Risk Factors Comparison 2024-02-15 to 2023-02-16 Form: 10-K

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You should carefully consider the following risks and all of the other information set forth in this report, including without limitation our consolidated financial statements and the notes thereto and ~~"~~**“** Item 7 — Management ~~'~~**’** s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates. ~~"~~**”** The following risk factors have been organized by category for ease of use; however, many of the risks may have impacts in more than one category. Insurance-Related Risks High levels of catastrophe losses, including as a result of factors such as increased concentrations of insured exposures in catastrophe- prone areas and changing climate conditions, could materially and adversely affect our results of operations, our financial position and / or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance. Our property and casualty insurance operations expose us to claims arising out of catastrophes in each of the geographies where we write business and to varying peak catastrophe perils in different countries and regions. Catastrophes can be caused by various natural events, including, among others, hurricanes, tornadoes and other windstorms, earthquakes, hail, wildfires, severe winter weather, floods, tsunamis, volcanic eruptions, solar flares and other naturally- occurring events. Catastrophes can also be man- made, such as terrorist attacks and other intentionally destructive acts including those involving cyber events, nuclear, biological, chemical and radiological events, civil unrest, explosions and destruction of infrastructure. The incidence and severity of catastrophes are inherently unpredictable, and it is possible that both the frequency and severity of natural and man- made catastrophic events could increase. Severe weather events over the last two decades have underscored the unpredictability of climate trends. For example, the frequency and / or severity of hurricane, tornado, hail and wildfire events in the United States have been more volatile during this time period. The insurance industry has experienced increased catastrophe losses due to a number of potential factors, including, in addition to weather / climate variability, aging infrastructure, more people living in, and moving to, high- risk areas, population growth in areas with weaker enforcement of building codes, urban expansion, an increase in the number of amenities included in, and the average size of, a home and higher inflation, including as a result of post- event demand surge. We believe that changing climate conditions have also likely added to the frequency and severity of natural disasters and created additional uncertainty as to future trends and exposures. Climate studies by government agencies, academic institutions, catastrophe modeling organizations and other groups indicate that an increase in the frequency and / or intensity of hurricanes, heavy precipitation events **and associated river** , **urban and** flash flooding, sea level rise, droughts, heat waves and wildfires has occurred, and can be expected into the future. See ~~"~~**“** Item 7 — Management ~~'~~**’** s Discussion and Analysis of Financial Condition and Results of Operations — Catastrophe Modeling ~~"~~**”** and ~~"~~**“** — Changing Climate Conditions. ~~"~~**”** All of the catastrophe modeling tools that we use or rely on to evaluate our catastrophe exposures are based on significant assumptions and judgments and are subject to error and mis-estimation. As a result, our estimated exposures could be materially different than our actual results. See ~~"~~**“** Item 7 — Management ~~'~~**’** s Discussion and Analysis of Financial Condition and Results of Operations — Catastrophe Modeling ~~"~~**”** and ~~"~~ **“** — Changing Climate Conditions. ~~"~~**” In addition, for newer and rapidly evolving products, such as cyber insurance, the lack of historical loss experience increases the level of uncertainty related to the product, and as a result, the inherent potential for unexpected material economic loss.** The extent of losses from a catastrophe is a function of the total amount of insured exposure affected by the event, the severity of the event and the coverage provided. For example, the specific location impacted by tornadoes is inherently random and unpredictable, and the specific location impacted by a tornado may or may not be highly populated and may or may not have a high concentration of our insured exposures. Similarly, the potential for losses from a cyber event can be magnified to the extent that the event impacts geographies, platforms, systems or vulnerabilities shared by a large number of policyholders, such as cloud- based software platforms. In addition, increases in the value and geographic concentration of insured property, the number of policyholders exposed to certain events and the effects of inflation could increase the severity of claims resulting from a catastrophe. For example, in recent periods, the effects of inflation, including as a result of post- event demand surge, have increased catastrophe losses, and this could continue in the future. Disruptions to electrical power supplies have also increased losses arising from natural events, a dynamic which may become more frequent as dependency on electricity increases and / or if the reliability of the electric grid decreases. States have from time to time passed legislation, and regulators have taken action, that have the effect of limiting the ability of insurers to manage catastrophe risk, such as by restricting insurers from reducing exposures or withdrawing from catastrophe- prone areas or mandating that insurers participate in residual markets. Residual markets have resulted in, and may in the future result in, significant losses or assessments to insurers, including us. In addition, legislative, regulatory and legal actions have sought to expand insurance coverage for catastrophe claims beyond the original intent of the policies, prevent the application of deductibles or limit other rights of insurers. We may not be able to adjust terms or adequately raise prices to offset the costs of catastrophes. See ~~"~~**“** Item 1 — Business — U. S. State and Federal Regulation ~~—~~**—** Regulatory and Legislative Responses to Catastrophes. ” The estimation of claims and claim adjustment expense reserves related to catastrophe losses can be affected by, among other things, the nature of the information available at the time of estimation, coverage issues, and legal, regulatory and economic uncertainties. The estimates related to catastrophe losses are adjusted in subsequent periods as actual claims emerge and additional information becomes available, and these adjustments could be material. Exposure to catastrophe losses could adversely affect our financial strength and claims- paying ratings and could impair our ability to raise capital on acceptable terms or at all. Also, as a result of our exposure to catastrophe losses, rating agencies may further increase capital requirements, which may require us to raise capital to maintain our ratings. A ratings downgrade could hurt our ability to compete effectively or attract new business. In addition, catastrophic events could cause us to exhaust our available reinsurance limits and could adversely impact the cost and availability of reinsurance on a going- forward basis. Such events can also impact the credit of our reinsurers. For a discussion of our catastrophe reinsurance coverage, see ~~"~~ **“** Item 1 — Business — Reinsurance — Catastrophe Reinsurance. ~~"~~ **”** Catastrophic events could also adversely impact the credit of the issuers of securities held in our investment portfolio, such as states or municipalities. In addition, coverage in our reinsurance program for terrorism is limited. Although the Terrorism Risk Insurance Program provides benefits in the event of certain acts of terrorism, those benefits are subject to a deductible and other limitations, and the program is scheduled to expire on December 31, 2027. Under current provisions of this program, once our losses exceed 20 % of our eligible direct commercial earned premiums for the preceding calendar year, the federal government will reimburse us for 80 % of our losses attributable to certain acts of terrorism which exceed this deductible up to a total industry program cap of $ 100 billion. Our estimated deductible under the program is $ 3. ~~15~~ **48** billion for ~~2023~~ **2024** . For a further description of the Terrorism Risk Insurance Program, see note 6 of the notes to the consolidated financial statements. Because of the risks set forth above, catastrophes could materially and adversely affect our results of operations, financial position and / or liquidity. Further, we may not have sufficient resources to respond to claims arising from a high frequency of high- severity natural catastrophes and / or of man- made catastrophic events involving conventional means or claims arising out of one or more man- made catastrophic events involving “ unconventional ” means, such as nuclear, biological, chemical or radiological events. If actual claims exceed our claims and claim adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, including as a result of, among other things, changes in the legal / tort, regulatory and economic environments in which the Company operates, our financial results could be materially and adversely affected. Claims and claim adjustment expense reserves (“ loss reserves ”) represent management estimates of what the ultimate settlement and administration of claims will cost, generally utilizing actuarial expertise and projection techniques, at a given accounting date. The process of estimating loss reserves involves a high degree of judgment and is subject to a number of variables **and significant uncertainty** . These variables can be affected by both internal and external events, such as: changes in claims handling procedures, including