Risk Factors Comparison 2024-02-26 to 2023-02-24 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

Investing in our common stock involves risks. When evaluating the Company, you should carefully consider the risks described below, together with all the information included or incorporated by reference in this report. The risks facing the Company include, but are not limited to, those described below. Additional risks that we are not presently aware of or that we currently believe are immaterial may also impair our business operations. The occurrence of one or more of these events could significantly and adversely affect our business, financial condition, results of operations, cash flows, and stock price, and you could lose all or part of your investment. Operational and Strategic Risks If we fail to price our insurance policies sufficiently, our business competitiveness, financial condition, and results of operations could be materially adversely affected. Premiums are based on the particular class of business and our estimates of expected losses and LAE and other expenses related to the policies we underwrite. We analyze many factors when pricing a policy, including the policyholder' s prior loss history and industry classification. Inaccurate information regarding a policyholder' s past claims experience or inaccurate estimates of expected losses and LAE could put us at risk for mispricing our policies, which could have a material adverse effect on our business, financial condition, and results of operations. For example, when initiating coverage on a policyholder, we must rely on the information provided by the policyholder, agent, or the policyholder' s previous insurer (s) to properly estimate future claims expense. In order to set premium rates accurately, we must utilize an appropriate pricing model that correctly assesses risks based on ~~their~~ individual characteristics and takes into account actual and projected industry characteristics. Wage inflation ~~can~~ **has** ~~increase~~ **increased** the payrolls of our policyholders, which is the basis for the premiums we charge. Wage inflation can also impact the amount of future indemnity losses that we may incur, which could serve to offset any increase in premiums and negatively impact our financial condition and results of operations. Intense competition and the fact that we write only a single line of insurance could adversely affect our ability to sell policies at rates that we deem adequate. The market for workers' compensation insurance products is highly competitive. Competition in our business is based on many factors, including premiums charged, services provided, ease of doing business, financial ratings assigned by independent rating agencies, speed of claims payments, reputation, policyholder dividends, perceived financial strength, and general experience. In some cases, our competitors offer lower priced products than we do. If our competitors offer more competitive prices, policyholder dividends, or payment plans, services or commissions to our agents, brokers, and other distributors, we could lose market share ~~, have~~ **and be forced** to reduce our premium rates, or increase commission rates, **either of** which could adversely affect our profitability. We compete with regional and national insurance companies, professional employer organizations, third- party administrators, self- insured employers, and state insurance funds. Our main competitors vary from state to state, but **they** are usually those companies that offer a full range of services in underwriting, loss control, and claims. We compete **based** on ~~the basis of~~ the services that we offer to our policyholders and on ease of doing business rather than solely on price. Many of our competitors are significantly larger and possess greater financial, marketing, and management resources than we do. Some of our competitors benefit financially by not being subject to federal income tax. Intense competitive pressure on prices can result from the actions of even a single large competitor. Competitors with more surplus than us have the potential to expand in our markets more quickly than we can and invest more heavily in new technologies. Greater financial resources also permit an insurer to gain market share through more competitive pricing, even if that pricing results in reduced underwriting margins or an underwriting loss. Many of our competitors are multi- line carriers that can price the workers' compensation insurance they offer at a loss ~~in order~~ to obtain other lines of business at a profit. This creates a competitive disadvantage for us, as we only offer a single line of insurance. For example, a business may find it more efficient or less expensive to purchase multiple lines of commercial insurance coverage from a single carrier. Additionally, we primarily target small businesses, which may be more significantly and disproportionately impacted by a downturn in economic conditions. The property and casualty insurance industry is cyclical in nature and is characterized by periods of so- called" soft" market conditions, in which premium rates are stable or falling in relation to the associated loss costs, insurance is readily available, and insurers' profits decline, and by periods of so- called" hard" market conditions, in which rates rise in relation to the associated loss costs, insurance may be more difficult to find, and insurers' profits increase. According to the Insurance Information Institute, since 1970, the property and casualty insurance industry experienced hard market conditions from 1975 to 1978, 1984 to 1987, and 2001 to 2004. Although the financial performance of an individual insurance company is dependent on its own specific business characteristics, the profitability of most workers' compensation insurance companies generally tends to follow this cyclical market pattern. We believe the workers' compensation industry currently has excess underwriting capacity resulting in lower rate levels and smaller profit margins. We continue to experience price competition in our target markets. Because of cyclicality in the workers' compensation market, due in large part to competition, capacity, and general economic factors, we cannot predict the timing or duration of changes in the market cycle. This cyclical pattern has in the past and could in the future adversely affect our financial condition and results of operations. If we are unable to compete effectively, our business, financial condition, and results of operations could be materially adversely affected. Our concentration in California ties our performance to the business, economic, demographic, natural perils, competitive, legislative and regulatory conditions in that state. Our business is concentrated in