

PROASSURANCE CORP  
Form 10-K  
February 21, 2019  
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United States  
Securities and Exchange Commission  
Washington, D.C. 20549  
FORM 10-K  
(Mark One)

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required]  
for the fiscal year ended December 31, 2018,

or  
 Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 001-16533

ProAssurance Corporation  
(Exact name of registrant as specified in its charter)

Delaware 63-1261433  
(State of (I.R.S. Employer  
incorporation or organization) Identification No.)

100 Brookwood Place, 35209  
Birmingham, AL  
(Address of principal executive offices) (Zip Code)  
(205) 877-4400

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company



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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2018 was \$1,865,211,215.

As of February 15, 2019, the registrant had outstanding approximately 53,640,178 shares of its common stock.

Documents incorporated by reference in this Form 10-K

(i) The definitive proxy statement for the 2019 Annual Meeting of the Stockholders of ProAssurance Corporation (File No. 001-16533) is incorporated by reference into Part III of this report.

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Glossary of Terms and Acronyms

When the following terms and acronyms appear in the text of this report, they have the meanings indicated below.

Term	Meaning
ACA	The Affordable Care Act
ALAE	Allocated loss adjustment expense
AOCI	Accumulated other comprehensive income (loss)
ASU	Accounting Standards Update
BEAT	Base erosion anti-abuse tax
Board	Board of Directors of ProAssurance Corporation
BOLI	Business owned life insurance
CIMA	Cayman Islands Monetary Authority
Council of Lloyd's	The governing body for Lloyd's of London
CODM	Chief Operating Decision Maker
COSO	Committee of Sponsoring Organizations of the Treadway Commission
Commutation	An agreement between a ceding insurer and the reinsurer that provides for the valuation, payment, and complete discharge of all obligations between the parties under a particular reinsurance contract
DDR	Death, disability and retirement
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act
DPAC	Deferred policy acquisition costs
Eastern Re	Eastern Re, LTD, S.P.C.
EBUB	Earned but unbilled premium
EEA	European Economic Area
ERM	Enterprise Risk Management
FAL	Funds at Lloyd's
FASB	Financial Accounting Standards Board
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FIO	Federal Insurance Office
FNMA	Federal National Mortgage Association
GAAP	Generally accepted accounting principles in the United States of America
GDPR	General Data Protection Regulation
GILTI	Global intangible low-taxed income
GNMA	Government National Mortgage Association
HCPL	Healthcare professional liability
IBNR	Incurred but not reported
Inova Re	Inova Re, LTD, S.P.C.
IRS	Internal Revenue Service
LAE	Loss adjustment expense
LIBOR	London Interbank Offered Rate
LLC	Limited liability company
Lloyd's	Lloyd's of London market
LP	Limited partnership
LPT	Loss portfolio transfer
Medical technology liability	Medical technology and life sciences products liability
Model Holding Co. Law	Model Insurance and Holding Company System Regulatory Act and Regulation



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Term	Meaning
NAIC	National Association of Insurance Commissioners
NAV	Net asset value
NFIP	National Flood Insurance Program
NOL	Net operating loss
NRSRO	Nationally recognized statistical rating organization
NYDFS	New York Department of Financial Services
NYSE	New York Stock Exchange
OCI	Other comprehensive income (loss)
ORSA	Risk Management and Own Risk and Solvency Assessment Model Act
OTTI	Other-than-temporary impairment
PCAOB	Public Company Accounting Oversight Board
PICA	Podiatry Insurance Company of America
ProAssurance Plan	Non-qualified deferred compensation plan
ProAssurance Savings Plan	Defined contribution savings and retirement plan
Revolving Credit Agreement	ProAssurance's \$250 million revolving credit agreement
ROE	Return on equity
SAB	Staff Accounting Bulletin, which reflects the SEC staff's views regarding accounting-related disclosure practices
SAP	Statutory accounting principles
SEC	Securities and Exchange Commission
SPA	Special Purpose Arrangement
SPC	Segregated portfolio cell
Specialty P&C Syndicate 1729	Specialty Property and Casualty Lloyd's of London Syndicate 1729
Syndicate 6131	Lloyd's of London Syndicate 6131, a Special Purpose Arrangement with Lloyd's of London Syndicate 1729
Syndicate Credit Agreement	Unconditional revolving credit agreement with the Premium Trust Fund of Syndicate 1729
TCJA	Tax Cuts and Jobs Act H.R.1 of 2017
TRIA	Federal Terrorism Risk Insurance Act
U.K.	United Kingdom of Great Britain and Northern Ireland
ULAE	Unallocated loss adjustment expense
VIE	Variable interest entity

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### General Information

Throughout this report, references to ProAssurance, "we," "us," "our" or the "Company" refer to ProAssurance Corporation and its consolidated subsidiaries. Because ProAssurance is an insurance holding company and certain terms and phrases common to the insurance industry are used in this report that carry special and specific meanings, we encourage you to read the Glossary of Selected Insurance and Related Financial Terms posted on our website on the Investor Relations page under Other Information ([www.proassurance.com/glossary](http://www.proassurance.com/glossary)).

### Caution Regarding Forward-Looking Statements

Any statements in this Form 10-K that are not historical facts are specifically identified as forward-looking statements. These statements are based upon our estimates and anticipation of future events and are subject to significant risks, assumptions and uncertainties that could cause actual results to vary materially from the expected results described in the forward-looking statements. Forward-looking statements are identified by words such as, but not limited to, "anticipate," "believe," "estimate," "expect," "hope," "hopeful," "intend," "likely," "may," "optimistic," "possible," "potential," "preliminary," "project," "should," "will" and other analogous expressions. There are numerous factors that could cause our actual results to differ materially from those in the forward-looking statements. Thus, sentences and phrases that we use to convey our view of future events and trends are expressly designated as forward-looking statements as are sections of this Form 10-K that are identified as giving our outlook on future business.