automation; adverse changes in loss cost trends, including inflationary pressures, technology or other changes that may impact medical, auto and home repair costs (e. g., more costly technology in vehicles, labor shortages, **supply chain disruptions,** higher costs of used vehicles and parts, and increased demand and decreased supply for raw materials, all of which results in increased severity of claims); economic conditions, including general and wage inflation; legal trends, including adverse changes in the tort environment that have continued to persist at elevated levels for a number of years (e. g., increased and more aggressive attorney involvement in insurance claims, increased litigation, expanded theories of liability, higher jury awards, lawsuit abuse and third- party litigation finance, among others); labor shortages, which can result in companies hiring less experienced workers **; higher interest rates, which can result in higher post- judgment interest costs** ; and legislative changes, among others. The impact of many of these items on ultimate costs for loss reserves could be material and is difficult to estimate ~~, particularly in light of the recent disruptions to the judicial system, supply chain and labor market~~ . For example, the ongoing backlog of cases in the courts ~~due to shutdowns related to COVID- 19~~ has resulted in claims being unresolved for longer periods of time, which the Company believes has contributed, and will continue to contribute, to increased loss costs. Loss reserve estimation difficulties also differ significantly by product line due to differences in claim complexity, the volume of claims, the potential severity of individual claims, the determination of occurrence date for a claim and lags in reporting of events to insurers, among other factors. ~~The increase in inflation~~ **Inflation** in recent periods has significantly increased our loss costs in our ~~auto~~ **personal** and ~~property~~ **commercial** businesses. ~~It is possible~~ **Inflation higher than at the levels** that ~~inflation~~ **the Company anticipates** could **continue** ~~remain at high levels for a prolonged period, or increase from these high levels, which could in turn lead~~ to **negatively impact** ~~further increases in~~ our loss costs **in future periods** . The impact of inflation on loss costs could be more pronounced for those lines of business that are considered “ long tail, ” such as general liability and workers ~~'~~ **’** compensation, as they require a relatively long period of time to finalize and settle claims for a given accident year or require payouts over a long period of time. In addition, a significant portion of claims costs, including those in “ long tail ” lines of business, consists of medical costs. As a result, an increase in medical inflation could materially and adversely impact our loss costs and our claims and claim adjustment expense reserves. Recent changes in the ~~macroeconomic~~ **inflationary** environment have impacted medical labor and materials costs, the potential persistency of which could result in future loss costs which are higher than our current expectations. In addition to the impact of inflation on reserves, on a going forward basis, we may not be able to offset the impact of inflation on our loss costs with sufficient price increases. The estimation of loss reserves may also be more difficult during extreme events, such as a pandemic, or during volatile or uncertain economic conditions, due to unexpected changes in behavior of claimants and policyholders, including an increase in fraudulent reporting of exposures and / or losses, reduced maintenance of insured properties, increased frequency of small claims or delays in the reporting or adjudication of claims. We refine our loss reserve estimates as part of a regular, ongoing process as historical loss experience develops, additional claims are reported and settled, and the legal, regulatory and economic environment evolves. Business judgment is applied throughout the process, including the application of various individual experiences and expertise to multiple sets of data and analyses. Different experts may apply different assumptions and judgments when faced with material uncertainty, based on their individual backgrounds, professional experiences and areas of focus. As a result, these experts may at times produce estimates materially different from each other. This risk may be exacerbated in the context of an extreme event or an acquisition. Experts providing input to the various estimates and underlying assumptions include actuaries, underwriters, claim personnel and lawyers, as well as other members of management. Therefore, management often considers varying individual viewpoints as part of its estimation of loss reserves. Due to the inherent uncertainty underlying loss reserve estimates, the final resolution of the estimated liability for claims and claim adjustment expenses will likely be higher or lower than the related loss reserves at the reporting date. In addition, our estimate of claims and claim adjustment expenses ~~may~~ **is likely to** change. These additional liabilities or increases in estimates, or a range of either, could vary significantly from period to period and could materially and adversely affect our results of operations and / or our financial position. For a discussion of loss reserves by product line, including examples of common factors that can affect reserves, see ~~"~~**“**Item 7 — Management~~'~~**’**s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates — Claims and Claim Adjustment Expense Reserves. ~~"~~**”**Our business could be harmed because of our potential exposure to asbestos and environmental claims and related litigation. We continue to receive a significant number of asbestos claims. Factors underlying these claim filings include continued intensive advertising by lawyers seeking asbestos claimants and the continued focus by plaintiffs on defendants, such as manufacturers of talcum powder, who were not traditionally primary targets of asbestos litigation. We also continue to be involved in coverage litigation concerning a number of policyholders, some of whom have filed for bankruptcy, who in some instances have asserted that all or a portion of their asbestos- related claims are not subject to aggregate limits on coverage and / or that each individual bodily injury claim should be treated as a separate occurrence under the policy. To the extent both issues are resolved in a policyholder' s favor and our other defenses are not successful, our coverage obligations under the policies at issue would be materially increased and bounded only by the applicable per- occurrence limits and the number of asbestos bodily injury claims against the policyholders. Although we have seen a moderation in the overall risk associated with these lawsuits, it remains difficult to predict the ultimate cost of these claims. Further, in addition to claims against policyholders, proceedings have been launched directly against insurers, including us, by individuals challenging insurers' conduct with respect to the handling of past asbestos claims and by individuals seeking damages arising from alleged asbestos- related bodily injuries. It is possible that the filing of other direct actions against insurers, including us, could be made in the future. We also continue to receive claims from policyholders who allege that they are liable for injury or damage arising out of their alleged disposition of toxic substances. Liability for investigation and cleanup of environmental contamination and for some related losses under federal laws, such as the Comprehensive Environmental Response, Compensation and Liability Act, and under similar state laws, may be imposed on certain parties even if they did not cause the release or threatened release of hazardous substances and may be joint and several with other responsible parties. The Company has been, and continues to be, involved in litigation involving insurance coverage issues pertaining to asbestos and environmental claims. The Company believes that some court decisions have interpreted the insurance coverage to be broader than the original intent of the insurers and policyholders. These decisions continue to be inconsistent and vary from jurisdiction to jurisdiction. Uncertainties surrounding the final resolution of these asbestos and environmental claims continue, and it is difficult to estimate our ultimate liability for such claims and related litigation. As a result, these reserves are subject to revision as new information becomes available and as claims develop. It is also not possible to predict changes in the legal, regulatory and legislative environment and their impact on the future development of asbestos and environmental claims. This environment could be affected by changes in applicable legislation and future court and regulatory decisions and interpretations, including the outcome of legal challenges to legislative and / or judicial reforms establishing medical criteria for the pursuit of asbestos claims. It is also difficult to predict the ultimate outcome of complex coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. It is possible that the outcome of the continued uncertainties regarding these claims could result in liability in future periods that differs from current reserves by an amount that could materially and adversely affect our results of operations. See the ~~"~~**“**Asbestos Claims and Litigation, ~~""~~**” “**Environmental Claims and Litigation ~~"~~**”**and “ Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves ” sections of ~~"~~**“**Item 7 — Management ~~'~~**’**s Discussion and Analysis of Financial Condition and Results of Operations. ~~"~~**”**Also see ~~"~~**“**Item 3 — Legal Proceedings. ~~"~~**”**We are exposed to, and may face adverse developments involving, mass tort claims such as those relating to exposure to potentially harmful products or substances. We face potential