California, where we generated 45 % of our in- force premiums as of December 31, ~~2022~~ **2023** . Accordingly, the loss environment and **any** unfavorable business, economic, demographic, natural perils, competitive, and regulatory conditions in California could ~~negatively~~ **have a significant adverse** impact **on** our business. Many California businesses are dependent on tourism revenues, which are, in turn, dependent on a robust economy. A downturn in the national economy or the economy of California, or any other event that causes deterioration in tourism, could adversely impact small businesses, such as restaurants, that we have targeted as customers. The insolvency of a significant number of small businesses could also have a material adverse effect on our financial condition and results of operations. California is also exposed to climate and environmental changes, **especially** natural perils such as earthquakes and wildfires. In addition, California could be more adversely impacted by pandemics and terrorist acts than most other states due to population density **in its major metropolitan areas** . Additionally, the workers' compensation industry has seen a higher level of claims litigation in California, which could expose us beyond the liabilities currently expected and included on our financial statements. Because of the concentration of our business in California, we may be exposed to losses and business, economic, and regulatory risks or risk from natural perils that are greater than the risks associated with companies with greater geographic diversification. We rely on traditional insurance agents, specialty agents, brokers and other distribution partners. We market and sell **many** ~~the majority~~ of our insurance products through non- exclusive insurance agents and brokers. These agents and brokers are not obligated to promote our products and can and do sell our competitors' products. In addition, these agents and brokers may find it easier to promote the broader range of programs of some of our competitors than to promote our single- line workers' compensation insurance products. The loss or disruption of business from our insurance agents and brokers, or the failure or inability of these agents, and brokers, and our other distribution partners, to successfully market our insurance products could have a material adverse effect on our business, financial condition, and results of operations. ADP, our largest distribution agent, generated ~~15~~ **16** . ~~0~~ **2** % of our total in- force premiums as of December 31, ~~2022~~ **2023** . Our agreement with ADP is not exclusive. The termination of this agreement, our failure to maintain a good relationship with ADP, or its failure to successfully market our products could each materially reduce our revenues and could have a material adverse effect on our results of operations. In addition, we are subject to the risk that ADP may face financial difficulties, reputational issues, or problems with respect to its own products and services, any of which may lead to decreased sales of our products and services. Significant industry consolidation among agencies (not limited to ADP), partners, or new entrants to the workers' compensation marketplace could impact our business opportunities and revenues. We are also subject to credit risk with respect to certain of our insurance agents, brokers and other distribution partners, including ADP, as they collect insurance premiums on our behalf. Any failure to remit such premiums to us or to remit such amounts on a timely basis could have an adverse effect on our results of operations. We rely on statistical data models and analytics that leverage internal and external data. We use models to help make decisions related to, among other things, underwriting, pricing, claims management, reserving, capital allocation, and investments. These models incorporate various assumptions and forecasts that are subject to the inherent limitations of any statistical analysis and, as a result, the historical internal and industry data and assumptions used in the models may not accurately reflect the future. As a result, actual results may differ materially from expectations and our results of operations and financial condition could be materially adversely affected. As our industry becomes increasingly reliant on data analytics **and artificial intelligence** to improve pricing and be more targeted in marketing, our competitors may have better information, greater financial resources and / or be more efficient in leveraging ~~analytics~~ **these tools** than we are, which could put us at a competitive disadvantage. If we are unable to obtain reinsurance or collect on ceded reinsurance, our ability to write new policies and to renew existing policies could be adversely affected and our financial condition and results of operations could be materially adversely affected. At December 31, ~~2022~~ **2023** , we had $ ~~451~~ **433** . ~~3~~ **8** million of reinsurance recoverable for paid and unpaid losses and LAE, of which $ 6. ~~8~~ **3** million was due to us on paid claims. We purchase reinsurance to protect us against severe claims and certain catastrophic events. Our reinsurance protection covers natural perils and acts of terrorism events, but excludes nuclear, biological, chemical, and radiological events. On July 1, ~~2022~~ **2023** , we entered into a new reinsurance program that is effective through June 30, ~~2023~~ **2024** . The reinsurance program consists of one treaty covering excess of loss and catastrophic loss events in four layers of coverage. Our reinsurance coverage is $ 190. 0 million in excess of our $ 10. 0 million retention on a per occurrence basis, subject to certain exclusions. The availability, amount, and cost of reinsurance depend on market conditions and our loss experience and may ~~vary~~ **fluctuate** significantly. We cannot be certain that our reinsurance agreements will be renewed or replaced prior to their expiration with terms satisfactory to us. If we are unable to renew or replace our reinsurance agreements with terms satisfactory to us, our net liability on individual risks could increase and we would have greater exposure to large and catastrophic losses, which could have a material adverse effect on our financial condition and results of operations. In addition, we are subject to credit risk with respect to our reinsurers, and they may refuse to pay or delay payment of losses we cede to them. We remain liable to our policyholders even if we are unable to make recoveries that we believe we are entitled to under our reinsurance contracts. Losses may not be recovered from our reinsurers until claims are paid and, in the case of long- term workers' compensation cases, the creditworthiness of our