

REPORT ON EXAMINATION
OF
ARCH LIFE INSURANCE COMPANY OF AMERICA
112 SW 7TH STREET, SUITE 3C
TOPEKA, KANSAS
AS OF
DECEMBER 31, 2020

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Topeka, Kansas
April 22, 2022

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Rd
Topeka, Kansas 66604-4019

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

ARCH LIFE INSURANCE COMPANY OF AMERICA

with its statutory home office at:

**112 SW 7TH STREET, SUITE 3C
TOPEKA, KANSAS**

and main administrative office at:

**445 SOUTH STREET, SUITE 220
MORRISTOWN, NEW JERSEY**

hereinafter referred to as the "Company" or "ALICA". The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of the Company, a Kansas-domiciled life insurance company. The last examination covered the four-year period from January 1, 2012, through December 31, 2015. This examination covers the five-year period from January 1, 2016, through December 31, 2020.

The examination of ALICA was part of a coordinated group examination with Missouri as the Lead State and Kansas as a participating state. When participating in the

early planning phases of the multi-state exam, including the kick-off meeting with the parent company, it was apparent that ALICA's operations and oversight were managed by a small, separate management team and audited by a different independent certified public accounting firm than that used by the other companies in the multistate examination. However, to comply with NAIC guidelines with respect to participation in a group coordinated examination, the Kansas examination team continued to participate on the monthly status meetings with the Lead State, monitor the Lead State's multi-state Teamate project for any areas that might impact ALICA, and review key work and deliverables of the Lead State.

The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department ("Department") and the observed guidelines and procedures contained in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook"). The Handbook requires that the examiners 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.

Those activities considered in the examination as key or critical to ALICA included

Investments, Capital and Surplus, Reserving, and Reinsurance. The examination also included a review and evaluation of information technology general controls.

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 is documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, and 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.

Independent Audit Reports

Financial statements of the Company were audited by Dixon Hughes Goodman LLP of High Point, North Carolina for the years ending December 31, 2016 through December 31, 2020. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company as of December 31, 2020, and the results of its operations and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination.

Actuarial Review

The Company retained Christopher H. Hause, FSA, MAAA, of House Actuarial Solutions of Overland Park, Kansas to perform a review of the Company's actuarial practices and reserves as of December 31, 2020. His review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in its reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the examination.

COMPANY HISTORY

General

The Company was incorporated on June 1, 1964, as a stock life insurance company and was originally licensed as Florists' Life Insurance Company ("Florists") under the provisions of the Illinois Insurance Code on July 14, 1964. Florists was a wholly-owned subsidiary of Florists' Mutual Insurance Company, an Illinois property and casualty insurance company.

Effective September 1, 1998, all of the life and annuity business of Florists was sold to Fidelity Security Life Insurance Company, a Missouri-domiciled insurance company. Effective January 1, 1999, Financial American Life Insurance Company (Financial American), a wholly-owned subsidiary of Founders Insurance Company, purchased all of the issued and outstanding stock of Florists. Immediately following the purchase, Financial American was merged into Florists. The purchase was approved by the Illinois Director of Insurance on January 29, 1999.

Effective September 5, 2003, Cardif Holdings, Inc. purchased all the outstanding

stock of the Company. Effective March 29, 2004, the Company re-domesticated from Illinois to Kansas. On February 1, 2007, the Company's name was changed to Cardif Life Insurance Company. On May 20, 2010, the Company's parent signed a Stock Purchase Agreement to sell its insurance subsidiaries, including the Company, to Interstate National Corporation. The agreement was subsequently assigned to an affiliate company, Financial American Holdings Corporation ("FAHC"), and the closing of the ownership change occurred on January 31, 2011. Effective August 30, 2010, the Company changed its name to Financial American Life Insurance Company ("FAMLI"). Effective June 1, 2013, FAMLI ceased writing new business and was placed in run-off. On October 31, 2019, FAMLI was sold to Arch Capital Group (U.S.) Inc. ("ACGUS") through a Stock Purchase Agreement under which FAMLI issued 1,470,000 additional shares of its authorized but unissued stock at \$0.40 par value for total consideration of \$6,000,000. The transaction was approved by the Department and the \$6,000,000 payment was made on December 30, 2019. Effective February 27, 2020, FAMLI changed its name to Arch Life Insurance Company of America.