exposure to mass tort claims, including claims related to exposure to potentially harmful products or substances, such as ~~lead paint,~~ perfluoroalkyl and polyfluoroalkyl substances (PFAS), talc ~~and~~ **,** opioids **and lead** . Establishing loss reserves for mass tort claims is subject to significant uncertainties because of many factors, including adverse changes to the tort environment that have continued to persist at elevated levels for a number of years (e. g., increased and more aggressive attorney involvement in insurance claims, increased litigation, expanded theories of liability, higher jury awards, lawsuit abuse and third- party litigation finance, among others); evolving judicial interpretations, including application of various theories of joint and several liabilities; disputes concerning medical causation with respect to certain diseases; geographical concentration of the lawsuits asserting the claims; and the potential for a large rise in the total number of claims without underlying epidemiological developments suggesting an increase in disease rates. Because of the uncertainties set forth above, additional liabilities may arise for amounts **significantly** in excess of the current loss reserves. In addition, our estimate of loss reserves may change. These additional liabilities or increases in estimates, or a range of either, could vary significantly from period to period and could materially and adversely affect our results of operations and / or our financial position. The effects of emerging claim and coverage issues on our business are uncertain, and court decisions or legislative changes that take place after we issue our policies can result in an unexpected increase in the number of claims and have a material adverse impact on our results of operations **and / or our financial position** . As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claim and coverage ~~may~~ **are likely to** emerge. These issues may adversely affect our business, including by extending coverage beyond our underwriting intent, by increasing the number, size or types of claims or by mandating changes to our underwriting practices. Examples of such claims and coverage issues include, but are not limited to: • judicial expansion of policy coverage and the impact of new or expanded theories of liability; • plaintiffs targeting insurers in purported class action litigation relating to claims handling and other practices; • claims relating to construction defects, which often present complex coverage and damage valuation questions; • claims related to data and network security breaches, information system failures or cyber events, including cases where coverage was not intended to be provided; • the assertion of “

public nuisance ” or similar theories of liability, pursuant to which plaintiffs, including governmental entities, seek to recover monies spent to respond to harm caused to members of the public, abate hazards to public health and safety and / or recover expenditures purportedly attributable to a “ public nuisance, ” such as litigation against manufacturers or distributors of lead paint, opioids, perfluoroalkyl and polyfluoroalkyl substances (PFAS) and other allegedly harmful products, and entities that caused or contributed to harm to the environment; • claims related to liability, business interruption or workers’ compensation arising out of infectious disease or pandemic; • claims related to vaccine mandates ~~, testing protocols or other matters related to employees returning to the workplace~~ ; • claims relating to abuse by an employee or a volunteer of an insured; • claims that link health issues to particular causes (for example, cumulative traumatic head injury from sports or other causes), resulting in liability or workers’ compensation claims; • claims alleging that one or more of our underwriting criteria have a disparate impact on persons belonging to a protected class in violation of the law, including the Fair Housing Act; • claims arising out of modern techniques and practices used in connection with the extraction of natural resources, such as hydraulic fracturing or wastewater injection; • claims arising out of the use of personal property in commercial transactions, such as ride or home sharing; • claims against fiduciaries of retirement plans, including allegations regarding excessive fees; • claims under laws protecting biometric data; • claims relating to unanticipated consequences of current or new technologies or business models or processes, including as a result of related behavioral changes; ~~and~~ • claims relating to changing climate conditions, including claims alleging that our policyholders cause or contribute to changing climate conditions **; and • bankruptcies of policyholders, which can lead to inflated numbers and values of claims** . In some instances, emerging issues may not become apparent for some time after we have issued the affected insurance policies. As a result, the full extent of liability under our insurance policies may not be known for many years after the policies are issued. In addition, the passage of new legislation designed to expand the right to sue, to remove limitations on recovery, to deem by statute the existence of a covered occurrence, to extend or eliminate the statutes of limitations or otherwise to repeal or weaken tort reforms could have a material and adverse effect on our results of operations **and / or our financial position** . For example, over the past few years, a number of states have enacted legislation allowing victims of sexual molestation to file or proceed with claims that otherwise would have been time- barred and additional states are considering similar legislative changes. The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict and could harm our business and materially and adversely affect our results of operations **and / or our financial position** . Financial, Economic and Credit Risks During or following a period of financial market disruption or an economic downturn, our business could be materially and adversely affected. If financial markets experience significant disruption or if economic conditions deteriorate, such as in a period of recession or stagflation, our results of operations, financial position and / or liquidity likely would be adversely impacted. For example, financial market disruptions and economic downturns in the past have resulted in, among other things, reduced business volume, heightened credit risk, reduced valuations for certain of our investments and heightened vulnerability for smaller vendors with whom we do business. Future actions or inactions of the United States government related to the “ debt- ceiling ” could increase the actual or perceived risk that the United States may not ultimately pay its obligations when due. This could result in downgrades to the credit rating of the United States and potential disruption to financial markets, including capital markets. Several of the risk factors discussed above and below identify risks that could result from, or be exacerbated by, financial market disruption, an economic slowdown or economic uncertainty. These include risks discussed above related to our estimates of claims and claim adjustment expense reserves and emerging claim and coverage issues, and those discussed below related to our investment portfolio, the competitive environment, reinsurance arrangements, other credit exposures, regulatory developments and the impact of rating agency actions. See also ~~"~~ **“** Item 7 — Management ~~'~~ **’** s Discussion and Analysis of Financial Condition and Results of Operations, ~~"~~ **”** particularly the ~~"~~ **“** Outlook ~~"~~ **”** section, for additional information about these risks and the potential impact on our business. Our investment portfolio is subject to credit and interest rate risk, and may suffer reduced or low returns or material realized or unrealized losses. Investment returns are an important part of our overall profitability. Fixed maturity and short- term investments comprised approximately 93 % of the carrying value of our investment portfolio as of December 31, ~~2022~~ **2023** . Changes in interest rates affect the carrying value of our fixed maturity investments and returns on our fixed maturity and short- term investments. A decline in interest rates reduces the returns available on short- term investments and new fixed maturity investments (including those purchased to re- invest maturities from the existing portfolio), thereby negatively impacting our net investment income on a going- forward basis, while rising interest rates reduce the market value of existing fixed maturity investments, thereby negatively impacting our book value ~~, as we experienced in 2022. While interest rates have risen rapidly during 2022, they continue to remain at low levels relative to historical experience, and rates may remain at low levels relative to historical experience for a prolonged period~~ . See also “ Item 7 — Management’ s Discussion and Analysis of Financial Condition and Results of Operations — Outlook. ” The value of our fixed maturity and short- term investments is also subject to the risk that certain investments may default or become impaired due to a deterioration in the financial condition of one or more issuers of the securities held in our portfolio, or due to a deterioration in the financial condition of an insurer that guarantees an issuer’ s payments of such investments. Such defaults and impairments could reduce our net investment income and result in realized investment losses. During an economic downturn, fixed maturity and short- term investments could be subject to a higher risk of default, and our non- fixed income investments could be negatively impacted as well. A significant portion of our fixed maturity investment portfolio is invested in obligations of states, municipalities and political subdivisions. This municipal bond portfolio could be subject to default or impairment. In particular: • Many