reinsurers may change before we can recover amounts that we are entitled to. The inability of any of our reinsurers to meet their financial obligations could have a material adverse effect on our financial condition and results of operations. We obtained reinsurance covering the losses incurred prior to July 1, 1995, and we could be liable for some or all of those losses if the coverage provided by the LPT Agreement proves inadequate or we fail to collect from the reinsurers that are a party to such transaction. On January 1, 2000, EICN assumed all of the assets, liabilities, and operations of the Fund, including losses incurred by the Fund prior to such date. EICN also assumed the Fund' s rights and obligations associated with the LPT Agreement that the Fund entered into with third party reinsurers with respect to its losses incurred prior to July 1, 1995. See" Item 1- Business- Reinsurance- LPT Agreement." The reinsurers under the LPT Agreement agreed to assume responsibility for the claims at the benefit levels which existed in June 1999. Accordingly, if the Nevada legislature were to increase the benefits payable for the pre- July 1, 1995 claims **in the future** , we ~~would~~ **could** be responsible for the increased benefit costs to the extent of the legislative increase. We could be liable for some or all of those ceded losses if the coverage provided by the LPT Agreement proves inadequate or we fail to collect from the reinsurers that are a party to such transaction. As of December 31, ~~2022~~ **2023** , the estimated remaining liabilities subject to the LPT Agreement were $ ~~308~~ **291** . ~~6~~ **7** million. If we are unable to collect on these reinsurance ~~recoverable~~ **recoverables** , our financial condition and results of operations could be materially adversely affected. The LPT Agreement requires each reinsurer to place assets supporting the payment of claims by them in individual trusts that require that collateral be held at a specified level. The collateralization level must not be less than the outstanding reserve for losses and a loss expense allowance equal to 7 % of estimated paid losses discounted at a rate of 6 %. If the assets held in trust fall below this threshold, we can require the reinsurers to contribute additional assets to maintain the required minimum level ~~. The value of these assets at December 31, 2022 was $ 312. 5 million~~. If the value of the collateral in the trusts drops below the required minimum level and the reinsurers are unable to contribute additional assets, we could be responsible for substituting a new reinsurer or paying those claims without the benefit of reinsurance. One of the reinsurers has collateralized its obligations under the LPT Agreement by placing shares of stock of a publicly held corporation in a trust. The other reinsurers have placed U. S. treasury and fixed maturity securities in trusts to collateralize their obligations to us. The value of this collateral is subject to market fluctuations. The LPT Agreement provides us with the ability to novate any contract with the reinsurers to the LPT Agreement if the credit rating of any such reinsurer were to fall below" A-" (Excellent) as determined by A. M. Best. Financial Risks We focus on small businesses, and those businesses may be severely and disproportionately impacted by a downturn in economic conditions. The effects of ~~supply chain interruptions,~~ lingering U. S. labor market shortages impacting certain employer classifications that we insure, inflationary pressures, **volatility and credit concerns in certain financial and banking markets,** monetary and fiscal policy measures, recessionary concerns **and** , overall general economic instability ~~and the COVID- 19 pandemic~~ have **, at times,** caused ~~recent~~ disruptions in business activity. All states, including California, where we generated 45 % of our in- force premiums as of December 31, ~~2022~~ **2023** , have experienced adverse economic impacts ~~. Certain classes of business that we insure continue to be adversely and disproportionately affected by these challenges~~. A downgrade in our financial strength rating could reduce the amount of business that we are able to write or result in the termination of certain of our agreements with our strategic partners. Rating agencies rate insurance companies based on financial strength as an indication of an ability to pay claims. Our insurance subsidiaries are currently assigned a group financial strength rating of" A-" (Excellent), with a" positive" outlook, by A. M. Best, which is the rating agency that we believe has the most influence on our business. This rating is assigned to companies that, in the opinion of A. M. Best, have demonstrated an excellent overall performance when compared to industry standards. A. M. Best considers" A-" (Excellent) rated companies to have an excellent ability to meet their ongoing obligations to policyholders. This rating does not refer to our ability to meet non- insurance obligations. The financial strength ratings of A. M. Best and other rating agencies are subject to periodic review using, among other things, proprietary capital adequacy models, and are subject to revision or withdrawal at any time. Insurers' financial strength ratings are directed toward the concerns of policyholders and insurance agents and are not intended for the protection of investors or as a recommendation to buy, hold, or sell securities. Our competitive position relative to other companies is determined in part by our financial strength rating. A reduction in our A. M. Best rating could adversely affect the amount of business we could write, as well as the relationships we currently have with our insurance agents, brokers, distribution partners, reinsurers, and others. A. M. Best may increase the frequency and scope of its reviews ~~,~~ and request additional information from the companies that it rates, including additional information regarding the valuation of investment securities held **and / or susceptibilities to inflationary pressures** . We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies. Our liability for losses and LAE is based on estimates and may be inadequate to cover our actual losses and expenses. We establish and maintain reserves for our estimated losses and LAE. The loss reserves on our financial statements represent an estimate of amounts needed to pay and administer claims with respect to insured claims that have occurred, including claims that have occurred but have not yet been reported to us. Loss reserves are aggregate estimates of the ultimate outstanding cost of claims based on actuarial estimation techniques, are inherently uncertain, and do not represent an exact measure of liability. Additionally, any changes to our claims management and / or