

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF THE ACQUISITION )	
OF CONTROL OF WATFORD INSURANCE )	HEARING OFFICER'S
COMPANY AND WATFORD SPECIALTY )	REPORT
INSURANCE COMPANY BY WP )	
WINDSTAR INVESTMENTS LTD, )	
WARBURG PINCUS (Callisto) GLOBAL )	
GROWTH (Cayman), L.P., WARBUS PINCUS )	
(Europa) GLOBAL GROWTH (Cayman), L.P., )	
WARBURG PINCUS GLOBAL GROWTH-B )	
(Cayman), L.P., WARBURG PINCUS )	
GLOBAL GROWTH-E (Cayman), L.P., )	
WARBURG PINCUS FINANCIAL SECTOR )	
(Cayman), L.P., WARBURG PINCUS )	
(Cayman) FINANCIAL SECTOR GP, L.P., )	
WARBURG PINCUS (Cayman) FINANCIAL )	
SECTOR GP LLC, WARBURG PINCUS )	
(Cayman) GLOBAL GROWTH GP, L.P., )	
WARBURG PINCUS (Cayman) GLOBAL )	
GROWTH GP LLC, WARBURG PINCUS )	
PARTNERS II (Cayman), L.P., AND )	
WARBURG PINCUS (Bermuda) PRIVATE )	
EQUITY GP LTD. )	

Procedural History

In accordance with N.J.S.A. 17:27A-2, by a filing dated December 8, 2020 and supplemented through June 21, 2021, Warburg Pincus (Bermuda) Private Equity GP, Ltd., Warburg Pincus Partners II (Cayman), L.P., Warburg Pincus (Cayman) Global Growth GP LLC., Warburg Pincus (Cayman) Global Growth CP, L.P., Warburg Pincus (Cayman) Financial Sector GP LLC, Warburg Pincus (Cayman) Financial Sector GP, L.P., Warburg Pincus Financial Sector (Cayman), L.P., Warburg Pincus Global Growth-E (Cayman), L.P., Warburg Pincus Global

Growth-B (Cayman), L.P., Warburg Pincus Global (Europa) Global Growth (Cayman), L.P., Warburg Pincus (Callisto) Global Growth (Cayman), L.P., and WP Windstar Investments Ltd., (collectively the “Applicants”), filed with the Department of Banking and Insurance (“the Department”) an application to acquire control (“the Form A filing”) of Watford Insurance Company (“WIC”) and Watford Specialty Insurance Company (“WSIC”), both New Jersey domestic property and casualty insurance and reinsurance companies (collectively “the Domestic Insurers”). WIC is a wholly-owned subsidiary of WSIC, which in turn is an indirect wholly-owned subsidiary of Watford Holdings, Ltd. (“WHL”). The Watford companies are a global property and casualty insurance and reinsurance company with operations in Bermuda, the United States, and Europe.

Greysbridge Holdings, Ltd. (“GHL”) is newly-formed holding company formed for the purpose of the proposed acquisition of control of WIC and WSIC. GHL is currently a direct, wholly-owned subsidiary of ARL. Greysbridge, Ltd. (“Merger Sub”) is a newly-formed entity formed to effect the merger described. Arch Reinsurance Ltd. (“ARL”) was one of the initial investors in WHL. ARL is a subsidiary of Arch Capital Group Ltd. (“ACGL”), a global insurance and reinsurance company whose shares are also listed on the NASDAQ. Currently, ACGL holds 12.6% of WHL common shares. In August 2020, the California Department of insurance received a disclaimer of control associated with a Form B. All applicants have indicated that after the transaction, ACGL will be the ultimate controlling person. Upon consummation of the transaction, ARL, Kelso Investors (“Kelso”), and Warburg Pincus will be the owners of all of the capital stock of WHL, which will become an indirect, wholly owned subsidiary of ACGL through the Merger Sub.