Forward-looking statements relating to our business include among other things: statements concerning future liquidity and capital requirements, investment valuation and performance, return on equity, financial ratios, net income, premiums, losses and loss reserve, premium rates and retention of current business, competition and market conditions, the expansion of product lines, the development or acquisition of business in new geographical areas, the availability of acceptable reinsurance, actions by regulators and rating agencies, court actions, legislative actions, payment or performance of obligations under indebtedness, payment of dividends and other matters.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following factors that could affect the actual outcome of future events:

changes in general economic conditions, including the impact of inflation or deflation and unemployment;  
our ability to maintain our dividend payments;

regulatory, legislative and judicial actions or decisions that could affect our business plans or operations, including the impact of Brexit;

the enactment or repeal of tort reforms;

formation or dissolution of state-sponsored insurance entities providing coverages now offered by ProAssurance which could remove or add sizable numbers of insureds from or to the private insurance market;

changes in the interest and tax rate environment;

resolution of uncertain tax matters and changes in tax laws, including the impact of the TCJA;

changes in laws or government regulations regarding financial markets or market activity that may affect our business;

changes in the ability of the U.S. government to meet its obligations that may affect the U.S. economy and our business;

performance of financial markets affecting the fair value of our investments or making it difficult to determine the value of our investments;

changes in requirements or accounting policies and practices that may be adopted by our regulatory agencies, the FASB, the SEC, the PCAOB or the NYSE that may affect our business;

changes in laws or government regulations affecting the financial services industry, the property and casualty insurance industry or particular insurance lines underwritten by our subsidiaries;

the effect on our insureds, particularly the insurance needs of our insureds, and our loss costs, of changes in the healthcare delivery system and/or changes in the U.S. political climate that may affect healthcare policy or our business;

consolidation of our insureds into or under larger entities which may be insured by competitors, or may not have a risk profile that meets our underwriting criteria or which may not use external providers for insuring or otherwise managing substantial portions of their liability risk;



uncertainties inherent in the estimate of our loss and loss adjustment expense reserve and reinsurance recoverable;  
changes in the availability, cost, quality or collectability of insurance/reinsurance;

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the results of litigation, including pre- or post-trial motions, trials and/or appeals we undertake;  
effects on our claims costs from mass tort litigation that are different from that anticipated by us;  
allegations of bad faith which may arise from our handling of any particular claim, including failure to settle;  
loss or consolidation of independent agents, agencies, brokers or brokerage firms;  
changes in our organization, compensation and benefit plans;  
changes in the business or competitive environment may limit the effectiveness of our business strategy and impact our revenues;  
our ability to retain and recruit senior management;  
the availability, integrity and security of our technology infrastructure or that of our third-party providers of technology infrastructure, including any susceptibility to cyber-attacks which might result in a loss of information or operating capability;  
the impact of a catastrophic event, as it relates to both our operations and our insured risks;  
the impact of acts of terrorism and acts of war;  
the effects of terrorism-related insurance legislation and laws;  
guaranty funds and other state assessments;  
our ability to achieve continued growth through expansion into new markets or through acquisitions or business combinations;  
changes to the ratings assigned by rating agencies to our insurance subsidiaries, individually or as a group;  
provisions in our charter documents, Delaware law and state insurance laws may impede attempts to replace or remove management or may impede a takeover;  
state insurance restrictions may prohibit assets held by our insurance subsidiaries, including cash and investment securities, from being used for general corporate purposes;  
taxing authorities can take exception to our tax positions and cause us to incur significant amounts of legal and accounting costs and, if our defense is not successful, additional tax costs, including interest and penalties; and expected benefits from completed and proposed acquisitions may not be achieved or may be delayed longer than expected due to business disruption; loss of customers, employees or key agents; increased operating costs or inability to achieve cost savings; and assumption of greater than expected liabilities, among other reasons.  
Additional risks, assumptions and uncertainties that could arise from our membership in the Lloyd's market and our participation in Lloyd's Syndicates include, but are not limited to, the following:  
members of Lloyd's are subject to levies by the Council of Lloyd's based on a percentage of the member's underwriting capacity, currently a maximum of 3%, but can be increased by Lloyd's;  
Syndicate operating results can be affected by decisions made by the Council of Lloyd's which the management of Syndicate 1729 and Syndicate 6131 have little ability to control, such as a decision to not approve the business plan of Syndicate 1729 or Syndicate 6131, or a decision to increase the capital required to continue operations, and by our obligation to pay levies to Lloyd's;  
Lloyd's insurance and reinsurance relationships and distribution channels could be disrupted or Lloyd's trading licenses could be revoked, making it more difficult for a Lloyd's Syndicate to distribute and market its products;  
rating agencies could downgrade their ratings of Lloyd's as a whole; and  
Syndicate 1729 and Syndicate 6131 operations are dependent on a small, specialized management team and the loss of their services could adversely affect the Syndicate's business. The inability to identify, hire and retain other highly qualified personnel in the future could adversely affect the quality and profitability of Syndicate 1729's or Syndicate 6131's business.  
Our results may differ materially from those we expect and discuss in any forward-looking statements. The principal risk factors that may cause these differences are described in "Item 1A, Risk Factors" in this report.  
We caution readers not to place undue reliance on any such forward-looking statements, which are based upon conditions existing only as of the date made, and advise readers that these factors could affect our financial performance and could cause actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. Except as required by law or regulations, we do not undertake and specifically decline any obligation to publicly release the result of any revisions that may be made to

any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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PART I

ITEM 1. BUSINESS

Overview

ProAssurance Corporation is a holding company for property and casualty insurance companies. For the year ended December 31, 2018, our net premiums written totaled \$835 million, and at December 31, 2018 we had total assets of \$4.6 billion and \$1.5 billion of shareholders' equity.

Our Mission

We exist to Protect Others

Our Vision

We will be the best in the world at understanding and providing solutions for the risks our customers encounter as healers, innovators, employers and professionals. Through an integrated family of specialty companies, products and services, we will be a trusted partner enabling those we serve to focus on their vital work. As the employer of choice, we embrace every day as a singular opportunity to reach for extraordinary outcomes, build and deepen superior relationships, and accomplish our mission with infectious enthusiasm and unbending integrity.

Our wholly owned insurance subsidiaries provide professional liability insurance for healthcare professionals and facilities, professional liability insurance for attorneys, liability insurance for medical technology and life sciences risks and workers' compensation insurance. We are also the majority capital provider for Syndicate 1729 which writes a range of property and casualty insurance and reinsurance lines. In addition, we are the sole (100%) capital provider of a SPA, Syndicate 6131, which began writing business effective January 1, 2018 and focuses on contingency and specialty property business.

Our executive offices are located at 100 Brookwood Place, Birmingham, Alabama 35209 and our telephone number is (205) 877-4400. Our stock trades on the NYSE under the symbol "PRA." Our website is [www.proassurance.com](http://www.proassurance.com), and we maintain a dedicated Investor Relations section on that website ([investor.proassurance.com](http://investor.proassurance.com)) to provide specialized resources for investors and others seeking to learn more about us.