actuarial reserving processes could introduce volatility in our estimates of losses and LAE. Any changes in these estimates could be material and could have an adverse effect on our results of operations and financial condition during the period the changes are made. Several factors contribute to the inherent uncertainty in establishing estimated losses, including the length of time to settle long- term, severe cases, the long- term health implications of the COVID- 19 pandemic, claim cost inflation (deflation) trends, current and future economic conditions, and uncertainties in the long- term outcome of legislative reforms. Judgment is required in applying actuarial techniques to determine the relevance of historical payment and claim settlement patterns under current facts and circumstances. In certain states, we have a relatively short operating history and must rely on a combination of industry experience and our specific experience regarding claims emergence and payment patterns, medical cost inflation, and claim cost trends, adjusted for future anticipated changes in claims- related and economic trends, as well as regulatory and legislative changes, to establish our best estimate of reserves for losses and LAE. As we receive new information and update our assumptions over time regarding the ultimate liability, our loss reserves may prove to be inadequate to cover our actual losses, and we have in the past made, and may in the future make, adjustments to our reserves based on **various** ~~a number of~~ factors. Our estimates for losses and LAE include assumptions about the timing of closure and future payment of claims and claims handling expenses, such as medical treatments and litigation costs. Inflation is also incorporated in our reserving process through projections supported by historical loss emergence. **Additional** ~~Under the current elevated~~ inflationary **concerns are considered** ~~environment, additional inflationary considerations were included~~ in determining the level and adequacy of our reserves **for losses and LAE** , and particular consideration ~~was~~ **is** given to medical and hospital inflation rates as these inflation rates have historically exceeded general inflation rates. To the extent that inflation causes these costs to increase above **our** established reserves, we will be required to increase ~~our~~ **those reserves for** ~~loss~~ **losses** and LAE ~~reserve assumptions~~ , which would ~~reduce~~ **negatively impact** our **financial condition and results of operations** ~~earnings in the period in which assumptions are revised~~ . We are a holding company with no direct operations. We depend on the ability of our subsidiaries to transfer funds to us to meet our obligations and capital management objectives, and our insurance subsidiaries' ability to pay dividends to us is restricted by law. EHI is a holding company that transacts substantially all of its business through its operating subsidiaries. Its primary assets are the shares of stock of our insurance subsidiaries. The ability of EHI to meet its operating and financing cash needs and capital management objectives depends on the surplus and earnings of our subsidiaries, and upon the ability of our insurance subsidiaries to pay dividends to EGI and CGI and, in turn, the ability of EGI and CGI to pay dividends to EHI. Payments of dividends by our insurance subsidiaries are restricted by state insurance laws, including laws establishing minimum solvency and liquidity thresholds. As a result, we may not be able to receive dividends from these subsidiaries and we may not receive dividends in the amounts necessary to meet our holding company obligations. Further, if we were to experience a diminution in dividend payments from these subsidiaries in the future, we may not be able to continue to pay dividends to our stockholders and / or repurchase shares of common stock. Acts of terrorism and natural, or man- made catastrophes or other disruptive events could materially adversely impact our financial condition and results of operations. Under our workers' compensation policies and applicable laws in the states in which we operate, we are required to provide workers' compensation benefits for losses arising from acts of terrorism. The impact of any terrorist act is unpredictable, and the ultimate impact on us would depend upon the nature, extent, location, and timing of such an act. We would be particularly adversely affected by a terrorist act affecting any metropolitan area where our policyholders have a large concentration of workers. Notwithstanding the protection provided by the reinsurance we have purchased and any protection provided by the 2002 Act, or its extension, TRIPRA of 2019, the risk of severe losses to us from acts of terrorism has not been eliminated because our excess of loss reinsurance treaty program contains various sub- limits and exclusions limiting our reinsurers' obligation to cover losses caused by acts of terrorism. Our excess of loss reinsurance treaties do not protect against nuclear, biological, chemical, or radiological events. If such an event were to impact one or more of the businesses we insure, we would be entirely responsible for any workers' compensation claims arising out of such event, subject to the terms of the 2002 Act and TRIPRA of 2019 and **we** could suffer substantial losses as a result. Our operations also expose us to claims arising out of natural or man- made catastrophes because we may be required to pay benefits to workers who are injured in the workplace as a result of a catastrophe. Catastrophes can be caused by various unpredictable events, either natural or man- made. Any catastrophe occurring in the communities in which we operate or that have significant impacts on one or more of our targeted classes of business could expose us to potentially substantial losses and, accordingly, could have a material adverse effect on our financial condition and results of operations. Acts of terrorism, natural or man- made catastrophes or other disruptive events, including social unrest, can also affect our business due to resulting temporary or permanent closures of our insured' s businesses, even if there are no claims arising from such event. **While we have no international operations, recent geo- political uncertainties, including impacts from ongoing conflicts between Russia and Ukraine and those in the Middle East, have indirectly impacted the value of our investment portfolio, and may continue to impact our investment portfolio in the future.