state and local governments have from time to time operated under deficits or projected deficits, particularly during and after a financial market disruption or economic downturn. The severity and duration of these deficits could have an adverse impact on the collectability and valuation of our municipal bond portfolio. These deficits may also be exacerbated by the impact of unfunded pension plan obligations and other postretirement obligations or by declining municipal tax bases and revenues in times of financial stress. • Some municipal bond issuers may be unwilling to increase tax rates, or to reduce spending, to fund interest or principal payments on their municipal bonds, or may be unable to access the municipal bond market to fund such payments. The risk of widespread defaults may increase if some issuers voluntarily choose to default, instead of implementing difficult fiscal measures, and the actual or perceived consequences are less severe than expected. • The risk of widespread defaults may also increase if there are changes in legislation that permit states, municipalities and political subdivisions to file for bankruptcy protection where they were not permitted before. In addition, the collectability and valuation of municipal bonds may be adversely affected if there are judicial interpretations in a bankruptcy or other proceeding that lessen the value of structural protections. For example, debtors may challenge the effectiveness of structural protections thought to be provided by municipal securities backed by a dedicated source of revenue. The collectability and valuation may also be adversely affected if there are judicial interpretations in a bankruptcy or other proceeding that question the payment priority of municipal bonds. Our portfolio has benefited from tax exemptions (such as those related to interest from municipal bonds) and certain other tax laws, including, but not limited to, those governing dividends- received deductions and tax credits. Changes in these laws could adversely impact the value of our investment portfolio. Our investment portfolio includes: residential mortgage- backed securities; collateralized mortgage obligations; pass- through securities and asset- backed securities collateralized by sub- prime mortgages; commercial mortgage- backed securities; and wholly- owned real estate and real estate partnerships, all of which could be adversely impacted by declines in real estate valuations, including as a result of changes in the use of commercial office and retail space since the COVID- 19 pandemic. We also invest a portion of our assets in equity securities, private equity limited partnerships, hedge funds and real estate partnerships **, as well as strategic investments in private and / or public companies** . From time to time, we may also invest in other types of non- fixed maturity investments, including investments with exposure to commodity price risk. All of these asset classes are subject to greater volatility in their investment returns than fixed maturity investments. General economic and market conditions, changes in applicable tax laws and many other factors beyond our control can adversely affect the value of our non- fixed maturity investments and the realization of net investment income, and / or result in realized investment losses. As a result of these factors, we may realize reduced returns on these investments, incur losses on sales of these investments and be required to write down the value of these investments, which could reduce our net investment income and result in realized investment losses. From time to time, the Company enters into short positions in U. S. Treasury futures contracts to manage the duration of its fixed maturity portfolio, which can result in realized investment losses. Our investment portfolio is also subject to increased valuation uncertainties when investment markets are illiquid. The valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (i. e., the carrying amount) of the portion of the investment portfolio that is carried at fair value as reflected in our financial statements is not reflective of prices at which actual transactions could occur. We **have in the past, and** may **in the future** , depending on **changes in** circumstances ~~in the future~~ , ~~including~~ **such** as ~~a result of changes in~~ economic and market conditions **and relative asset valuations** , make changes to the mix of investments in our investment portfolio as part of our ongoing efforts to seek appropriate risk- adjusted returns. These changes may impact the duration, volatility and risk of our investment portfolio. Because of the risks set forth above, the value of our investment portfolio could decrease, we could experience reduced net investment income and we could experience realized and / or unrealized investment losses, which could materially and adversely affect our results of operations, financial position and / or liquidity. We may not be able to collect all amounts due to us from reinsurers, reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all and we are exposed to credit risk related to our structured settlements. Although the reinsurer is liable to us to the extent of the reinsurance, we remain liable as the direct insurer on all risks reinsured. As a result, reinsurance arrangements do not eliminate our obligation to pay claims. Accordingly, we are subject to credit risk with respect to our ability to recover amounts due from reinsurers. In the past, certain reinsurers have ceased writing business and entered into runoff. Some of our reinsurance claims may be disputed by the reinsurers, and we may ultimately receive partial or no payment. This is a particular risk in the case of claims that relate to insurance policies written many years ago, including those relating to asbestos and environmental claims. In addition, in a number of jurisdictions a reinsurer is permitted to transfer a reinsurance arrangement to another reinsurer, which may be less creditworthy, without a counterparty' s consent. Also, the reinsurance that we purchase may not cover all of the risks covered by the policies that we issue. Included in reinsurance recoverables are amounts related to certain structured settlements. Structured settlements are annuities purchased from various life insurance companies to settle certain personal physical injury claims, of which workers' compensation claims comprise a significant portion. In cases where we did not receive a release from the claimant, the structured settlement is included in reinsurance recoverables and the related claim cost is included in the liability for loss reserves, as we retain the contingent liability to the claimant. Some of the life insurance companies from which we have purchased annuities have been downgraded to below investment grade credit ratings subsequent to the time of the purchase. If it is expected that the life insurance company is not able to pay, we would recognize an impairment of the related reinsurance recoverable if, and to the extent, the purchased annuities are not covered by state guaranty associations. In the event that the life insurance company fails to make the required annuity payments, we would be required to make such payments. For a discussion of the top five providers of our reinsurance and structured settlements, see ~~"~~ **“** Item 7 — Management ~~'~~ **’** s Discussion and Analysis of Financial Condition and Results of Operations — Reinsurance Recoverables. **” The** ~~" Both the~~ availability of reinsurance capacity ~~and~~ **, as well as** its cost **and terms,** can be impacted, and in recent periods have been impacted, by general economic conditions and conditions in the reinsurance market, such as the occurrence of significant reinsured events or unexpected adverse trends. The availability ~~and~~ **,** cost **and terms** of reinsurance could affect our business volume and profitability. In addition, the Covered Agreements between the U. S. and each of the EU and U. K. eliminate the requirement for European and U. K. reinsurers operating in the U. S. to provide collateral, which could make it more difficult for U. S. companies, including us, to obtain collateral from European and U. K. reinsurers. Because of the risks set forth above, we may not be able to collect all amounts due to us from reinsurers, and reinsurance coverage may not be available to us in the future at commercially reasonable rates **or terms,** or at all, and / or life insurance companies may fail to make required annuity payments, and thus our results of operations could be materially and adversely affected. We are exposed to credit risk in certain of our insurance operations and with respect to certain guarantee or indemnification arrangements that we have with third parties. We are exposed to credit risk in several areas of our business operations, including credit risk relating to policyholders, independent agents and brokers. To a significant degree, the extent of the credit risk that we face is a function of the health of the economy; accordingly, we face an increased credit risk in an economic downturn. We are exposed to credit risk in our surety insurance operations, where we guarantee to a third party that our customer will satisfy certain performance obligations (e. g., a construction contract) or certain financial obligations, including exposure to large customers who may have obligations to multiple third parties. If our customer defaults, we may suffer losses and not be reimbursed by that customer, even though we are entitled to indemnification from such customer. In addition, it is customary practice for multiple insurers to participate as co- sureties on large surety bonds. Under these arrangements, the co- surety obligations are typically joint and several, in which case we are also exposed to credit risk with respect to our co- sureties. In addition, a portion of our business is written with large deductible insurance policies. Under casualty insurance contracts with deductible