As part of our disclosure through the Investor Relations section of our website, we publish our annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K and all other public SEC filings as soon as reasonably practicable after the report is electronically filed with, or furnished to, the SEC. These SEC filings can be found on our website at [investor.proassurance.com/Docs](http://investor.proassurance.com/Docs). This section also includes information regarding stock trading by corporate insiders by providing access to SEC Forms 3, 4 and 5 when they are filed with the SEC. In addition to federal filings on our website, we make available other documents that provide important additional information about our financial condition and operations. Documents available on our website include the financial statements we file with state regulators (compiled under SAP as required by regulation), news releases that we issue, a listing of our investment holdings and certain investor presentations. The Governance section of our website provides copies of the charters for our governing committees and many of our governing policies. Printed copies of these documents may be obtained from our Investor Relations department, either by mail at P.O. Box 590009, Birmingham, Alabama 35259-0009, or by telephone at (205) 877-4400 or (800) 282-6242.

Our History

We were incorporated in Delaware in 2001 as the successor to Medical Assurance, Inc. in conjunction with its merger with Professionals Group, Inc. ProAssurance has a history of growth through acquisitions; the most significant and recent of which was the acquisition of Eastern Insurance Holdings, Inc., on January 1, 2014.

We provided the majority of the capital for Syndicate 1729 in November 2013, and Syndicate 1729 began active operations effective January 1, 2014. We provided 100% of the capital for a SPA, Syndicate 6131, in December 2017, and Syndicate 6131 began writing business effective January 1, 2018.

Our Strategy

Our main business objective is to generate attractive total return for our shareholders. The basic components of our strategy for achieving this objective are as follows:

• Provide specialized healthcare-centric expertise to meet evolving demands in the healthcare marketplace. Through our focus on healthcare, we provide traditional liability insurance products to healthcare providers. We also leverage our reach, expertise and financial strength to provide innovative and customized products to meet the risk management

needs of larger healthcare organizations or groups.

• Provide superior workers' compensation products and services. We provide workers' compensation products and services that focus on increasing an organization's productivity while reducing costs. We do this by providing

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innovative programs and solutions that address the specific needs of our customers and return injured workers to wellness.

Provide superior customer service. Our mission statement, "We exist to Protect Others," goes hand-in-hand with our corporate brand promise, "Treated Fairly." Our employees demonstrate our core values of integrity, leadership, relationships and enthusiasm every day and are focused on meeting the needs of our customers.

Effectively manage capital. We carefully monitor use of our capital and consider various options for capital deployment, such as business expansion by our existing subsidiaries, opportunities that arise for mergers or acquisitions, share repurchases and payment of dividends.

Pursue profitable underwriting opportunities. We emphasize profitability, not market share. Key elements of our approach are prudent risk selection using established underwriting guidelines, appropriate pricing, and adjusting our business mix as appropriate to effectively utilize capital and achieve market synergies.

Emphasize risk management. We actively manage our enterprise risk by maintaining strong internal controls. We also emphasize the importance of risk management to our insureds and offer them training in the use of risk reduction tools and techniques.

Manage claims effectively. Our experienced claims teams have industry and insurance expertise that, with our extensive local knowledge, allows us to resolve claims in an effective manner, considering the circumstances of each claim. When practicable, we utilize formalized claims management processes and protocols as a means of reducing claim costs.

Maintain a conservative investment strategy. We believe that we follow a conservative investment strategy designed to emphasize the preservation of our capital and provide adequate liquidity for the prompt payment of claims. Our investment portfolio consists primarily of investment-grade, fixed-maturity securities of short-to medium-term duration.

Maintain financial stability. We are committed to maintaining financial strength and adequate capital.

### Organization and Segment Information

During the third quarter of 2018, we altered our internal management reporting structure and the financial results evaluated by our CODM; therefore, we changed our operating segments to align with how our CODM currently oversees the business, allocates resources and evaluates operating performance. As a result of the segment reorganization, we added an operating and reportable segment: Segregated Portfolio Cell Reinsurance.

We operate through multiple insurance organizations and report our operating results in five segments, as follows: Specialty P&C - This segment includes our professional liability business and medical technology liability business. Professional liability insurance is primarily offered to healthcare providers and institutions and to attorneys and their firms. Medical technology liability insurance is offered to medical technology and life sciences companies that manufacture or distribute products including entities conducting human clinical trials. The underwriting results of SPCs that assume healthcare professional liability business were previously reported in this segment and are now reported in our Segregated Portfolio Cell Reinsurance segment.

Workers' Compensation Insurance - This segment includes our workers' compensation insurance business which is provided primarily to employers with 1,000 or fewer employees. Our workers' compensation products include guaranteed cost policies, policyholder dividend policies, retrospectively-rated policies, deductible policies and alternative market solutions. The underwriting results of SPCs that assume workers' compensation business were previously reported in this segment and are now reported in our Segregated Portfolio Cell Reinsurance segment.

Segregated Portfolio Cell Reinsurance - This segment reflects the operating results (underwriting profit or loss, plus investment results) of SPCs at Eastern Re and Inova Re, our Cayman Islands SPC operations. The SPCs assume workers' compensation insurance, healthcare professional liability insurance or a combination of the two from either our Workers' Compensation Insurance or Specialty P&C segments.

Lloyd's Syndicates - This segment includes the operating results from our participation in Lloyd's of London Syndicates 1729 and 6131. Syndicate 6131 is a SPA that began writing business effective January 1, 2018. The results of this segment are normally reported on a quarter delay, except when information is available that is material to the current period. Syndicate 1729 underwrites risks over a wide range of property and casualty insurance and reinsurance lines in both the U.S. and international markets while Syndicate 6131 focuses on contingency and specialty property

business, also within the U.S. and international markets.

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Corporate - This segment includes our investment operations, interest expense and U.S. income taxes, all of which are managed at the corporate level with the exception of investment assets solely allocated to either SPC operations or Lloyd's Syndicate operations. The results of investment assets solely allocated to SPC operations were previously reported in this segment and are now reported in our Segregated Portfolio Cell Reinsurance segment. This segment also includes non-premium revenues generated outside of our insurance entities and corporate expenses.