** Regulatory and Legal Risks The insurance business is subject to extensive regulation and legislative changes, which impact the manner in which we operate our business. Our insurance business is subject to extensive regulation by the applicable state agencies in the jurisdictions in which we operate, most significantly by the insurance regulators in California, Florida, Nevada, and New York, the states in which our insurance subsidiaries are domiciled. Changes in laws and regulations could have a significant negative impact on our business. More generally, insurance regulators have broad regulatory powers designed to protect policyholders and claimants, and not stockholders or other investors. Regulations vary from state to state, but typically address or include: • standards of solvency, including RBC measurements; • restrictions on the nature, quality, and concentration of investments; • restrictions on the types of terms that we can include in the insurance policies we offer; • mandates that may affect wage replacement and medical care benefits paid under the workers' compensation system; • requirements for the handling and reporting of claims and procedures for adjusting claims; • restrictions on the way rates are developed and premiums are determined; • the manner in which agents may be appointed; • establishment of liabilities for unearned premiums, unpaid losses and LAE; • limitations on our ability to transact business with affiliates; • **ESG practices** ~~environmental, social and governance- related requirements~~ ; • mergers, acquisitions, and divestitures involving our insurance subsidiaries; • licensing requirements and approvals that affect our ability to do business; • applicable privacy laws **, including the protection of nonpublic personal information and personally identifiable information, including health information** ; • cyber- security laws and regulations; • potential assessments for the settlement of covered claims under insurance policies issued by impaired, insolvent, or failed insurance companies or other assessments imposed by regulatory agencies; and • the amount of dividends that our insurance subsidiaries may pay to EGI and CGI and, in turn, the ability of EGI and CGI to pay dividends to EHI. Workers' compensation insurance is statutorily required in all the states in which we do business, ~~with the exception~~ --- **except** ~~of~~ **for** Texas. State laws and regulations specify the form and content of policy coverage and the rights and benefits that are available to injured workers, their representatives, and medical providers. Additionally, any retrospective change in regulatory required benefits could materially increase the benefits costs that we would be responsible for to the extent of the legislative increase. Legislation and regulation impact our ability to investigate fraud and other abuses of the workers' compensation system in the states in which we do business. Our relationships with medical providers are also impacted by legislation and regulation, including penalties for failure to make timely payments. Federal legislation typically does not directly impact our workers' compensation business, but our business can be indirectly affected by changes in healthcare, occupational safety and health, and tax and financial regulations. Since healthcare costs are the largest component of our loss costs, we may be impacted by changes in healthcare legislation, which could affect healthcare costs and delivery in the future. There is also the possibility of federal regulation of insurance. This extensive regulation of our business may affect the cost or demand for our products and may limit our ability to obtain rate increases or to take other actions that we might desire to maintain our profitability. In addition, we may be unable to maintain all required approvals or comply fully with applicable laws and regulations, or the relevant governmental authority' s interpretation of such laws and regulations. If that were to occur, we might lose our ability to conduct business in certain jurisdictions. Further, changes in the level of regulation of the insurance industry or changes in laws or regulations or interpretations by regulatory authorities could impact our operations, require us to bear additional costs of compliance, and impact our profitability. Single- payer healthcare proposals have been considered by the U. S. Government and certain states, including California, at various times in the past. Proposals of this nature have typically involved the establishment of a comprehensive, universal single- payer health care coverage program for the benefit of all residents of a particular jurisdiction. Under a single- payer system, universal healthcare could potentially cover all injuries, including those that occur in the workplace, which could limit or otherwise eliminate the offering and administration of workers' compensation insurance coverage by private insurance companies. If any such proposal were to be enacted in the future, it could adversely impact our current business model and negatively impact our financial condition and results of operations. Administrative proceedings, legal actions, or judicial decisions involving our insurance subsidiaries could have a material adverse effect on our business, financial condition and results of operations. Our insurance subsidiaries are involved in various administrative proceedings and legal actions in the normal course of their business and could be impacted by adverse judicial decisions. Our subsidiaries have responded to such actions and intend to defend these claims. These claims or decisions concern issues including eligibility for workers' compensation insurance coverage or benefits, the extent of injuries, wage determinations, disability ratings, and bad faith and extra- contractual liability. Adverse decisions in administrative proceedings, legal actions, or judicial decisions could require us to pay significant amounts in the aggregate or to change the **way** ~~manner in which~~ we administer claims, which could have a material adverse effect on our business, financial condition and results of operations. Assessments and other surcharges for guaranty funds, second injury funds, and other mandatory pooling arrangements may reduce our profitability. All states require insurance companies licensed to do business in their state to bear a portion of the unfunded obligations of insolvent insurance companies. These obligations are funded by assessments that can be expected to continue in the future in the states in which we operate. Many states also have laws that establish second injury funds to provide compensation to injured employees for aggravation of a prior condition or injury, which are funded by either assessments based on paid losses or premium. In addition, as a condition to the ability to conduct business in some states, insurance companies are required to participate in mandatory workers' compensation shared market mechanisms or pooling arrangements, which provide workers' compensation