdiction to review and approve the acquisition of controlling securities of a domestic insurer if, after consummation thereof, the acquiring person would be in control of the domestic insurer.
2. The Deputy Commissioner has jurisdiction over the parties and subject matter of this proceeding.
3. The Application was properly filed pursuant to and in accordance with Section 1402(g) of the Insurance Holding Companies Act.
4. The instant transaction is not being contemplated to change or influence the ultimate control of the Domestic Insurer, and, therefore, is exempt from the requirements of Section 1402(b) of the Insurance Holding Companies Act.
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.

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Independent Insurance Company	:	991.1403
	:	
	:	Order No. ID-RC-02-33

ORDER

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

An approving determination for the application of Arch Capital Group Ltd. requesting exemption from the requirements of 40 P.S. §991.1402 for the restructuring of its holding company system, which includes American Independent Insurance Company, as set forth in the Application, is hereby granted.

This Order is effective immediately and valid for one year provided there are no material changes to the representation provided with the Application.

STEPHEN J. JOHNSON
Deputy Insurance Commissioner