**Gross Premiums Written**

Gross premiums written for the years ended December 31, 2018, 2017 and 2016 were comprised as follows:

(\$ in thousands)	Year Ended December 31					
	2018		2017		2016	
Specialty P&C <sup>(1)</sup>	\$577,196	60 %	\$549,323	63 %	\$535,725	64 %
Workers' Compensation Insurance	293,230	31 %	264,048	30 %	248,875	30 %
Segregated Portfolio Cell Reinsurance <sup>(2)</sup>	85,086	9 %	77,675	9 %	72,221	9 %
Lloyd's Syndicates <sup>(3)</sup>	88,746	9 %	70,224	8 %	65,157	8 %
Inter-segment revenues <sup>(2)(3)</sup>	(86,947 )	(9 %)	(86,394 )	(10 %)	(86,964 )	(11 %)
<b>Total</b>	<b>\$957,311</b>	<b>100 %</b>	<b>\$874,876</b>	<b>100 %</b>	<b>\$835,014</b>	<b>100 %</b>

<sup>(1)</sup> Primarily comprised of one-year term policies, but includes premium related to policies with a two-year term of \$22.2 million in 2018, \$27.4 million in 2017 and \$21.9 million in 2016.

<sup>(2)</sup> Premiums in our Segregated Portfolio Cell Reinsurance segment are 100% assumed from either our Workers' Compensation Insurance or Specialty P&C segments. We eliminate this inter-segment revenue.

Our written premium includes our participation in Syndicates 1729 and 6131, including casualty premium assumed by Syndicate 1729 from our Specialty P&C segment through a quota share reinsurance agreement. Syndicate 1729

<sup>(3)</sup> did not renew the quota share reinsurance agreement with our Specialty P&C segment on January 1, 2018; however, gross premiums written for the year ended December 31, 2018 included one quarter of cession due to the previously mentioned quarter delay. We eliminate this inter-segment revenue.

Because our investments and other assets are predominately managed at the Corporate level we do not allocate assets to segments for financial reporting purposes. Additional detailed information regarding premium by individual product type within each of our insurance segments is provided in Item 7, Management's Discussion and Analysis, in the Results of Operations section, under the headings "Premiums Written."

Our insurance exposures are primarily within the U.S. As a result of our participation in Lloyd's Syndicates 1729 and 6131, we had net written premium of \$29.3 million in 2018, \$21.3 million in 2017 and \$12.2 million in 2016 associated with insurance exposures outside of the U.S.

**Specialty Property and Casualty Segment**

Our Specialty P&C segment focuses on professional liability insurance and medical technology liability insurance. Professional liability insurance is primarily offered to healthcare providers and institutions and, to a lesser extent, to attorneys and their firms. Medical technology liability insurance is offered to medical technology and life sciences companies that manufacture or distribute products including entities conducting human clinical trials.

**Professional Liability Insurance**

Our professional liability business is primarily focused on providing professional liability insurance to healthcare providers. We target the full spectrum of the HCPL market, covering multiple categories of healthcare professionals and healthcare entities, including hospitals and other healthcare facilities. While most of our business is written in the standard market, we also offer professional liability insurance on an excess and surplus lines basis; and we offer alternative risk and self-insurance products on a custom basis.

Our custom alternative risk solutions include complex risk valuation solutions and a loss portfolio transfer program for large healthcare entities who, most commonly, are exiting a line of business, changing an insurance approach or simply preferring to transfer risk. Our custom alternative risk solutions also include a turnkey captive solution whereby all or a portion of the healthcare premium written is ceded to certain SPCs of our wholly owned Cayman Islands reinsurance subsidiaries, Eastern Re and Inova Re, which are reported in our Segregated Portfolio Cell Reinsurance segment. The portion not ceded to the SPCs is retained within our Specialty P&C segment. Our Specialty P&C segment does not currently participate in the cells that assume HCPL premium; therefore, the segment retains no



underwriting profit or loss. Total alternative market gross premiums written in this segment were approximately \$5.8 million and \$4.3 million during 2018 and 2017, respectively.

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We utilize independent agencies and brokers as well as an internal sales force to write our HCPL business. For the year ended December 31, 2018, approximately 61% of our HCPL gross premiums written were produced through independent insurance agencies or brokers. The agencies and brokers we use typically sell through healthcare insurance specialists who are able to convey the factors that differentiate our professional liability insurance products. In 2018, our ten largest agents or brokers produced approximately 23% of our HCPL premium; individually, no one agency or broker produced more than 10% of our HCPL premium.

In marketing our professional liability products we emphasize our financial strength, product flexibility and excellent claims, underwriting and risk resource services. We market our insurance products through our direct sales force and through our agents as well as direct mailings and advertising in industry-related publications. We also are involved in professional societies and related organizations and support legislation that will have a positive effect on healthcare and legal liability issues. We maintain regional underwriting centers which permit us to consistently provide a high level of customer service to both small and large accounts.

We maintain claim processing centers where our internal claims personnel investigate and monitor the processing of our professional liability claims. We engage experienced, independent litigation attorneys in each venue to assist with the claims process as we believe this practice aids us in providing a defense that is aggressive, effective and cost-efficient. We evaluate the merit of each claim and determine the appropriate strategy for resolution of the claim, either seeking a reasonable good faith settlement appropriate for the circumstances of the claim or aggressively defending the claim. As part of the evaluation and preparation process for HCPL claims, we meet regularly with medical advisory committees in our key markets to examine claims, attempt to identify potentially troubling practice patterns and make recommendations to our staff.

We also provide professional liability coverage to attorneys in select areas of practice; and this is a less significant portion of our business, accounting for approximately 3% of our 2018 gross premiums written. Our legal professional liability business offers errors and omissions liability insurance policies for law firms engaged in the private practice of law. The program generally insures solo practitioner and smaller firms; over 97% of our insured attorneys are members of a firm employing five or fewer attorneys. The areas of practice of our insured firms include plaintiff, real estate, criminal defense and general corporate law. The program does not insure firms practicing in areas that are considered high hazard such as securities and intellectual property law.

Underwriting decisions for our legal professional liability coverage consider the firm's areas of practice, the experience of the attorneys and the management controls and loss mitigation practices of the applicant. Our legal professional liability line of business operates in 32 states written through independent brokers. Brokers are appointed and must specialize in legal professional liability. The territory of appointed brokers is restricted to a state or a small number of states in order to maintain a level of exclusivity.