Pursuant to N.J.S.A. 17:27A-2(d) and after notice was provided in papers of general circulation and on the Department's website, a public hearing was held on the Form A filing on June 21, 2021. Pursuant to N.J.A.C. 11:1-35.6(g), the public hearing was conducted based on the documents filed. The hearing panel and Department staff determined that the documents filed in connection with the proposed acquisition satisfied the requirements of N.J.S.A. 17:27A-2(b). Public comments were allowed to be submitted to the Department through the close of business on June 21, 2021, and no comments were received. The record was closed on June 21, 2021.

#### Findings of Fact

Warburg Pincus LLC ("Warburg Pincus") is a private equity firm based in New York and is focused on growth investing. The firm has more than \$50 billion in private equity assets under management. The firm's active portfolio of more than 200 companies is diversified by stage, sector, and geography. The firm has primarily focused on investments in the following sectors: Consumer, Energy, Financial Services, Healthcare, Industrial & Business Services, Real Estate, and Technology.

WIC was incorporated as of June 4, 1987 and commenced business on August 17, 1987. WSIC was incorporated on September 8, 2015 and commenced business on September 30, 2015.

WSIC and WIC, as subsidiaries of WHL, are currently subject to an Agreement and Plan of Merger, dated as of October 9, 2020 and included as part of the Form A filing, by and among WHL, ACGL, GHIL and GL. Pursuant to the Agreement and Amendment No. 1 to the Agreement dated November 2, 2020, Merger Sub will merge with and into WHL, with WHL as the surviving entity as a subsidiary of GHIL.

In addition to shareholder and regulatory approvals, Warburg Pincus' obligation to consummate the Merger is conditioned on WHL's non-investment grade portfolio not suffering a

loss of more than \$208 million from September 30, 2020, through the date that is two business days prior to the closing of the Merger. As of March 31, 2021, Watford Holdings reported a positive investment income of \$59 million compared to a negative investment income of (\$262 million) for the first quarter of 2020. Overall investment income as of December 31, 2020 was \$114 million for the group. The Merger is expected to close in the second quarter of 2021 subject to all closing conditions described herein and contained in the Agreement, including receipt of required regulatory approvals.

The initial plan included consideration of \$31.10 in cash for each common share of WHL in addition to preferred shares and increased to \$35.00 per share on November 2, 2020. The Applicants will acquire all of the common shares of WHL for the price of \$35.00 per share. This all-cash consideration is valued at approximately \$700 million. ACGL will contribute 2.5 million shares of WHL common stock (\$87.5 million) and contribute cash up to \$192.5 million while Kelso and Warburg Pincus will contribute up to \$210 million each for a total consideration of \$700 million.

ACGL will assign its interests and obligations under the merger agreement to a newly formed entity of which ACGL will own approximately 40%, and funds managed by Warburg Pincus and Kelso will each own approximately 30%. Warburg Pincus will own WHL jointly with the Arch investors and the Kelso investors will provide equity commitments of the following: Warburg Pincus Funds will contribute cash up to \$210 million; ACGL will contribute the 2.5 million shares of WHL common stock it owns and contribute cash up to \$192.5 million for a total consideration of \$280 million; and Kelso investors will contribute cash up to \$210 million. Warburg Pincus, ARL investors and the Kelso investors have provided a confidential Subscription Agreement that will govern their respective rights and obligations as shareholders of GHL.

Other than as disclosed in this Form A, the Applicants have no present plans or proposals to cause the Domestic Insurers to declare an extraordinary dividend, to liquidate the Domestic Insurers, to sell the Domestic Insurers' assets other than such sales of assets as may be contemplated in the ordinary course of the Domestic Insurers' business, to merge the Domestic Insurers with any other entity, or to make any other material change in the Domestic Insurers' business operations or corporate structure or management. Immediately following closing, the Domestic Insurers will continue to maintain their separate corporate existences and will continue their operations as currently conducted.