The Company is authorized to transact the kinds of insurance provided for in K.S.A. 40-401 et seq.

Capital Stock

As of December 31, 2020, the Company had 18,000,000 shares of common stock authorized, and 4,000,000 shares issued and outstanding, with a par value of \$0.63 per share. One hundred percent (100%) of the Company's stock was owned by ACGUS.

Dividends and Capital Contributions

The Company paid no dividends during the examination period.

FAHC made capital contributions to the Company in 2017 and 2018 of \$600,000 and \$440,000, respectively.

As part of the Stock Purchase Agreement noted in the “Company History” section above, ACGUS made a capital contribution of \$6,000,000 on December 31, 2019 in exchange for 1,470,000 shares of common stock. The result of this capital contribution was to increase the shares of issued and outstanding common stock from 2,530,000 to 4,000,000.

On September 18, 2020, ACGUS made a capital contribution of \$2,000,000.

CORPORATE RECORDS

On December 27, 2016, the Company amended and restated the Articles of Incorporation (“Articles”) to change the name of the Company to Financial American Life Insurance Company and the par value of each of the 18,000,000 authorized common shares from \$1.00 per share to \$0.40. The result of this change in the financial statements was to reduce common stock by \$1,518,000 and increase gross paid in and contributed surplus by \$1,518,000.

The Company underwent a quasi-reorganization effective as of December 30, 2019 that was approved by the State of Kansas on January 17, 2020. The Company recorded a surplus reset and reclassified \$36,406,431, which was the negative unassigned surplus balance on December 30, 2019, between unassigned surplus and gross paid in surplus. The surplus reset had no impact on the Company’s total capital and surplus.

On January 15, 2020, the Articles were amended to change the name of the Company to Arch Life Insurance Company of America and the par value of each of the

18,000,000 authorized common shares from \$0.40 to \$0.63. The result of this change in the financial statements was to increase common stock by \$920,000 and decrease gross paid in and contributed surplus by \$920,000.

MANAGEMENT AND CONTROL

Stockholders

The Company is controlled by its sole stockholder, ACGUS.

Board of Directors

The Company's bylaws consist of nine articles that provide the framework for the operation, management, and control of the Company. The Company is managed under the direction of its board of directors ("Board").

Pursuant to the Company's bylaws, the Board should consist of no less than three (3) and not more than eight (8) directors. At the annual meeting, the stockholders shall elect directors, each of whom will hold office for a term of one year or until a successor is elected and qualified or until such director's earlier resignation or removal. The directors elected and serving as of December 31, 2020 were as follows.

<u>Name</u>	<u>Position(s) Held</u>
Barry E. Golub	Chief Financial Officer, ALICA
Jerome Y.S.H. Halgan	Chief Executive Officer, Arch Re Ltd.
Peder F. Moeller	Chief Executive Officer, Chief Underwriting Officer and President, ALICA

Committees

The Company's bylaws indicate that the Board may designate one or more committees of the Board. The Board has established an Investment Committee and is subject to the Arch Capital Group Ltd. Audit Committee. Two (2) members of the Board

of Directors serve on the Investment Committee.

Officers

Pursuant to the bylaws, the Company will have a chief executive officer, a president, one (1) or more vice presidents, a secretary, a treasurer, and one (1) or more assistant vice presidents, assistant secretaries, or assistant treasurers. The bylaws direct the Board to elect such officers at the first meeting of the Board held after the annual meeting of the shareholders. The officers elected and serving as of December 31, 2020 were as follows:

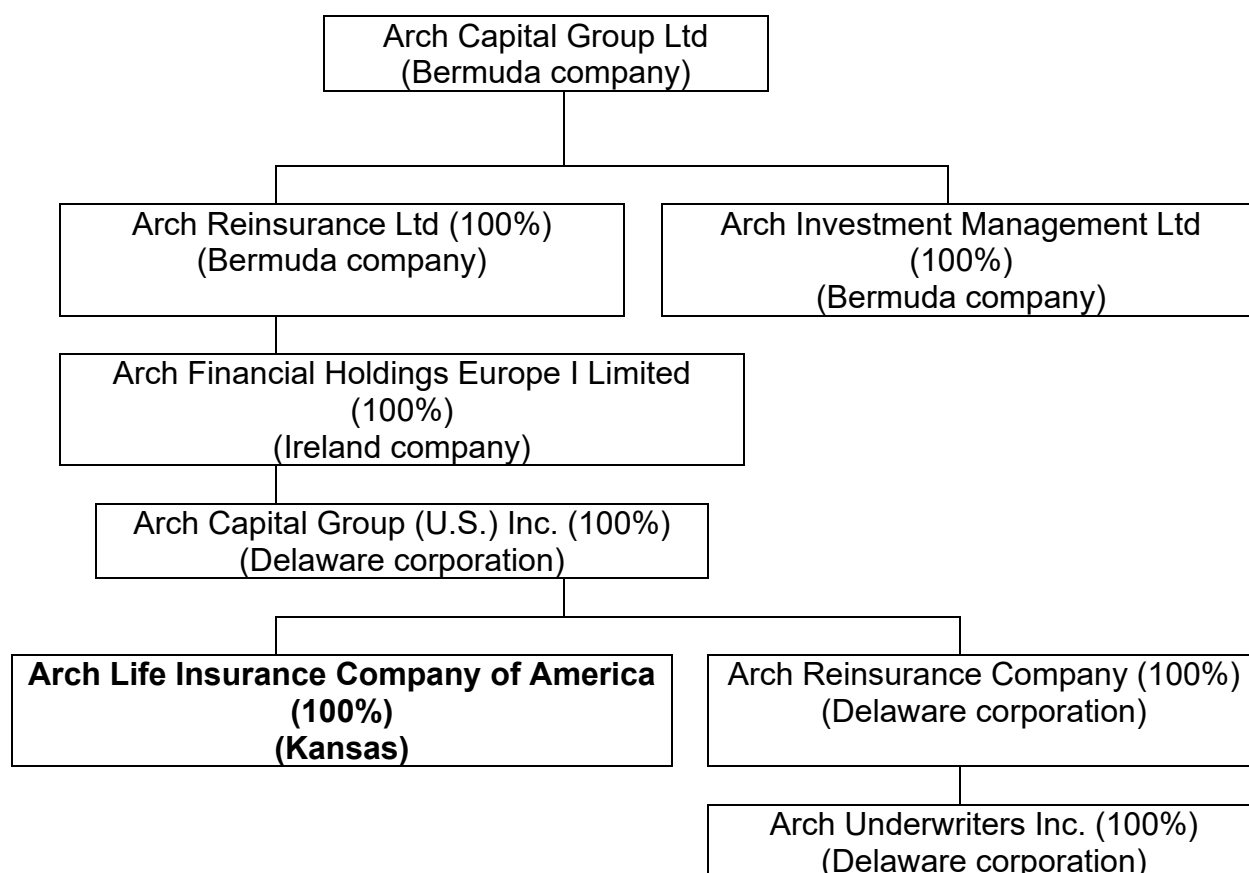
Name	<u>Position(s) Held</u>
Peder F. Moeller	Chief Executive Officer, Chief Underwriting Officer and President
Barry E. Golub	Chief Financial Officer
Anna DeChristofano	Secretary
Timothy Forshay	Treasurer
Shaya Altschuller	Corporate Controller

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Forms “B” and “C” registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the items and events pertaining to the Company were properly reported as required by statute.

The Company’s ultimate controlling parent is Arch Capital Group Ltd. The abbreviated organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities

thereof, as of December 31, 2020. Ownership is noted in parentheses and the Kansas domiciled insurer is bolded.



Intercompany/Cost Sharing Agreements

The following is a brief description of significant agreements executed with affiliate entities that were in effect as of December 31, 2020.

Administrative Support Services Agreement

Effective October 31, 2019, the Company entered into an Administrative Support Services Agreement with Arch Underwriters, Inc. (AUI). Pursuant to the Agreement, AUI provides administrative support services to ALICA to facilitate the operation of the Company's business. The Company paid AUI \$516,053 for service fees in 2020.

Investment Management Agreement

Effective December 27, 2019, the Company entered into an Investment Management Agreement with Arch Investment Management Ltd. (AIM). Pursuant to the Agreement, AIM provides investment advisory services to ALICA. The Company paid AIM \$17,129 for investment advisory fees in 2020.