features, we are obligated to pay the claimant the full amount of the settled claim. We are subsequently reimbursed by the contractholder for the deductible amount, and, as a result, we are exposed to credit risk to the policyholder. Moreover, certain policyholders purchase retrospectively rated policies (i. e., where premiums are adjusted after the policy period based on the actual loss experience of the policyholder during the policy period). Retrospectively rated policies expose us to additional credit risk to the extent that the adjusted premium is greater than the original premium. Our efforts to mitigate the credit risk that we have to our insureds may not be successful. For example, we may not be able to obtain collateral and any collateral obtained may subsequently have little or no value. In accordance with industry practice, when policyholders purchase insurance policies from us through independent agents and brokers, the premiums relating to those policies are often paid to the agents and brokers for payment to us. In most jurisdictions, the premiums will be deemed to have been paid to us whether or not they are actually received by us. Consequently, we assume a degree of credit risk associated with amounts due from independent agents and brokers. We are also exposed to credit risk related to certain guarantee or indemnification arrangements that we have with third parties. See note 17 of the notes to the consolidated financial statements. Our exposure to the above credit risks could materially and adversely affect our results of operations. A downgrade in our claims- paying and financial strength ratings could adversely impact our business volumes, adversely impact our ability to access the capital markets and increase our borrowing costs. Claims- paying and financial strength ratings are important to an insurer’ s competitive position. A downgrade in one or more of our ratings could negatively impact our business volumes or make it more difficult or costly for us to access the capital markets or borrow money. If significant losses, including, but not limited to, those resulting from one or more major catastrophes, or significant reserve additions or significant investment losses were to cause our capital position to deteriorate significantly, or if one or more rating agencies substantially increase their capital requirements, we may need to raise equity capital in the future (which we may not be able to do at a reasonable cost or at all, especially at a time of financial market disruption) in order to maintain our ratings or limit the extent of a downgrade. A continued trend of more frequent and severe catastrophes or a prolonged financial market disruption or economic downturn may lead rating agencies to substantially increase their capital requirements. ~~Furthermore, S & P has proposed changes to its capital model that could adversely impact such agency' s assessment of capital adequacy for participants in the insurance industry, including the Company.~~ See also ~~"~~ “Item 1 — Business — Ratings. ~~"~~ ” The inability of our insurance subsidiaries to pay dividends to our holding company in sufficient amounts would harm our ability to meet our obligations, pay future shareholder dividends and / or make future share repurchases. Our holding company relies on dividends from our U. S. insurance subsidiaries to meet our obligations for payment of interest and principal on outstanding debt, to pay dividends to shareholders, to make contributions to our qualified domestic pension plan, to pay other corporate expenses and to make share repurchases. The ability of our insurance subsidiaries to pay dividends to our holding company in the future will depend on their statutory capital and surplus, earnings and regulatory restrictions. We are subject to state insurance regulation as an insurance holding company system. Our U. S. insurance subsidiaries are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid to their parent without prior approval of insurance regulatory authorities. In a time of prolonged economic downturn or otherwise, insurance regulators may choose to further restrict the ability of insurance subsidiaries to make payments to their parent companies. The ability of our insurance subsidiaries to pay dividends to our holding company is also restricted by regulations that set standards of solvency that must be met and maintained. The inability of our insurance subsidiaries to pay dividends to our holding company in an amount sufficient to meet our debt service obligations and other cash requirements could harm our ability to meet our obligations, to pay future shareholder dividends and to make share repurchases. Business and Operational Risks The ongoing impact of COVID- 19...... Results of Operations — Outlook. ” The intense competition that we face, including with respect to attracting and retaining employees, and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which we operate, could harm our ability to maintain or increase our business volumes and our profitability. The property and casualty insurance industry is highly competitive, and we believe that it will remain highly competitive for the foreseeable future. We compete with both domestic and foreign insurers, including start- ups, which may offer products at prices and on terms that are not consistent with our economic standards in an effort to maintain or increase their business. The competitive environment in which we operate could also be impacted by current general economic conditions, which could reduce the volume of business available to us as well as to our competitors. Pension and hedge funds and other entities with substantial available capital, more flexible legal structures and / or potentially lower return objectives have increasingly sought to participate in the property and casualty insurance and reinsurance businesses. Well- capitalized new entrants to the property and casualty insurance and reinsurance industries and existing competitors that receive substantial infusions of capital may conduct business in ways that adversely impact our business volumes and profitability. In addition, the competitive environment could be impacted by changes in customer preferences, including customer demand for direct distribution channels and / or greater choice, not only in personal lines, but also in commercial lines (where direct writers may become a more significant source of competition in the future, particularly in the small commercial market). Similarly, comparative rating technology has impacted competition in personal lines and is now being used to access comparative rates for small commercial business as well, and that trend is likely to continue and may accelerate. In recent years, there have been new entrants into the small commercial business, and this trend may continue. Customer behavior could also evolve in the future towards buying insurance in point- of- sale or other non- traditional distribution channels where we may not have a meaningful presence or which are designed to sell products that we currently do not provide. Consolidation within the insurance industry also could impact our business volumes and / or the rates or terms of our products. Other technological changes also present competitive risks. For example, our competitive position could be impacted if we are unable to deploy, in a cost effective and competitive manner, technology such as artificial intelligence and machine learning that collects and analyzes a wide variety of data points (so- called " big data " analysis) to make underwriting or other decisions, or if our competitors collect and use data which we do not have the ability to access or use **or deploy artificial intelligence to create efficiencies in ways that we do not** . In addition, innovations, such as telematics and other usage- based methods of determining premiums, can impact product design and pricing and are becoming an increasingly important competitive factor. Competitive dynamics may impact the success of efforts to improve our underwriting margins on our insurance products. These efforts could include seeking improved rates or improved terms and conditions, and could also include other initiatives, such as reducing operating expenses and acquisition costs. These efforts may not be successful and / or may result in lower business volumes. In addition, if our underwriting is not effective, further efforts to increase rates could also lead to " adverse selection ", whereby accounts retained have higher losses, and are less profitable, than accounts lost. For more detail, see ~~"~~ **“** Item 7 — Management ~~'~~ **’** s Discussion and Analysis of Financial Condition and Results of Operations — Outlook. ~~"~~ **”** Similar to other industries, the insurance industry is undergoing rapid and significant technological and other change. Traditional insurance industry participants, technology companies, " InsurTech " start- up companies, ~~the number of which has increased significantly in recent years and~~ some of which are supported by traditional insurance industry participants, and others are focused on using technology and innovation to simplify and improve the customer experience, increase efficiencies, redesign products, alter business or distribution models and effect other potentially disruptive changes in the insurance industry. If we do not anticipate, keep pace with and adapt to technological and other changes impacting the insurance industry, it will harm our ability to compete, decrease the value of our products to customers, and materially and adversely affect our business. Furthermore, innovation, technological change and changing customer preferences in the markets in which we operate also pose risks to our business. For example, technologies such as driverless vehicles, assisted- driving or accident prevention technologies, technologies that facilitate ride, car or home sharing, smart homes or automation could reduce the number of vehicles in use and / or the demand for, or profitability of, certain of our products, create coverage issues or impact the frequency or severity of losses, and we may not be able to respond effectively. While there is substantial uncertainty as to the timing of any impact, in the case of driverless vehicles in particular, new legal frameworks or business practices could be adopted that reduce the size of the auto insurance market. If competition or technological or other changes to the markets in which we operate limit our ability to retain existing business or write new business at adequate rates or on appropriate terms, our results of operations could be materially and adversely affected. See ~~"~~ **“** Competition ~~"~~ **”** sections of the discussion on business segments in ~~"~~ **“** Item 1 — Business. ~~"~~ **”** Technological change can impact us in other ways as well. For example, rapid changes in the sophistication and use of certain types of cyber- attacks, such as ransomware and social engineering attacks, on our insureds have increased the frequency and severity of losses under our policies. The risk of cyber **-** attacks could be exacerbated by geopolitical tensions, including hostile actions taken by nation- states and terrorist organizations. **In addition, new technology, such as artificial intelligence, could create unforeseen exposures or coverage issues under the policies we write and aggravate claims fraud and cybercrime.