insurance coverage from private insurers. The effect of these assessments and mandatory shared market mechanisms or changes in them could reduce our profitability in any given period or limit our ability to grow our business. State insurance laws, certain provisions of our charter documents, and Nevada corporation law could prevent or delay a change in control that could be beneficial to us and our stockholders. Our insurance subsidiaries are domiciled in California, Florida, Nevada, and New York. The insurance laws of these states generally require that any person seeking to acquire control of a domestic insurance company obtain the prior approval of the state' s insurance commissioner. In California, Florida, Nevada, and New York," control" is presumed to exist through the direct or indirect ownership of 10 % or more of the voting securities of a domestic insurance company or of any entity that controls a domestic insurance company. In addition, insurance laws in many states in which we are licensed require pre- notification to the state' s insurance commissioner of a change in control of a non- domestic insurance company licensed in those states. Because we have insurance subsidiaries domiciled in California, Florida, Nevada, and New York, any transaction that would constitute a change in control of us would generally require the party attempting to acquire control to obtain the prior approval of the insurance commissioners of these states and may require pre- notification of the **proposed** change of control in these or other states in which we are licensed to transact business. The time required to obtain these approvals may result in a material delay of, or deter, any such transaction. These laws may discourage potential acquisition proposals or tender offers, and may delay, deter, or prevent a change of control, even if the acquisition proposal or tender offer is favorable to our stockholders. Provisions of our amended and restated articles of incorporation and amended and restated by- laws could discourage, delay, or prevent a merger, acquisition, or other change in control of us, even if our stockholders might consider such a change in control to be favorable. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect Directors and take other corporate actions. In particular, our amended and restated articles of incorporation and amended and restated by- laws currently include provisions: • eliminating the ability of our stockholders to call special meetings of stockholders; • permitting our Board ~~of Directors~~ to issue preferred stock in one or more series; • imposing advance notice requirements for nominations for election to our Board ~~of Directors~~ and / or for proposing matters that can be acted upon by stockholders at the stockholder meetings; and • prohibiting stockholder action by written consent, thereby limiting stockholder action to that taken at an annual or special meeting of our stockholders. These provisions may make it difficult for stockholders to replace Directors and could have the effect of discouraging a future takeover attempt that is not approved by our Board ~~of Directors~~ , but which stockholders might consider favorable. Additionally, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock. General Risk Factors We may be unable to realize our investment objectives, and economic conditions in the financial markets could lead to investment losses. Investment income is an important component of our revenue and net income. Our investment portfolio is managed by independent asset managers that operate under investment guidelines approved by the Finance Committee ~~of the Board of Directors~~ . Although these guidelines stress diversification and capital preservation, our investments are subject to a variety of risks that are beyond our control, including risks related to general economic conditions, interest rate fluctuations or prolonged periods of **high or** low interest rates, and market volatility. Interest rates are highly sensitive to many factors, including governmental fiscal and monetary policies and domestic and international economic and political conditions. These and other factors affect the capital markets and, consequently, the value of our investment portfolio. We are exposed to significant financial risks related to the capital markets, including the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are credit risk, interest rate risk, equity price risk and effects of inflation. For more information regarding market risk, see" Item 7A – Quantitative and Qualitative Disclosures About Market Risk." **Sharp** ~~Increases~~ **increases** in market interest rates ~~that have occurred~~ throughout 2022 ~~have~~ negatively impacted the fair value of our fixed maturity investments ~~as of December 31, 2022~~ . In addition, economic and market disruptions caused by **volatility and credit concerns in certain**

financial and banking markets, inflationary pressures **,** and geo- political ~~conditions have~~ **uncertainties,** negatively impacted the fair value of our equity securities ~~during~~ **in** 2022. The negative impacts to our investment portfolio experienced in 2022 ~~have~~ consisted primarily of unrealized investment losses. **In 2023, despite intra- year volatility, market interest rates largely stabilized and equity markets performed well versus those of 2022. These factors served to meaningfully reduce, but did not eliminate, the unrealized losses that we experienced in 2022.** The ~~future~~ outlook for our investment income is dependent on the direction of interest rates, maturity schedules, and cash available for investment. In addition, the fair value of our fixed maturity securities that are available- for- sale (AFS) fluctuate with changes in interest rates and credit risk assumptions, which cause fluctuations in our stockholders' equity, net income and comprehensive income. A significant decline in our investment income or the value of our investments as a result of changes in interest rates, deterioration in the credit of companies or municipalities in which we have invested, decreased dividend payments, general market conditions, or events that have an adverse impact on any particular industry or geographic region in which we hold significant investments could have an adverse effect on our net income and, as a result, on our stockholders' equity and policyholder surplus. The valuation of our investments, including the determination of the amount of charges and impairments, includes estimates and assumptions and could result in changes to investment valuations. Our determinations, including the use of valuation models, pricing services and other techniques, can have a material effect on the valuation of our investments which may adversely affect our financial