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Arch Capital Group Ltd. And Operating Companies Upgraded; Outlook Stable

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- Arch Capital Group Ltd.'s senior management team has executed a consistent strategy based on active cycle management, strong underwriting discipline, and strong enterprise risk management (ERM), which has resulted in a large and well-diversified franchise by product, client, and segment.
- In addition, the company's strong track record of underwriting and operating performance has been better and less volatile than that of some other Bermuda-based reinsurance/insurance companies.
- As a result, we have raised the counterparty credit rating on Arch Capital Group Ltd. to 'A-' from 'BBB+' and the counterparty credit and financial strength ratings on the insurance and reinsurance operating companies to 'A+' from 'A'.
- The outlook is stable, reflecting our expectation that we do not expect to change the ratings on the group again in the next two years.

NEW YORK (Standard & Poor's) July 29, 2010--Standard & Poor's Ratings Services said today that it raised its counterparty credit rating on Arch Capital Group Ltd. (NASDAQ:ACGL; Arch Capital) to 'A-' from 'BBB+'.

Standard & Poor's raised its counterparty credit and financial strength ratings on Arch Capital's operating insurance and reinsurance companies to 'A+' from 'A'.

The outlook on all of these companies is stable.

"The upgrade of Bermuda-based reinsurance holding company Arch Capital and its operating insurance and reinsurance subsidiaries reflects the group's strong management and well conceived corporate strategy," explained Standard & Poor's credit analyst John Iten. The senior management team has executed a consistent strategy based on active cycle management, strong underwriting discipline, and strong enterprise risk management (ERM), which resulted in a

large and well-diversified franchise by product, client, and segment. The upgrade is also based on the group's (collectively referred to as Arch) consistent and strong track record of underwriting and operating results that are better and less volatile than those of some other Bermuda-based reinsurance/insurance companies. Further supporting the rating action is the group's very strong capital adequacy, moderate financial leverage, and very strong fixed-charge coverage.

Partially offsetting these positive factors are potential pricing and reserving risks related to the group's significant proportion of long-tail casualty writings, given the continued competitive pricing in this segment and the potential negative inflation effects on long-tail lines of businesses. In addition, Arch's moderately changing business mix could carry additional pricing and reserving risk.

The outlook on Arch is stable. We expect that Arch will continue to post strong operating results, as measured by return on revenue (excluding capital gains and losses), which will likely be better than the average of its peer group over the next two to three years. We anticipate that the ROR will exceed 15% for 2010 and 2011.

The ratings could come under pressure if the company's underwriting performance lags that of its peers (assuming normalized catastrophe losses and excluding the benefits of reserve releases), if earnings volatility increases over a multi-year period, if there is a major change in the risk profile of Arch's investment portfolio or business mix, or if the company reports major adverse reserve development stemming from the company's casualty loss reserves. We do not expect to raise our ratings on Arch in the next two years.

RELATED CRITERIA AND RESEARCH

- Interactive Ratings Methodology, April 22, 2009.
- Analysis Of Nonlife Insurance Operating Performance, April 22, 2009.

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