** There is significant competition from within the property and casualty insurance industry and from businesses outside the industry for qualified employees, especially those in key positions and those possessing highly specialized knowledge in areas such as underwriting, data and analytics, technology **, claims** and **artificial intelligence** ~~e- commerce~~ . This competition has increased in recent periods and, with the increase in remote work, is taking place on a broader geographic scale. In addition, the competition for talent and the difficulty in attracting and retaining employees has also increased due ~~to the increase in the number of individuals exiting the workforce since the onset of the pandemic and~~ to the retirement of members of the " baby boomer " generation. This dynamic has also impacted our agents, brokers, regulators, vendors and other business partners. If we and our business partners are not able to successfully attract, train, retain and motivate our respective employees, our business, financial results and reputation could be materially and adversely affected. Disruptions to our relationships with our independent agents and brokers or our inability to manage effectively a changing distribution landscape could adversely affect us. We market our insurance products primarily through independent agents and brokers. An important part of our business is written through less than a dozen such intermediaries, including the agency affiliate of GEICO, with whom we have had a distribution arrangement for homeowners ~~'~~ **’** business since 1995. Further, there has been a trend of increased consolidation by agents and brokers, which could impact our relationships with, and fees paid to, some agents and brokers, and / or otherwise negatively impact the pricing or distribution of our products. Agents and brokers may increasingly compete with us to the extent that markets increasingly provide them with direct access to providers of capital seeking exposure to insurance risk or if they become affiliated with carriers that compete with us. In all of the foregoing situations, loss of all or a substantial portion of the business provided through such agents and brokers could materially and adversely affect our future business volume and results of operations. Our efforts or the efforts of agents and brokers with respect to new products or markets, alternate distribution channels, changes to commission terms as well as changes in the way agents and brokers utilize data and technology, including in ways that may be in direct competition with us, could adversely impact our business relationship with independent agents and brokers who currently market our products, resulting in a lower volume and / or profitability of business generated from these sources. In certain markets, brokers increasingly have been packaging portfolios of risks together and offering them to fewer carriers. In these and other situations, agents and brokers have an increased influence over policy language and compensation structure which, if we participate on that basis, could adversely impact our ability to profitably manage underwriting risk. It could also lead to commoditization of products, which could increase the focus on price and cost management and decrease our ability to differentiate our products in the marketplace with customers based on other factors. Customers in the past have brought claims against us for the actions of our agents. Even with proper controls in place, actual or alleged errors or inaccuracies by our agents could result in our involvement in disputes, litigation or regulatory actions. Our efforts to develop new products or services, expand in targeted markets, improve business processes and workflows or make acquisitions may not be successful and may create enhanced risks. From time to time, to protect and grow market share and / or improve our productivity and efficiency, we invest in strategic initiatives and pursue acquisitions. These efforts may require us to make substantial expenditures and not be successful, and even if successful, they may create additional risks: • Changes to our business processes or workflow, including the use of new technologies, may give rise to execution risk; • Models underlying automated underwriting and pricing decisions may not be effective; • Demand for new products or expansion into new markets may not meet our expectations; • New products or services and expansion into new markets may change our risk exposures, and the data and models we use to manage such exposures may not be as effective as those we use in existing markets or with existing products; • Acquisitions may not be successfully integrated, resulting in substantial disruption, costs or delays and adversely affecting our ability to compete, **may not result in the benefits anticipated by us,** and may also result in unforeseen liabilities or impact our credit ratings; and • **The** ~~In connection with the~~ conversion of policyholders to a new product ~~, some policyholders' pricing may increase while the pricing for other policyholders may decrease, the net impact of which~~ could negatively impact retention and profit margins. These efforts may require us to make substantial expenditures, which may negatively impact results in the near term, and if not successful, could materially and adversely affect our results of operations. We may be adversely affected if our pricing and capital models provide materially different indications than actual results. Our profitability substantially depends on the extent to which our actual claims experience is consistent with the assumptions we use in pricing our policies. We utilize proprietary and third- party models to help us price business in a manner that is intended to be consistent, over time, with actual results and return objectives. We incorporate our historical loss experience, external industry and other data, and economic indices into our modeling processes, and we use various methods, including predictive modeling, forecasting and sophisticated simulation modeling techniques, to analyze loss trends and the risks associated with our assets and liabilities. We also use these modeling processes, analyses and methods in making underwriting, pricing and reinsurance decisions as part of managing our exposure to catastrophes and other extreme adverse events. These modeling processes incorporate numerous assumptions and forecasts about the future level and variability of the frequency and severity of losses, inflation, interest rates and capital requirements, among others, that are difficult to make and may differ materially from actual results. In addition, as the number of third- party models increases, it becomes more difficult to validate, manage and integrate such models as they evolve over time, and the risk associated with assimilating the output from such models into our decisions increases. If we fail to appropriately price the risks we insure or fail to change our pricing models to appropriately reflect our experience, or if our claims experience is more frequent or severe than our underlying risk assumptions, for example due to inflation, changing climate conditions, legislative or regulatory changes, changes in behavior such as distracted or faster driving or a more aggressive tort environment, our profit margins may be negatively affected. If we underestimate the frequency and / or severity of extreme adverse events occurring, our financial condition may be adversely affected. If we overestimate the risks we are exposed to, we may overprice our products, and new business growth and retention of our existing business may be adversely affected. See ~~"~~**“** Item 7 — Management ~~'~~**’** s Discussion and Analysis of Financial Condition and Results of Operations — Catastrophe Modeling. ~~"~~**”** We are subject to additional risks associated with our business outside the United States. We conduct business outside the United States primarily in Canada, the United Kingdom and the Republic of Ireland. In addition, we conduct business in Brazil and Colombia through joint ventures **, and throughout other parts of the world, including as a corporate member of Lloyd’ s and through our quota share agreement with Fidelis** . We may also explore opportunities in other countries. In conducting business outside of the United States, we are subject to a number of risks, particularly in emerging economies. These risks include restrictions such as price controls, capital controls, currency exchange limits, ownership limits and other restrictive or anti- competitive governmental