### Medical Technology and Life Sciences Insurance

Our medical technology liability business offers products-completed operations liability as well as errors and omissions liability insurance policies for medical technology and life sciences companies. These companies manufacture or distribute products that are almost all regulated by the U.S. Food and Drug Administration or similar regulatory authorities in foreign jurisdictions. Products insured include imaging and non-invasive diagnostic medical devices, orthopedic implants, pharmaceuticals, clinical lab instruments, medical instruments and surgical supplies, dental products, and animal pharmaceuticals and medical devices. We also provide coverage for sponsors of clinical trials and contract manufacturers.

Underwriting decisions for our medical technology liability coverages consider the type of risk, the amount of coverage being sought, the expertise and experience of the applicant and the expected volume of product sales. Close to 100% of our medical technology liability business is written through independent brokers. In 2018, our top ten largest brokers generated approximately 49% of our medical technology liability gross written premium, with no one broker representing more than 10%. We do not appoint agents for our medical technology liability business. We strongly defend our medical technology liability claims, with a negotiated settlement being the most frequent means of resolution.

### Workers' Compensation Insurance Segment

Our Workers' Compensation Insurance segment offers workers' compensation products in the Mid-Atlantic, Southeast, Midwest, Gulf South and New England regions of the continental U.S. Our workers' compensation business consists of two major business activities:

Traditional workers' compensation insurance coverages provided to employers, generally those with 1,000 employees or less. Types of policies offered include guaranteed cost policies, policyholder dividend policies, retrospectively-rated policies and deductible policies.

Alternative market workers' compensation solutions provided to individual companies, groups and associations whereby the workers' compensation premium written is 100% ceded to either the SPCs at Eastern Re or Inova Re, which are reported in our Segregated Portfolio Cell Reinsurance segment, or, to a limited extent, unaffiliated

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captive insurers. Alternative market products include program design, fronting, claims administration, risk management, SPC rental, asset management and SPC management services. Of our total alternative market premiums written, approximately 95% in 2018 and 92% in 2017 was ceded to the SPCs operated through Eastern Re or Inova Re.

All of our workers' compensation products are distributed through a group of appointed independent agents. We utilize an individual account underwriting strategy for our workers' compensation business that is focused on selecting quality accounts. Our goal is to underwrite a diverse book of business with respect to risk classification, hazard level and geographic location. We target accounts with strong return to wellness and safety programs in primarily low to middle hazard levels such as clerical offices, light manufacturing, healthcare, auto dealers and service industries and maintain a strong risk management unit in order to better serve our customers' needs. During 2017, we established our Eastern Specialty Risk unit, which focuses on higher hazard risks in select industries. New business written totaled \$2.7 million and \$4.6 million in this unit in 2018 and 2017, respectively.

We actively seek to reduce our workers' compensation loss costs by placing a concentrated focus on returning injured workers to wellness as quickly as possible. We emphasize early intervention and aggressive disability management, utilizing in-house and third-party specialists for case management, including medical cost management. Strategic vendor relationships have been established to reduce medical claim costs and include preferred provider, physical therapy, prescription drug and catastrophic medical services.

### Segregated Portfolio Cell Reinsurance Segment

Our Segregated Portfolio Cell Reinsurance segment reflects the operating results (underwriting profit or loss, plus investment results) of SPCs at Eastern Re and Inova Re, our Cayman Islands SPC operations. The SPCs assume workers' compensation insurance, healthcare professional liability insurance or a combination of the two from the Workers' Compensation Insurance and Specialty P&C segments. Each SPC is owned, fully or in part, by an agency, group or association and the operating results of the SPCs are due to the participants of that cell. The SPC is operated solely for the benefit of cell participants of that particular cell, and the pool of assets of one SPC are statutorily protected from the creditors of any other SPC. The underwriting results and investment income of the SPCs are shared with the cell participants in accordance with the terms of the cell agreements. We participate to a varying degree in the results of certain SPCs and, for the SPCs in which we participate, our participation interest is as low as 25% and as high as 85% as of December 31, 2018. In addition, the Segregated Portfolio Cell Reinsurance segment includes the SPCs' investment results as the investments are solely for the benefit of the cell participants and investment results due to external cell participants are reflected in the SPC dividend expense. The segment operating results reflect our share of the underwriting and investment results of the SPCs in which we participate.

During the first quarter of 2018, we restructured our Cayman Islands SPC operations. Beginning in 2018, all new and renewing alternative market business previously ceded to the SPCs at Eastern Re, with the exception of one program, is now ceded to SPCs operated by a newly formed wholly owned Cayman Islands subsidiary, Inova Re. As part of the restructuring, all SPCs previously operated by Eastern Re, with the exception of one program, ceased assuming new and renewing business on or after January 1, 2018. The external cell participants' cumulative undistributed earnings and the results of all SPCs for the current period due to external cell participants continue to be reported as SPC dividends payable and SPC dividend expense, respectively.

The marketing and distribution of alternative market policies are the same as that of the segment from which the policy was assumed: Workers' Compensation Insurance or Specialty P&C segments.

### Lloyd's Syndicates Segment

Our Lloyd's Syndicates segment includes operating results from our participation in Syndicates 1729 and 6131. The results of this segment are normally reported on a quarter delay, except when information is available that is material to the current period. Furthermore, investment results associated with investment assets solely allocated to Lloyd's Syndicate operations and certain U.S. paid administrative expenses are reported concurrently as that information is available on an earlier time frame. We have a total capital commitment to support Syndicate 1729 and Syndicate 6131 through 2019 of up to \$200 million, referred to as FAL. The Board, through a non-binding resolution, extended this commitment through 2022. For the 2019 underwriting year, our FAL was comprised of investment securities deposited with Lloyd's which at December 31, 2018 had a fair value of approximately \$142.7 million.

Lloyd's Syndicate 1729

We are the majority capital provider to Syndicate 1729 with the remaining capital provided by unrelated third parties, including private names and other corporate members. For the 2019 underwriting year, we slightly decreased our participation in the operating results of Syndicate 1729 from 62% to 61%. Syndicate 1729 covers a range of property and casualty insurance and reinsurance lines, primarily for risks within the U.S. as well as international markets, and for the 2019 underwriting year

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has a maximum underwriting capacity of £128 million (approximately \$163.3 million at December 31, 2018), of which £78 million (approximately \$99.5 million at December 31, 2018) is our allocated underwriting capacity as a corporate member.