Other Non-Affiliated Administrative Services Agreement

On October 22, 2020, the Company amended the pre-existing Administrative Services Agreement with LOTsolutions, Inc., a non-related third-party administrator, to continue providing services and/or operations management related to accounting, actuarial and corporate valuation, audit, back office, communications, executive strategy, human resources, information technology, legal and tax, line of business executive strategy, product management, sales, and market development. The amendment extends the agreement to March 1, 2021 and pursuant to the amended agreement, the Company paid LOTsolutions \$170,000 in service fees in 2020.

TERRITORY AND PLAN OF OPERATION

Effective June 1, 2013, the Company ceased writing new business and was placed in run-off. Previously, the Company principally marketed Credit Life and Credit Disability products.

As of December 31, 2020, the Company was authorized to transact business in thirty-six (36) states and the District of Columbia. The NAIC Schedule T Exceptions Report was reviewed for each of the states where the Company is licensed. Seven (7) exceptions were noted that were cleared after examination of documentation from each state showing revocation of the Company's license to transact business in that state.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2016, through December 31, 2020. The financial amounts were obtained from annual statements filed by the Company.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<i>(\$000 omitted)</i>					
Admitted Assets	\$6,679	\$4,447	\$3,655	\$9,060	\$10,037
Liabilities	4,846	2,502	1,641	1,115	817
Capital and Surplus	1,833	1,945	2,014	7,945	9,219
Net Income (Loss)	(1,235)	(1,219)	(342)	(235)	(692)
Net Premium Written	(809)	(361)	(135)	(23)	(2)

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

<i>(\$000 omitted)</i>					
Premium Type	2016	2017	2018	2019	2020
Direct Written Premium	\$(536)	\$(130)	\$ (28)	\$ (5)	\$(1)
Reinsurance Assumed	0	0	0	0	0
Reinsurance Ceded	(273)	(231)	(107)	(18)	(1)
Net Premiums Written	<u>\$(809)</u>	<u>\$(361)</u>	<u>\$(135)</u>	<u>\$(23)</u>	<u>\$(2)</u>

Assumed Reinsurance

The Company does not assume any business through reinsurance.

Ceded Reinsurance

The Company cedes credit business under the General Re Life Corporation (Gen Re), Cardif Assurance Vie (CAV), and Merida Reinsurance Ltd. (Merida) reinsurance agreements. The Gen Re agreement covers all policies in force since January 31, 2011.

CAV covered policies commencing prior to January 31, 2011; one (1) policy remained in force as of December 31, 2020, which expired during 2021. As of December 31, 2020, there were fourteen (14) life and four (4) disability policies in force under the Merida reinsurance agreement. All reinsurance agreements reviewed provided for the transfer of risk.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2020. There were no adjustments to the Company's filed statutory financial statements as a result of this examination.

ARCH LIFE INSURANCE COMPANY OF AMERICA
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2020

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 9,565,808	\$ -	\$ 9,565,808
Cash and short-term investments	431,991	-	431,991
Investment income due & accrued	21,876	-	21,876
Other amounts receivable under reinsurance contracts	91,310	74,325	16,985
Aggregate write-ins for other than Invested assets	9,617	9,617	-
	<u>\$ 10,120,602</u>	<u>\$ 83,942</u>	<u>\$ 10,036,660</u>

ARCH LIFE INSURANCE COMPANY OF AMERICA
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2020

Aggregate reserve for life contracts	\$ 1,019
Aggregate reserve for accident and health contracts	3,203
Contract claims:	
Life	11
Accident and health	69
Contract liabilities not included elsewhere:	
Interest Maintenance Reserve	301,764
General expenses due or accrued	205,244
Miscellaneous liabilities:	
Asset valuation reserve	690
Reinsurance in unauthorized and certified companies	17,498
Payable to parent, subsidiaries and affiliates	93,807
Aggregate write-ins for liabilities	<u>194,159</u>
Total liabilities	<u>817,464</u>
Common capital stock	2,520,000
Gross paid in and contributed surplus	7,470,215
Unassigned funds (surplus)	<u>(771,019)</u>
Surplus as regards policyholders	<u>9,219,197</u>
Totals	<u>\$ 10,036,660</u>

ARCH LIFE INSURANCE COMPANY OF AMERICA
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