actions or requirements, which could have an adverse effect on our business and our reputation. A portion of our premiums from outside of the United States is generated in Canada, a substantial portion of which consists of automobile premiums from the province of Ontario, which is a highly regulated market that can result in rate inadequacy. Our business activities outside the United States may also subject us to currency risk and, in some markets, it may be difficult to effectively hedge that risk, or we may choose not to hedge that risk. In addition, in some markets, we invest as part of a joint venture with a local counterparty. Because our governance rights may be limited, we may not have control over the ability of the joint venture to make certain decisions and / or mitigate risks it faces, and significant disagreements with a joint venture counterparty may adversely impact our investment and / or reputation. Our business activities outside the United States could subject us to increased volatility in earnings resulting from the need to recognize and subsequently revise a valuation allowance associated with income taxes if we became unable to fully utilize any deferred tax assets, including loss carry- forwards from those foreign operations. Also, political instability and geopolitical tensions ~~could~~ **have at times resulted, and may in the future** result **,** in **inflation, reduced growth, supply chain and** financial market disruption or an economic downturn in such regions. ~~The U. K.' s withdrawal from the European Union, for example, has by some estimates resulted in reduced trade levels in the U. K. In addition, supply chain disruptions and the war in Ukraine have resulted in increased inflation and reduced growth in the U. K. and the European Union.~~ For certain ~~specialty business~~ **businesses** , we give **third parties** ~~managing general agents~~ binding authority **to write business on our behalf, and in the case of Fidelis, we assume a percentage of its business under a reinsurance agreement** , which exposes us to additional risks **, including with respect to certain products, risks and**

geographies we do not normally cover . Our business activities outside the United States also subject us to additional domestic and foreign laws and regulations, including the Foreign Corrupt Practices Act and similar laws in other countries that prohibit the making of improper payments to foreign officials. Although we have policies and controls in place that are designed to ensure compliance with these laws, if those controls are ineffective and / or an employee or intermediary fails to comply with applicable laws and regulations, we could suffer civil and criminal penalties and our business and our reputation could be adversely affected. Some countries, particularly emerging economies, have laws and regulations that lack clarity and, even with local expertise and effective controls, it can be difficult to determine the exact requirements of, and potential liability under, the local laws. In some jurisdictions, including Brazil, parties to a joint venture may, in some circumstances, have liability for some obligations of the venture, and that liability may extend beyond the capital invested. Failure to comply with local laws in a particular market may result in substantial liability and could have a significant and negative effect not only on our business in that market but also on our reputation generally. Loss of or significant restrictions on the use of particular types of underwriting criteria, such as credit scoring, or other data or methodologies, in the pricing and underwriting of our products could reduce our future profitability. Our underwriting profitability depends in large part on our ability to competitively price our products at a level that will adequately compensate us for the risks assumed. As a result, risk selection and pricing through the application of actuarially sound and segmented underwriting criteria is critical. However, laws or regulations, or judicial or administrative findings, could significantly curtail the use of particular types of underwriting criteria. For example, we may use credit scoring as a factor in pricing decisions where allowed by state law. Some consumer groups and / or regulators have alleged that the use of credit scoring violates the law by discriminating against persons belonging to a protected class and are calling for the prohibition or restrictions on the use of credit scoring in underwriting and pricing. A variety of other underwriting criteria and other data or methodologies used in personal and commercial insurance have been and continue to be criticized by regulators, government agencies, consumer groups or individuals on similar or other grounds, such as the impact of external data sources, artificial intelligence, algorithms and predictive models on protected classes of customers, and a number of states have begun rulemaking efforts in response or are considering doing so. Resulting legislative or regulatory actions or litigation could result in negative publicity and / or generate adverse rules or findings, such as curtailing the use of important underwriting criteria, or other data or methodologies, which could materially and adversely affect our results of operations. ~~to~~ **Future pandemics (including new variants of** COVID- 19 **)** ~~have moderated~~ , ~~some significant~~ **could materially affect our results of operations,financial position and / or liquidity.COVID- 19 presented,and any future pandemics (including new variants of COVID- 19) could present,the following** risks ~~remain~~ , ~~such as~~ **among others:** inflation;supply chain disruption;labor shortages;backlogs in the court system (which increase the time and costs to resolve claims); **legal and** ~~regulators~~ **regulatory** ~~rejecting~~ **demands for** rate **refunds** ~~increases in the face of claim frequency rates returning to pre- pandemic levels and increased severity due to inflation~~ ;behavioral changes **can result in** ~~that began to manifest during~~ the ~~pandemic~~ **increased frequency** and ~~have continued~~ **severity of claims** ,such as driving at faster speeds ~~,which have resulted in the increased frequency and severity of claims~~ ; **medical conditions such as** “ long- COVID ” and other claims in our workers compensation line; ~~and~~ litigation seeking business interruption coverage **;** ~~.Risks related to future pandemics (including new variants of COVID- 19) include,in addition to those discussed above,~~ reduced earned premiums;higher claim and claim adjustment expenses in certain lines of business;adverse legislative or regulatory actions;operational disruptions;increased general and administrative expenses;financial market disruption;and an economic downturn.These risks could materially and adversely impact our results of operations,financial position and / or liquidity.For a further discussion of risks that can impact us as a result of financial market disruption or an economic downturn,see “ During or following a period of financial market disruption or an economic downturn,our business could be materially and adversely affected ” above and “ Item 7 — Management’ s Discussion and Analysis of Financial Condition and **Results of Operations — Outlook.”** Technology and Intellectual Property Risks Our business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology, particularly as our business processes become more digital. We depend in large part on our technology systems for conducting business and processing claims, as well as for providing the data and analytics we utilize to manage our business. As a result, our business success is dependent on maintaining the effectiveness of existing technology systems and on continuing to develop and enhance technology systems that support our business processes and strategic initiatives in an efficient manner, particularly as our business processes become more digital **and seek to incorporate artificial intelligence,** and certain of our products, such as cyber insurance, are more technology- based. Some system development projects are long- term in nature, may negatively impact our expense ratios as we invest in the projects and may cost more than we expect to complete. In addition, system development projects may not deliver the benefits or perform as expected, or may be replaced or become obsolete more quickly than expected, which could result in operational difficulties, additional costs or accelerated recognition of expenses. Attracting and retaining technology personnel has also become significantly more challenging in recent periods. If we do not effectively and efficiently manage and upgrade our technology portfolio, or if the costs of doing so are higher than we expect, our ability to provide competitive services to, and conduct business with, new and existing customers in a cost effective manner and our ability to implement our strategic initiatives could be adversely impacted. If we experience difficulties with technology, data and network security (including as a result of cyber attacks), outsourcing relationships or cloud- based technology, our ability to conduct our business could be negatively impacted. A shut- down of, or inability to access, one or more of our facilities (including our primary data processing facility); a power outage; or a failure of one or more of our systems could significantly impair our ability to perform necessary business functions on a timely basis. In the event of a computer virus or natural or other disaster, our systems could be inaccessible for an extended period of time, including as a result of hostile actions taken by nation- states or terrorist organizations. In addition, because our systems increasingly interface with and depend on third- party systems, including cloud- based, we could experience service denials or failures of controls if demand for our service exceeds capacity or a third- party system fails or experiences an interruption.