### Lloyd's Syndicate 6131

Beginning in the second quarter of 2018, our Lloyd's Syndicates segment includes the operating results of a SPA, Syndicate 6131, which began writing business effective January 1, 2018. A Lloyd's SPA is only allowed to underwrite one quota share reinsurance contract with another Lloyd's syndicate, which in this arrangement is Syndicate 1729. We are the sole (100%) capital provider to Syndicate 6131 which focuses on contingency and specialty property business, primarily for risks within the U.S. as well as international markets. For the 2019 underwriting year, Syndicate 6131 has a maximum underwriting capacity of £12 million (approximately \$15.3 million at December 31, 2018).

Our Lloyd's Syndicates segment products are distributed principally through retail brokers and coverholders (i.e., only those authorized by our retail brokers to enter into a contract but only in accordance with specified terms), which consist primarily of premium written through open-market channels and delegated underwriting authority arrangements. Our Lloyd's Syndicates write business in the Lloyd's marketplace and have access to international markets across the world.

### Corporate Segment

Our Corporate segment includes our investment operations, other than those reported in our Segregated Portfolio Cell Reinsurance and Lloyd's Syndicates segments, interest expense and U.S. income taxes. The segment also includes non-premium revenues generated outside of our insurance entities and corporate expenses. We apply a consistent management strategy to the entire investment portfolio managed at the corporate level. Accordingly, we report those investment results and net realized investment gains and losses within our Corporate segment. Our overall investment strategy is to maximize current income from our investment portfolio while maintaining safety, liquidity, duration targets and portfolio diversification. The portfolio is generally managed by professional third-party asset managers whose results we monitor and evaluate. The asset managers typically have the authority to make investment decisions within the asset classes they are responsible for managing, subject to our investment policy and oversight, including a requirement that available-for-sale securities in a loss position cannot be sold without specific authorization from us. See Note 3 of the Notes to Consolidated Financial Statements for more information on our investments.

### Competition

The marketplace for all our lines of business is very competitive. Within the U.S. our competitors are primarily domestic insurance companies and range from large national insurers whose financial strength and resources may be greater than ours to smaller insurance entities that concentrate on a single state and as a result have an extensive knowledge of the local markets. Additionally, there are many providers, domestic and international, of alternative risk management solutions. Syndicate 1729 and Syndicate 6131, which are based in the U.K., face significant competition from other Lloyd's syndicates as well as other international and domestic insurance and reinsurance firms operating in the country of the insured. Competitive distinctions include pricing, size, name recognition, service quality, market commitment, market conditions, breadth and flexibility of coverage, method of sale, financial stability, ratings assigned by rating agencies and regulatory conditions.

The changing healthcare environment within the U.S. during the past few years is providing both increased competitive challenges and opportunities for our largest segment, the Specialty P&C segment. Many physicians now practice as employees of larger healthcare entities. Further, healthcare services are increasingly provided by professionals other than physicians and outside of a traditional hospital or clinic setting. Such trends are widely expected to continue. Larger healthcare entities have customer service and risk management needs that differ from the traditional solo or small physician groups. Larger entities are more likely to combine risks such as workers' compensation and professional liability when purchasing insurance and are also more likely to manage all or a part of their risk through alternative insurance mechanisms. We have addressed these issues by enhancing our existing hospital/physician insurance programs, expanding our coverage of healthcare providers other than physician or hospitals, expanding our coverages to include workers' compensation and product liability, and by enhancing our customer service capabilities, particularly with regard to the needs of larger accounts. We have also increased our focus on offering unique, joint or cooperative insurance programs that are attractive to larger healthcare entities.

The workers' compensation industry is highly competitive in the geographic markets in which we operate and price competition, including the leveraging of workers' compensation business by multi-line insurers, continues to impact our renewal retention rate and we expect the trend to continue in 2019. We believe our product offerings allow us to provide flexibility in offering workers' compensation solutions to our customers at a competitive price. In addition, we believe that our claims handling and risk management services are attractive to our customers and provide us with a competitive advantage even when our pricing is higher than our competitors.

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For all of our business, we recognize the importance of providing our products at competitive rates, but we do not price our products at rates that will not permit us to meet our profit targets. We base our rates on current loss projections, maintaining a long-term focus even when this approach reduces our top line growth. We believe that our size, reputation for effective claims management, unique customer service focus, multi-state presence and broad spectrum of coverages offered provides us with competitive advantages, even as the needs of our insureds change.

### Rating Agencies

Our claims paying ability is regularly evaluated and rated by three major rating agencies: A.M. Best, Fitch and Moody's. In developing their claims paying ratings, these agencies make an independent evaluation of an insurer's ability to meet its obligations to policyholders. See "Risk Factors" for a table presenting the claims paying ratings of our principal insurance operations.

Our ability to service current debt and potential debt is regularly evaluated and rated by four rating agencies: A.M. Best, S&P, Fitch and Moody's. These financial strength ratings reflect each agency's independent evaluation of our ability to meet our obligation to holders of our debt, if any. While financial strength ratings may be of greater interest to investors than our claims paying ratings, these ratings are not evaluations of our equity securities nor a recommendation to buy, hold or sell our equity securities.

### Insurance Regulatory Matters

We are subject to regulation under the insurance and insurance holding company statutes of various jurisdictions, including the domiciliary states of our insurance subsidiaries and other states in which our insurance subsidiaries do business. Our insurance subsidiaries are primarily domiciled in the U.S. Our states of domicile include Alabama, Illinois, Michigan, Pennsylvania and Vermont. Our foreign jurisdictions include our reinsurance operations based in the Cayman Islands, a territory of the U.K., and, through our participation in Lloyd's Syndicates, our insurance and reinsurance operations based in the U.K.

### United States

Our insurance subsidiaries are required to file detailed annual statements in their states of domicile, with the NAIC and, in some cases, with the state insurance regulators in each of the states in which they do business. The laws of the various states establish agencies with broad authority to regulate, among other things, licenses to transact business, premium rates for certain types of coverage, trade practices, agent licensing, policy forms, underwriting and claims practices, reserve adequacy, transactions with affiliates and insurer solvency. Such regulations may hamper our ability to meet operating or profitability goals, including preventing us from establishing premium rates for some classes of insureds that adequately reflect the level of risk assumed for those classes. Many states also regulate investment activities on the basis of quality, distribution and other quantitative criteria. States have also enacted legislation, typically based in whole or in part on NAIC model laws, which regulates insurance holding company systems, including acquisitions, the payment of dividends, the terms of affiliate transactions, enterprise risk and solvency management and other related matters.