condition and results of operations. We regularly review the valuation of our portfolio of fixed maturity investments, including the identification of other- than- temporary declines in fair value and current expected credit losses (CECL). The determination of the amount of impairments and / or credit losses recognized on our investments is based on our periodic evaluation and assessment of our investments and known and inherent risks associated with the various asset classes. There can be no assurance that we have accurately determined the level of impairments and / or credit losses reflected on our financial statements and additional provisions may need to be recognized in the future. Further, historical trends may not be indicative of future impairments and / or credit losses. We may require additional capital in the future, which may not be available to us or may be available only on unfavorable terms. Our future capital requirements will depend on many factors, including state regulatory requirements, our ability to write new business successfully, and **our ability** to establish premium rates and reserves at levels sufficient to cover losses. If we **must** ~~have to~~ raise additional capital, equity or debt financing may not be available on terms that are favorable to us. In the case of equity financings, there could be dilution to our stockholders and the securities may have rights, preferences, and privileges senior to our common stock. In the case of debt financings, we may be subject to covenants that restrict our ability to freely operate our business. If we cannot obtain adequate capital on favorable terms or at all, we may be unable to implement our future growth or operating plans and our business, financial condition, and results of operations could be materially adversely affected. The capital and credit markets continue to experience volatility and disruption that could negatively affect market liquidity. These conditions have, at times, produced downward pressure on stock prices and limited the availability of credit for certain issuers without regard to those issuers' underlying financial strength. In addition, we could be forced to delay raising capital or be unable to raise capital on favorable terms, or at all, which could decrease our profitability, significantly reduce our financial flexibility, and cause rating agencies to reevaluate our financial strength ratings. Our business is largely dependent on the efforts of our executives and other key employees because of their industry and technical expertise, knowledge of our markets, and relationships with the insurance agents and brokers and partners that sell our products. Our success depends in substantial part ~~upon~~ **on** our ability to attract and retain qualified executive officers, experienced underwriting and claims personnel, and other **highly** skilled employees who are knowledgeable about our business. The current success of our business is dependent in significant part on the efforts of our executive officers. Many of our employees are also particularly important to our operations because of their industry expertise, knowledge of our markets, and relationships with the insurance agents and brokers who sell our products. Higher levels of wage inflation and U. S. labor market shortages ~~, including impacts from the " Great Resignation, "~~ may lead to increased staffing expenses, increased turnover rates among key personnel and difficulty filling new and vacant roles. As a result, our operations may be disrupted and / or our financial performance and results of operations may be adversely affected. Further, if we were to lose the services of members of our management team or other key employees, we may be unable to find replacements satisfactory to us and our business, which could disrupt our operations and adversely impact our financial performance and results of operations. We rely on our information technology and telecommunication systems, including those of third parties that we outsource certain business functions to, and the disruption or failure of these systems, cyber- attacks on these systems, or security breaches or incidents could materially and adversely affect our business. Our business is highly dependent upon the successful and uninterrupted functioning of our information technology and telecommunications systems, including those of third parties ~~that~~ **to which** we outsource certain functions ~~to~~. We rely on these systems to operate key aspects of our business, including processing and generating new and renewal business, providing customer service, administering and making payments on claims, facilitating collections, and underwriting and administering the policies we write. Additionally, our business and operations involve the collection, storage, transmission, and other processing of personal data and certain other sensitive and proprietary data. Companies are increasingly subject to a wide variety of attacks on their systems and networks on an ongoing basis. In addition to threats from traditional computer " hackers, " we face threats from malicious code (such as malware, viruses, worms, and ransomware), employee or contractor error or malfeasance, fraud, misconduct, or misuse, phishing, social engineering attacks and denial- of- service attacks. We could be a target for cybersecurity attacks designed to disrupt our operations or to attempt to gain access to our systems, data processed or maintained in our business, trade secrets, or other proprietary information or financial resources. The third parties we have outsourced business functions to also face significant security risks. Although we have implemented and are in the process of implementing additional systems and processes designed to protect our data and systems, these security measures cannot guarantee security. Because techniques used to obtain unauthorized access to or to sabotage systems change frequently and may not be known until launched, we and the third parties on which we rely may be unable to anticipate or prevent these attacks, react in a timely manner or implement adequate preventive measures, and we may face delays in our detection or remediation of, or other responses to, security breaches and other privacy- and security- related incidents. Certain efforts may be state-sponsored or supported by significant financial and technological resources, making them even more difficult to detect, remediate, and otherwise **handle** ~~respond to~~. We also may experience outages, interruptions, and other disruptions to systems used in our business, including information technology and telecommunications systems, and may suffer the loss of, or inability to perform of, third parties who provide these services. Any interruptions, outages, or delays in