Business interruptions and failures of controls could also result if our internal systems do not interface with each other as intended or if changes to such systems or our other business processes, such as new payment technologies, are not effectively implemented. Business continuity can also be disrupted by an event, such as a pandemic, that renders large numbers of a workforce unable to work as needed, particularly at critical locations. If our business continuity plans do not sufficiently address a business interruption, system failure or service denial, this could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary business functions. In addition, should internet disruptions occur, or frustration with our business platforms or distribution initiatives develop among our independent agents and brokers, any resulting loss of business could materially and adversely affect our future business volume and results of operations. Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Computer viruses, hackers and employee or vendor misconduct, and other external hazards (such as social engineering attacks), could expose our data systems to security breaches, cyber- attacks or other disruptions. Increased use of data supplied by third parties in our business increases our exposure to this risk. While we attempt to develop secure transmission capabilities with third- party vendors and others with whom we do business, we may not be successful and, in addition, these third parties may not have appropriate controls in place to protect the confidentiality of the information. Like other global companies, our computer systems are regularly subject to and will continue to be the target of computer viruses, malware or other malicious codes (including ransomware), unauthorized access, cyber- attacks or other computer- related penetrations. The Company, like other property and casualty insurers, may be under greater threat from cybercriminals seeking sensitive personal or other insurance- related information. The risk of cyber attacks could be exacerbated by geopolitical tensions, including hostile actions taken by nation- states or terrorist organizations. While we have experienced cyber- attacks, to date, we are not aware that we have experienced a material cyber- security breach. The sophistication of these threats continues to increase, and the preventative actions we take to reduce the risk of cyber incidents and protect our systems and information may be insufficient. In addition, new technology that could result in greater operational efficiency **, including artificial intelligence,** may further expose our computer systems to the risk of cyber- attacks. Also, our increased use of open source software, cloud technology and software as a service can make it more difficult to identify and remedy such situations due to the disparate location of code utilized in our operations. We have outsourced certain technology and business process functions to third parties and may increasingly do so in the future. If we do not effectively develop, implement and monitor our vendor relationships, if third party providers do not perform as anticipated **or experience financial difficulties** , if we experience technological or other problems with a transition, or if vendor relationships relevant to our business process functions are terminated, we may not realize expected productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and a loss of business. Our outsourcing of certain technology and business process functions to third parties may expose us to increased risk related to data and cyber security, service disruptions or the effectiveness of our control system. These risks could increase as additional functions move to the cloud and as dependencies and interconnections with the third parties with whom we do business increase. The increased risks identified above could expose us to data loss or manipulation, disruption of service, monetary and reputational damages, competitive disadvantage and significant increases in compliance costs and costs to improve the security and resiliency of our computer systems. The compromise of personal, confidential or proprietary information could also subject us to **significant** legal liability or regulatory action under evolving cyber- security, data protection and privacy laws and regulations enacted by the U. S. federal and state governments, Canada, the European Union or other jurisdictions or by various regulatory organizations or exchanges. As a result, our ability to conduct our business and our results of operations might be materially and adversely affected. Intellectual property is important to our business, and we may be unable to protect and enforce our own intellectual property or we may be subject to claims for infringing the intellectual property of others. Our success depends in part upon our ability to protect our proprietary trademarks, technology and other intellectual property. See ~~"~~**“**Item 1 — Business — Other Information — Intellectual Property. ~~"~~**”** We may not, however, be able to protect our intellectual property from unauthorized use and disclosure by others. Further, the intellectual property laws may not prevent our competitors from independently developing trademarks, products and services that are similar to ours. We may incur significant costs in our efforts to protect and enforce our intellectual property, including the initiation of expensive and protracted litigation, and we may not prevail. Any inability to enforce our intellectual property rights could have a material adverse effect on our business and our ability to compete. We may be subject to claims by third parties from time to time that our products, services and technologies infringe on their intellectual property rights. In recent years, certain entities have acquired patents in order to allege claims of infringement against companies, including in some cases, us. Any intellectual property infringement claims brought against us could cause us to spend significant time and money to defend ourselves, regardless of the merits of the claims. If we are found to infringe any third- party intellectual property rights, it could result in reputational harm, payment of significant monetary damages or fees and / or substantial time and expense to redesign our products, services or technologies to avoid the infringement. In addition, we use third- party software in some of our products, services and technologies. If any of our software vendors or licensors are faced with infringement claims, we may lose our ability to use such software until the dispute is resolved. If we cannot successfully redesign an infringing product, service or technology (or procure a substitute version), this could have a material adverse effect on our business and ability to compete. Regulatory and Compliance Risks Our businesses are heavily regulated by the states and countries in which we conduct business, including licensing, market conduct and financial supervision, and changes in regulation, including ~~higher~~ **changes in** tax ~~rates~~ **regulation** , may reduce our profitability and limit our growth. These regulatory systems are generally designed to protect the interests of policyholders, and not necessarily the interests of insurers, their shareholders and other investors. For example, to protect policyholders whose insurance company becomes financially insolvent, guaranty funds have been established in all 50 states to pay the covered claims of policyholders in the event of an insolvency of an insurer, subject to applicable state limits. The funding of guaranty funds is provided through assessments levied against remaining insurers in the marketplace. As a result, the insolvency of one or more insurance companies or an increase in amounts paid by guaranty funds could result in additional assessments levied against us. These regulatory systems also address authorization for lines of business, statutory capital and surplus requirements, limitations on the types and amounts of certain investments, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non- financial components of an insurer’ s business including, recently, cyber- security. In addition, many jurisdictions restrict the timing and / or the ability of an insurer to discontinue writing a line of business or to cancel or non- renew certain policies. Insurance regulators may also increase the statutory capital and surplus requirements for our insurance subsidiaries or, as has happened recently in certain states, reject **or delay** rate increases or other **changes to** terms and conditions due to the economic environment or other factors **and / or expand FAIR plans or similar residual market mechanisms. The adverse impacts of these types of actions have caused some insurance companies to withdraw from certain states, resulting in market dislocations for those insurance companies that remain. These market dislocations make it harder for the remaining companies to maintain their market presence and manage their exposures and profitability** . In addition, state tax laws that specifically impact the insurance industry, such as premium taxes, or more general tax laws, such as U. S. federal corporate taxes, could be enacted or changed and could have a material adverse impact on us. Other legislative actions could impact our business as well. For example, changes to state law regarding workers ~~'~~ **’** compensation insurance could impact the demand for our products, and the legalization of cannabis in certain states has, according to some studies, resulted in more automobile accidents. In addition, the potential repeal of the McCarran- Ferguson Act (which exempts insurance from most federal regulation) or a change to the federal health care system that eliminates or reduces the need for the medical coverage component of workers ~~'~~ **’** compensation insurance, could also significantly harm the insurance industry, including us **. State, federal and international regulators are also increasingly focused on imposing new reporting and other requirements, which in some cases can be conflicting, on a multitude of topics** . Changes in applicable legislation and regulations and future court and regulatory decisions may be more restrictive and may result in lower revenues **,** ~~and / or~~ higher costs of **compliance and higher risk of non-** compliance and, as a result, could materially and adversely affect our results of operations. See also “ Item 1 – Business – Regulation. ” We could be adversely affected if our controls designed to ensure compliance with guidelines, policies and legal and regulatory standards are not effective. Our business is highly dependent on our ability to engage on a real- time basis in a large number of insurance underwriting, claim processing, treasury and investment activities, many of which are highly complex and constantly evolving, including from a systems perspective. These activities **, particularly when new technologies such as artificial intelligence are incorporated,** often **require internal governance, guidelines and policies, and** are subject to ~~internal guidelines and policies, as well as~~ legal and regulatory standards. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system’ s objectives will be met. If our controls, or the controls of our joint ventures or recently acquired businesses, are not effective (including with respect to the prevention or identification of misconduct by employees or others with whom we do business), it could lead to financial loss, unanticipated risk exposure (including underwriting, credit and investment risk), errors in financial reporting, litigation, regulatory proceedings or damage to our reputation.