Applicable state insurance laws, rather than federal bankruptcy laws, apply to the liquidation or reorganization of insurance companies.

Insurance companies are also subject to state and federal legislative and regulatory measures and judicial decisions. These could include new or updated definitions of risk exposure and limitations on business practices.

### Insurance Regulation Concerning Change or Acquisition of Control

The insurance regulatory codes in each of the domiciliary states of our operating subsidiaries contain provisions (subject to certain variations) to the effect that the acquisition of "control" of a domestic insurer or of any person that directly or indirectly controls a domestic insurer cannot be consummated without the prior approval of the domiciliary insurance regulator. In general, a presumption of "control" arises from the direct or indirect ownership, control or possession with the power to vote or possession of proxies with respect to 10% (5% in Alabama) or more of the voting securities of a domestic insurer or of a person that controls a domestic insurer. Because of these regulatory requirements, any party seeking to acquire control of ProAssurance or any other domestic insurance company, whether directly or indirectly, would usually be required to obtain such approvals.

In addition, certain state insurance laws contain provisions that require pre-acquisition notification to state agencies of a change in control of a non-domestic insurance company admitted in that state. While such pre-acquisition



notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease and desist order with respect to the non-domestic admitted insurers doing business in the state if certain conditions exist, such as undue market concentration.

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### Insurance Regulation Concerning Cybersecurity

In March 2017, the New York Cybersecurity Regulation took effect for financial institutions, insurers and other companies regulated by the NYDFS. The intent of the regulation is to encourage the protection of consumer information, as well as the technology systems of NYDFS regulated entities. We are currently compliant with the regulation according to the transition periods as defined in the NYDFS Cybersecurity Regulation.

In October 2017, the NAIC adopted the Insurance Data Security Model Law, which created rules for insurers, agents and other licensed entities covering data security and investigation and notification of breach. In May 2018, the European Union implemented the GDPR, designed to protect data privacy of individuals within the European Union and the EEA. We are compliant with the GDPR due to the global nature of our business, including a small amount of international activity in our Specialty P&C segment. In addition, managing agents of Lloyd's syndicates are required to ensure that they meet the requirements of the GDPR and any local data protection regulation based on territories in which they operate. Syndicate 1729 and Syndicate 6131, including their managing agent, are compliant with the GDPR.

Additionally, South Carolina enacted the South Carolina Department of Insurance Data Security Act effective January 1, 2019. California's Consumer Privacy Act of 2018 will go into effect January 1, 2020, and Michigan's Data Security Act will go into effect January 20, 2021. Ohio enacted the Data Protection Act which went into effect November 2, 2018. These regulations require an information security program based on an ongoing risk assessment, overseeing third-party service providers, investigating data breaches and notifying regulators of a cybersecurity event. The GDPR and the California Consumer Privacy Act of 2018 grant individuals the right to request that a company delete or de-identify their personal information. We expect other states, including our states of domicile, to either adopt the NAIC's Insurance Data Security Model Law or enact their own data security regulations. We do not expect compliance with the Insurance Data Security Model Law, the South Carolina Department of Insurance Data Security Act, the California Consumer Privacy Act, Michigan's Data Security Act and Ohio's Data Protection Act to have a material impact on our financial condition or results of operations, as they closely resemble the NYDFS Cybersecurity Regulation.

### Statutory Accounting and Reporting

Insurance companies are required to file detailed quarterly and annual reports with state insurance regulators in their state of domicile and each of the states in which they do business. Their business and accounts are subject to examination by such regulators at any time. The financial information in these reports is prepared in accordance with SAP. Insurance regulators periodically examine each insurer's adherence to SAP, financial condition and compliance with insurance department rules and regulations.

### Regulation of Dividends and Other Payments from Our Operating Subsidiaries

Our U.S. operating subsidiaries are subject to various state statutory and regulatory restrictions that limit the amount of dividends or distributions an insurance company may pay to its shareholders, including our insurance holding company, without prior regulatory approval. Generally, dividends may be paid only out of unassigned earned surplus. In every case, surplus subsequent to the payment of any dividends must be reasonable in relation to an insurance company's outstanding liabilities and must be adequate to meet its financial needs.

State insurance holding company regulations generally require domestic insurers to obtain prior approval of extraordinary dividends. Insurance holding company regulations that govern our principal operating subsidiaries deem a dividend as extraordinary if the combined dividends and distributions to the parent holding company in any twelve-month period exceed prescribed thresholds. Such thresholds are statutorily prescribed by the state of domicile and currently are based on either net income for the prior fiscal year (reduced by realized capital gains in certain domiciliary states) or a percentage of unassigned surplus at the end of the prior fiscal year, depending upon the wording of the statute.

If insurance regulators determine that payment of a dividend or any other payments within a holding company group, (such as payments under a tax-sharing agreement or payments for employee or other services) would, because of the financial condition of the paying insurance company or otherwise, be a detriment to such insurance company's policyholders, the regulators may prohibit such payments that would otherwise be permitted.

### Risk-Based Capital and Risk Assessment

In order to enhance the regulation of insurer solvency, each state of domicile in accordance with an NAIC-defined formula specifies risk-based capital requirements for property and casualty insurance companies. At December 31, 2018, all of ProAssurance's insurance subsidiaries substantially exceeded the minimum required risk-based capital levels.

In late 2010, the NAIC adopted the Model Holding Co. Law. The Model Holding Co. Law, as compared to previous NAIC guidance, increases regulatory oversight of and reporting by insurance holding companies, including reporting related to

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non-insurance entities, and requires reporting of risks affecting the holding company group. Additionally, in 2012 the NAIC adopted ORSA, which requires insurers to maintain a framework for identifying, assessing, monitoring, managing and reporting on the “material and relevant risks” associated with the insurer's (or insurance group's) current and future business plans. ORSA requires larger insurers, generally those with annual written premium volume greater than \$1 billion as a group or \$500 million as an individual insurer, to file an internal assessment of solvency with insurance regulators annually beginning in 2015. Although no specific capital adequacy standard is currently articulated in ORSA, it is possible that such standard will be developed over time. The Model Holding Co. Law and ORSA will be binding only if adopted by state legislatures and/or state insurance regulatory authorities and actual regulations adopted by any state may differ from that adopted by the NAIC. As of December 31, 2018, all states have adopted the Model Holding Co. Law and 49 states have adopted ORSA. ProAssurance was not required to file an internal assessment of solvency under the ORSA criteria in 2018.

