

## **ITEM 1A. RISK FACTORS**

Our business faces many risks and uncertainties. These risks and uncertainties could lead to events or circumstances that have a material adverse effect on our results of operations, equity, business and insurer financial strength and corporate debt ratings. We have described below material risks that we face. There may be additional risks that we do not yet know of or that we do not currently perceive to be material that may also affect our business. You should carefully consider and evaluate all of the information included in this report and any subsequent reports we may file with the SEC or make available to the public before investing in any securities we issue.

### **COVID-19 Risks**

**The COVID-19 pandemic and measures to mitigate the spread of the virus have resulted in significant risk across our enterprise, which have had, and may continue to have, material adverse impacts on our business, results of operations and financial condition, the extent of which cannot be determined with any certainty at this time.**

The COVID-19 outbreak, and actions seeking to mitigate the spread of the virus, accelerated in both breadth and scope through early 2020, with the World Health Organization declaring it a pandemic on March 11, 2020. The situation has continued to evolve exponentially with implicated exposures increasing given sustained uncertainties across the global marketplace. Both the extensiveness of the pandemic itself, as well as the measures taken to mitigate the virus' spread globally, are unprecedented and their effects continue to be pervasive. While vaccination efforts have begun, in many geographic locations, the virus continues to spread. Accordingly, it remains the case that nearly a year past the initial identification of the threat, all of the direct and indirect consequences and implications of COVID-19 and measures to mitigate its spread are not yet known and may not emerge for some time.

Risks presented by the ongoing effects of COVID-19 that are known at this time include the following:

#### *Broad economic impact*

The economic effect of the pandemic has been broad in nature and has significantly impacted business operations across all industries, including ours. Depressed economic conditions have led to, and may continue to lead to, decreased insured exposures causing us to experience declines in premium volume, especially for lines of business that are sensitive to rates of economic growth and those that are impacted by audit premium adjustments. Significant decreases in premium volume directly and adversely impacts our underwriting expense ratio. We recorded a decrease in our estimated audit premiums during the second quarter of 2020 impacting our net earned premium and if general economic conditions do not improve, our net written premiums and net earned premiums may be depressed, which may have a material impact on our business, results of operations and financial condition, the extent of which cannot be determined with any certainty at this time.

While our losses incurred during 2020 related to COVID-19 and measures to mitigate its spread represent our best estimate of our ultimate insurance losses resulting from events occurring during 2020 due to the pandemic and the consequent economic crisis, given the unprecedented nature of this event, a high level of uncertainty exists as to the potential impact on insurance losses from these events or other events that might occur in the future. The scope, duration and magnitude of the direct and indirect effects could continue to evolve, and could materially impact our ultimate loss estimate, including in lines of business where losses have already been incurred, as well as the potential for impacts in other lines unknown at this time. Continued spread of the virus, as well as new or extended shelter in place restrictions and full or partial business closures, could cause us to experience additional COVID-19 related catastrophe losses in future quarters, which could be material. For further discussion of risks associated with catastrophe losses, see the Risk Factor, "We are vulnerable to material losses from natural and man-made disasters."