Based on the consolidated financial statements filed by the Applicants, the Applicants had shareholders' equity of approximately \$4.68 billion in 2020; \$4.0 billion in 2019; and \$3.3 billion in 2018. The Applicants reported total net income of \$532 million in 2020, \$1.4 billion in 2019, and \$822 million in 2018.

#### Analysis

N.J.S.A. 17:27A-2(d)(1) provides that the Commissioner shall approve an acquisition of control of a domestic insurer unless he or she finds that one or more of the seven disqualifying factors set forth therein exist. The statute provides in pertinent part:

(1) The Commissioner shall approve any merger or other acquisition of control ... unless, after a public departmental hearing thereon, he [or she] finds that:

(i) After the change of control the domestic insurer ... would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed;

(ii) The effect of the merger or other acquisition of control would be substantially to lessen competition in insurance in this State or tend to create a monopoly therein ... [applying the competitive standard as set forth in the statute];

(iii) The financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interest of its policyholders;

(iv) The financial condition of any acquiring party is such that (a) the acquiring party has not been financially solvent on a generally accepted accounting principles basis, or if an insurer, on a statutory accounting basis, for the most recent three fiscal years immediately prior to the date of the proposed acquisition (or for the whole of such lesser period as such acquiring party and any predecessors thereof shall have been in existence); (b) the acquiring party has not generated net before-tax profits from its normal business operations for the latest two fiscal years immediately prior to the date of acquisition (or for the whole of such lesser period as such acquiring party and any predecessors thereof shall have been in existence); or (c) the acquisition debt of the acquiring party exceeds 50% of the purchase price of the insurer;

(v) The plans or proposals which the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest;

(vi) 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 of the insurer and of the public to permit the merger or other acquisition of control; or

(vii) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.

Upon a thorough review of the documents submitted into evidence, the hearing panel and Department staff have determined that none of the seven disqualifying factors set forth above should result if the proposed acquisition is effectuated. Each of these conditions is discussed below.

First, after the acquisition, the Domestic Insurers will continue to meet the requirements to transact the business for which they are presently licensed pursuant to Title 17 of the New Jersey Statutes. There is nothing in the record to indicate that after the proposed transaction the Domestic

Insurers would not be able to continue to satisfy the requirements to transact the business for which they are presently licensed.

Second, it does not appear that the proposed transaction will substantially lessen competition in the New Jersey insurance market or tend to create a monopoly therein. N.J.S.A. 17:27A-2(d)(1)(ii) provides that in applying this competitive standard, the standard set forth in N.J.S.A. 17:27A-4.1(d) shall apply. That statute utilizes a complex formula based on the market shares of the insurers involved in the transaction. The statute by its terms does not apply if, as an immediate result of the acquisition, there would be no increase in the overall market share of the involved insurers after the acquisition. See N.J.S.A. 17:27A-4.1(b)(2)(d). Warburg Pincus does not own any insurers and only operates as a passive investor in insurance-related firms. ACGL will continue to manage the operations of the Domestic Insurers. According to the Form E dated November 2, 2020, the respective market share for all insurance entities subject to this transaction in New Jersey is less than 5% except for the following lines of business: credit, excess workers compensation, group accident and health, mortgage guaranty, and other property and casualty. In all lines of business, the transaction meets these exemption standards because the Applicants and the Domestic Insurers do not compete in any other lines of business. Accordingly, the proposed transaction will not violate the competitive standard set forth in N.J.S.A. 17:27A-4.1 because it does not substantially lessen competition in New Jersey or tend to create a monopoly therein.

Third, it does not appear that the financial condition of the Applicants will jeopardize the financial condition of the Domestic Insurers. Based on the consolidated financial statements filed by the Applicants, the Applicants had shareholders' equity of approximately \$4.68 billion in 2020; \$4.0 billion in 2019; and \$3.3 billion in 2018.