Premiums and annuity considerations for life and accident and health Contracts	\$ (2,141)
Net investment income	76,246
Amortization of Interest Maintenance Reserve	59,264
Commissions and expense allowances on reinsurance ceded	<u>556</u>
Totals	<u>133,925</u>
Death benefits	(26)
Disability benefits and benefits under accident and health contracts	2,716
Increase in aggregate reserves for life and accident and health contracts	<u>(8,639)</u>
Totals	(5,949)
Commissions on premiums, annuity considerations and deposit-type contract funds	(390)
General insurance expenses and fraternal expenses	1,003,356
Insurance taxes, licenses and fees, excluding federal income taxes	72,239
Aggregate write-ins for deductions	<u>(200,000)</u>
Totals	<u>869,256</u>
Net gain from operations after dividends to policyholders, refunds to members and federal income taxes	(735,331)
Federal and foreign income taxes incurred	<u>(43,791)</u>
Net income	<u>\$ (691,540)</u>

ARCH LIFE INSURANCE COMPANY OF AMERICA
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Surplus as regards policyholders, December 31	\$ 3,666,167	\$ 1,832,578	\$ 1,945,230	\$ 2,014,006	\$ 7,944,570
Net income (loss)	(1,234,577)	(1,219,118)	(342,187)	(234,933)	(691,540)
Change in net deferred income tax	(75,823)	89,971	(43,858)	(46,112)	-
Change in nonadmitted assets	(619,264)	642,248	20,009	(863)	(83,080)
Change in liability for reinsurance in unauthorized companies and certified companies	83,645	(2,712)	(7,280)	2,227	1,660
Change in asset valuation reserve	12,430	2,263	2,092	245	1,939
Capital changes: Paid in	(1,518,000)	-	-	588,000	-
Surplus adjustment: Paid in	-	600,000	440,000	5,622,000	2,000,000
Surplus adjustment: Quasi-reorganization	1,518,000	-	-	(36,405,431)	-
Aggregate write-ins for gains and losses in surplus	-	-	-	36,405,431)	45,648
Surplus as regards policyholders, December 31, 2020	\$ 1,832,578	\$ 1,945,230	\$ 2,014,006	\$ 7,944,570	\$ 9,219,197

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company as of December 31, 2020, was \$9,219,197, which was the same amount reported by the Company in its 2020 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

As of June 30, 2021, the Premium Deficiency Reserve had increased by \$200,000, or 117%, from December 31, 2020.

The COVID-19 pandemic has continued to develop throughout 2020, 2021 and into 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. However, the Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if concerns arise.

SUMMARY OF RECOMMENDATIONS

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

CONCLUSION

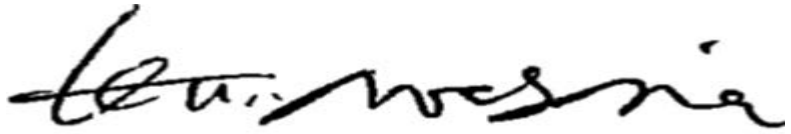
The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Kristina Sampson, CPA, Examiner, of Noble Consulting Services, Inc. and Mark Alberts, FSA, MAAA of Alberts Actuarial Consulting LLC, participated in this examination.

Respectfully submitted,

 CFE
Barry Armstrong, CFE
Examiner-in-Charge
Noble Consulting Services, Inc., representing
the Kansas Insurance Department

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.

A handwritten signature in black ink, reading "Levi Nwasoria", written over a horizontal line.

Levi Nwasoria, CPA, CFE
Chief Examiner
Kansas Insurance Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of North Carolina,

County of Wake,

Barry Armstrong, CFE, being duly sworn, states as follows:

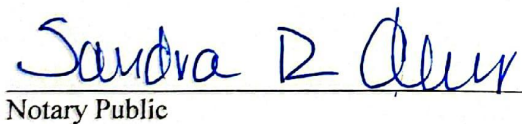
1. I have authority to represent the Kansas Insurance Department in the examination of Arch Life Insurance Company of America.
2. the Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Arch Life Insurance Company of America was performed in a manner consistent with the standards and procedures required by K.S.A 40-222.

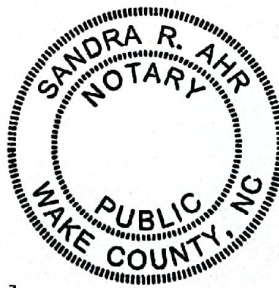
The affiant says nothing further.

 , CFE
Examiner's Signature

Subscribed and sworn before me by Barry Armstrong on this 12 day of May, 2022.

(SEAL)


Notary Public



My commission expires 16 March 2024 [date].