Also, the NAIC subsequently revised the Model Holding Co. Law to include provisions which allow regulatory supervision of the holding company group through supervisory colleges and which require reporting of risk and solvency assessments for the group. Certain states in which we operate adopted these revisions early and we began filing our risk and solvency assessment in 2014.

### Investment Regulation

Our operating subsidiaries are subject to state laws and regulations that require diversification of investment portfolios and that limit the amount of investments in certain investment categories. Failure to comply with these laws and regulations may cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require divestiture of investments. We monitor the practices used by our operating subsidiaries for compliance with applicable state investment regulations and take corrective measures when deficiencies are identified.

### Assessment Funds

Admitted insurance companies are required to be members of guaranty associations which administer state guaranty funds. To fund the payment of claims (up to prescribed limits) against insurance companies that become insolvent, these associations levy assessments on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the covered lines of business in that state. Maximum assessments permitted by law in any one year generally vary between 1% and 2% of annual premiums written by a member in that state, although state regulations may permit larger assessments if insolvency losses reach specified levels. Some states permit member insurers to recover assessments paid through surcharges on policyholders or through full or partial premium tax offsets, while other states permit recovery of assessments through the rate filing process. In recent years, participation in guaranty funds has not had a material effect on our results of operations.

Certain states in which we write workers' compensation insurance have established administrative and/or second injury funds that levy assessments against insurers that write business in their state. The assessments are generally based on insurer's proportionate share of premiums or losses in a particular state, and the assessment rate can vary from year to year.

### Shared Markets

State insurance regulations may force us to participate in mandatory property and casualty shared market mechanisms or pooling arrangements that provide certain insurance coverage to individuals or other entities that are otherwise unable to purchase such coverage in the commercial insurance marketplace. Our operating subsidiaries' participation in such shared markets or pooling mechanisms is not material to our business at this time.

### Federal Regulation

The Dodd-Frank Act was enacted in July 2010 and established additional regulatory oversight of financial institutions. To date, the Dodd-Frank Act has not materially affected our business. However, development of regulations is not complete, and there could yet be changes in the regulatory environment that affect the way we conduct our operations or the cost of compliance, or both.

One of the federal government bodies created by the Dodd-Frank Act was the FIO which in December 2013 released a proposal on insurance modernization and improvement of the system of insurance regulation in the U.S. Although the FIO is prohibited from directly regulating the business of insurance, it has authority to represent the U.S. in

international insurance matters and has limited power to preempt certain types of state insurance laws. The proposal advocates significantly greater federal involvement in insurance regulation and identifies necessary reforms by the states to preclude further consideration of direct federal regulation. While the proposal does not necessarily imply that the federal government will displace state regulation completely, it does recommend more of a hybrid approach to insurance regulation. In response to the FIO proposal, the NAIC and a number of state legislatures have considered or adopted legislative proposals that alter and, in many cases,

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increase the authority of state agencies to regulate insurance companies and insurance holding company systems. We cannot predict whether the proposals will be adopted or what impact, if any, subsequently enacted laws might have on our business, financial condition or results of operations.

In June 2017, the U.S. House of Representatives passed the Financial CHOICE Act, which amends or repeals certain regulations in the Dodd-Frank Act, specifically modifying provisions related to insurance regulation. Revisions include the consolidation of two conflicting federal insurance positions into a single position established to advocate for the U.S. insurance industry at domestic and international levels, while preserving the traditional state-based system of insurance regulation. In March 2018, this legislation was passed by the U.S. Senate and signed into law by the President of the U.S. in May 2018.

Although the potential impacts of the Dodd-Frank Act and potential amendments to the Dodd-Frank Act, such as the Financial CHOICE Act, on the U.S. insurance industry are not clear, our business could be affected by changes to the U.S. system of insurance regulation.

In June 2012, Congress passed the Biggert-Waters Bill, which provided for a five-year renewal of the NFIP and, among other things, authorized the Federal Emergency Management Agency to carry out initiatives to determine the capacity of private insurers, reinsurers, and financial markets to assume a greater portion of the flood risk exposure in the U.S. and to assess the capacity of the private reinsurance market to assume some of the program's risk. In August 2017, the President of the U.S. signed an executive order revoking the establishment of a federal flood risk management standard. In November 2017, the U.S. House of Representatives adopted a bill to reauthorize the NFIP for five years and implement several reforms, including provisions designed to spur additional private insurer involvement in covering flood risk, but the U.S. Senate has yet to vote on the measure. Due to the 2017 hurricane season, Congress adopted a short-term extension to fund the NFIP through January 2018, which lapsed on January 19, 2018; however, Congress subsequently extended the program through February 2018. Since then, the NFIP has received multiple short-term extensions and currently expires in May 2019. We cannot predict whether the proposals will be adopted or what impact, if any, subsequently enacted laws might have on our business, financial condition or results of operations.

U.S. Department of the Treasury Report

In February 2017, the President of the U.S. issued an executive order that calls for a comprehensive review of laws, treaties, regulations, policies and guidance regulating the U.S. financial system, and requires the Secretary of the Treasury to consult with the heads of the member agencies of the Financial Stability Oversight Council to identify any laws, regulations or requirements that inhibit federal regulation of the financial system in a manner consistent with the core principles identified in the executive order. The Secretary's report on asset management and insurance was issued in October 2017 and recommended activities-based evaluations of systemic risk in the insurance industry rather than an entity-based approach. The report also supported primary regulation of the U.S. insurance industry by the states rather than the federal government. We cannot predict whether any of the recommendations will ultimately become laws, regulations or other requirements applicable to our business.

U.S. Tax Legislation

On December 22, 2017, the President of the U.S. signed the TCJA into law. The TCJA includes significant changes to the U.S. corporate income tax system, including a reduction in the federal corporate rate from 35% to 21% beginning after December 31, 2017, changes to loss reserve discounting factors, limitations on the deductibility of interest expense and executive compensation, and modifications of the taxation of non-U.S. subsidiaries. See further discussion of the impact of the TCJA on our results of operations and financial position provided in Item 7, Management's Discussion and Analysis, in the Critical Accounting Estimates section under the heading "Taxes" or Note 6 of the Notes to Consolidated Financial Statements.

Terrorism Risk Insurance Act

TRIA, initially enacted in 2002 and reauthorized in 2007 and 2015, ensures the availability of insurance coverage for certain acts of terrorism, as defined in the legislation. The 2015 reauthorization extended the program through 2020.