Fourth, it appears that the financial condition of the applicant is such that it has been solvent on a basis of generally accepted accounting principles for the three-year period immediately prior to the date of the proposed acquisition. The Applicants reported total net income of \$532 million in 2020, \$1.4 billion in 2019, and \$822 million in 2018. As of December 31, 2020, the Warburg Pincus Fund had total assets of approximately \$5.0 billion and liabilities of \$316 million for equity of approximately \$4.7 billion with cash of \$460 million. The consideration will be paid in cash and no debt will be incurred in paying the consideration for the transaction. Accordingly, the requirement that the acquisition debt may not exceed 50 percent of the purchase price is satisfied.

Fifth, the applicant does not propose to liquidate the Domestic Insurers or sell their assets. As set forth above, the Applicants do not intend to change the business operations, corporate structure, management, or general plan of operations other than may arise in the ordinary course of business.

Sixth, there is nothing in the record from which it may be concluded that the competence, experience, and integrity of the persons who will control the operations of the Domestic Insurers are such that it would not be in the best interest of the policyholders and of the public to permit the acquisition of control. Following the transaction, the Applicants will attain ultimate control of the Domestic Insurers and there are no anticipated changes to the executive officers and only a change in the Board of Directors. Following the transaction, the Applicants intend to maintain the Domestic Insurers' business operations, corporate structure, and management.

Seventh, there is nothing in the record from which it may be concluded that the proposed transaction is likely to be hazardous or prejudicial to the insurance buying public for the reasons set forth above.



Recommendation

Based on the foregoing analysis, the hearing panel and Department staff recommend that the proposed transaction be approved.

Upon a thorough review of the foregoing, I concur with the findings, analysis and recommendations of the hearing panel and Department staff. I therefore recommend that the proposed transaction be approved.

6/24/21  
Date

s/Lynn Certo  
Lynn Certo  
Hearing Officer

## Exhibits List

In the Matter of the Acquisition of Control of Watford Insurance Company and Watford Specialty Company by Warburg Pincus (Bermuda) Private Equity GP, Ltd., Warburg Pincus Partners II (Cayman), L.P., Warburg Pincus (Cayman) Global Growth GP LLC., Warburg Pincus (Cayman) Global Growth CP, L.P., Warburg Pincus (Cayman) Financial Sector GP LLC, Warburg Pincus (Cayman) Financial Sector GP, L.P., Warburg Pincus Financial Sector (Cayman), L.P., Warburg Pincus Global Growth-E (Cayman), L.P., Warburg Pincus Global Growth-B (Cayman), L.P., Warburg Pincus Global (Europa) Global Growth (Cayman), L.P., Warburg Pincus (Callisto) Global Growth (Cayman), L.P., and WP Windstar Investments Ltd., (together the “Warburg Pincus Applicants”).

Exhibit 1 – Form A Statement, received December 21, 2020.

Exhibit 2 – Preliminary Proxy Statement, received January 5, 2021

Exhibit 3 – Definitive Proxy Agreement and Voting and Support Agreements received February 19, 2021

Exhibit 4 – Waiver of 20–day notice of hearing submitted by David Streter, Authorized Signatory for the Warburg Pincus Applicants

Exhibit 5 – Waiver of 20–day notice of hearing submitted by Alexandre Scherer, President and CEO, for Watford Insurance Company and Watford Specialty Insurance Company

Exhibit 6 – Supplement to Form A Statement regarding Acquisition Debt, dated June 4, 2021

Exhibit 7 – Supplement to Form A Statement regarding Disclaimer of Affiliation, dated June 7, 2021.

Exhibit 8 – Supplement to Form A Statement regarding *control* of Warburg Pincus Applicants

Exhibit 9 – Affidavit of Publication of Notice of Hearing in The Record, reflecting publication on June 11, 2021

Exhibit 10 – Affidavit of Publication of Notice of Hearing in Courier Post, reflecting publication on June 11, 2021

Exhibit 11 – Affidavit of Publication of Notice of Hearing in Star Ledger, reflecting publication on June 11, 2021

Exhibit 12 – Form A Applicants Organizational Chart