our systems and infrastructure, our business or third parties, or deterioration in the performance of these systems and infrastructure, could impair our ability to provide our products and services. Fire, flood, power loss, telecommunications failure, hurricanes, tornadoes, earthquakes, other natural disasters, acts of war or military conflict, terrorism, exceeding capacity limits, and similar events or disruptions may result in damage to or interruption of telecommunications and other systems. There can be no guarantee that our business continuity plans or measures would be sufficient to restore or secure systems or data. Any security breach or security incident, or any outages or other disruption to systems used in our business, could interrupt our operations (including by impacting our ability to service our agents, insureds, and injured workers, generate and service direct- to- customer business, and meet certain regulatory requirements), result in loss or improper access to, or acquisition, disclosure, or other processing of, personal data and other sensitive and proprietary data, or a loss of intellectual property protection. Additionally, any actual or perceived outage, breach, incident, or disruption may harm our reputation and competitive position, reduce demand for our products and services, damage our relationships with customers or others or result in claims, demands, litigation, regulatory investigations and proceedings and significant legal, regulatory and financial exposure. Further, any such incidents or any perception that our security measures are inadequate could lead to loss of confidence in us and harm to our reputation. Any of the foregoing matters could have a material adverse effect upon our business, financial condition, and operating results. We expect to incur significant costs in an effort to detect and prevent security breaches and incidents, and **we** may face increased costs and requirements to expend substantial resources in the event of an actual or perceived security breach or other incident. While we maintain insurance that may cover certain liabilities in connection with certain disruptions, security breaches, and incidents, our insurance policies may not be adequate to compensate us for the potential losses arising from any disruption in or, failure or security breach or incident of or impacting our systems or third- party systems used in our business, and such insurance may not be available to us in the future on economically reasonable terms, or at all. Further, our insurance coverage may not cover all claims made against us and could have high deductibles in any event, and defending a suit, regardless of its merit, could be costly and divert management attention. A failure to effectively maintain, enhance and modernize our information technology systems, effectively develop and deploy new technologies, and execute new business initiatives, could adversely affect our business. Our success depends on our ability to maintain effective information technology systems, to enhance those systems to better support our business in an efficient and cost- effective manner, and to develop new technologies and capabilities **, including those involving the use of data, analytics, and artificial intelligence,** in pursuit of our long- term strategy. We have multiple initiatives that are focused on developing new technologies and capabilities and enhancing our information technology infrastructure. Some long- term technology development and new business initiatives may negatively impact our expense ratios as we invest in the projects, may cost more than anticipated to complete, or may not be completed. Additionally, these initiatives may be more time- consuming than anticipated, may not deliver the expected benefits upon completion, and / or may need to be replaced or become obsolete more quickly than expected, all of which could result in accelerated recognition of expenses. If we fail to successfully execute on new business initiatives, fail to maintain or enhance our existing information technology systems, or if we were to experience failure in developing and implementing new technologies, our relationships, ability to do business with our clients and / or our competitive position may be adversely affected. We could also experience other adverse consequences, including additional costs or write- offs of capitalized costs, unfavorable underwriting and reserving decisions, internal control deficiencies, and information security breaches resulting in loss or inappropriate disclosure of data. We are subject to laws and regulations governing privacy and information security that could adversely affect our business or subject us to liability. Privacy and information security are areas of increasing focus for our customers, governmental regulators, and privacy advocates, and many jurisdictions are evaluating or have implemented laws and regulations relating to these matters. The laws, rules, regulations, standards and other actual and asserted obligations relating to privacy and information security to which we may be subject, or that otherwise apply to our business, are constantly evolving, and we expect that there will continue to be new proposed laws, regulations and industry standards concerning these matters. We cannot fully predict the impact of these laws or regulations, including those that may be modified or enacted in the future, or new or evolving industry standards or actual or asserted obligations, relating to privacy, information security, or data processing on our business or operations. These laws, regulations, and other obligations to which we are or may become subject, or that may be argued to apply to us, including contractual obligations and industry standards, may require us to modify our practices and policies and to incur substantial costs and expenses ~~in an effort~~ to comply. The interpretation and enforcement of these actual and asserted obligations are uncertain and evolving constantly, and it is possible that our products, services, or practices may be alleged to violate such laws, regulations, or other actual or asserted obligations to which we are or may be subject. Any actual or perceived failure to comply with laws, regulations, or other actual or asserted obligations to which we are or are alleged to be subject relating to privacy or information security could result in claims, litigation, and regulatory investigations and other proceedings, as well as damage to our reputation. These could result in substantial costs, diversion of resources, fines, penalties, and other damages and liabilities, and harm to our customer relationships, our market position, and our ability to attract new customers. Any of these could harm our business, financial condition, and results of operations.