ALLEGHANY CORP /DE
Form 10-K
February 20, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
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
For the transition period from to

Commission file number 1-9371

ALLEGHANY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**51-0283071**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1411 Broadway, 34th Floor	
New York, New York	**10018**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code:

212-752-1356

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $1.00 par value	**New York Stock Exchange**

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

Not applicable

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 every Interactive Data File required to be submitted 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 such files.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 Smaller reporting company Emerging growth company

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 126-2 of the Act).

Yes No

The aggregate market value of voting and non-voting common shares held by non-affiliates of the registrant as of June 30, 2018 (the last business day of the registrant s most recently completed second fiscal quarter) was approximately $8,340,051,394 based on the closing sale price of the registrant s common shares on the New York

Stock Exchange on that date.

As of February 11, 2019, 14,466,480 shares of the registrant s common stock, par value $1.00 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement relating to the Annual Meeting of Stockholders of Alleghany Corporation to be held on April 26, 2019 to be filed with the Securities and Exchange Commission pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

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ALLEGHANY CORPORATION

References in this Annual Report on Form 10-K for the year ended December 31, 2018, or this Form 10-K, to the Company, Alleghany, we, us, and our refer to Alleghany Corporation and its consolidated subsidiaries unless the context otherwise requires. In addition, unless the context otherwise requires, references to

TransRe are to our wholly-owned reinsurance holding company subsidiary Transatlantic Holdings, Inc. and its subsidiaries;

AIHL are to our wholly-owned insurance holding company subsidiary Alleghany Insurance Holdings LLC;

RSUI are to our wholly-owned subsidiary RSUI Group, Inc. and its subsidiaries;

CapSpecialty are to our wholly-owned subsidiary CapSpecialty, Inc. and its subsidiaries;

PacificComp are to our former wholly-owned subsidiary Pacific Compensation Corporation and its subsidiary, which were sold on December 31, 2017;

AIHL Re are to our wholly-owned subsidiary AIHL Re LLC;

Roundwood are to our wholly-owned subsidiary Roundwood Asset Management LLC;

SORC are to our wholly-owned subsidiary Stranded Oil Resources Corporation and its subsidiaries;

Alleghany Capital are to our wholly-owned subsidiary Alleghany Capital Corporation and its subsidiaries;

Bourn & Koch are to our majority-owned subsidiary Bourn & Koch, Inc. and its subsidiary;

Kentucky Trailer are to our majority-owned subsidiary R.C. Tway Company, LLC and its subsidiaries;

IPS are to our majority-owned subsidiary IPS-Integrated Project Services, LLC and its subsidiaries;

Jazwares are to our majority-owned subsidiary Jazwares, LLC and its subsidiaries and affiliates;

W&W|AFCO Steel are to our majority-owned subsidiary WWSC Holdings, LLC and its subsidiaries;

Concord are to our majority-owned subsidiary CHECO Holdings, LLC and its subsidiaries; and

Alleghany Properties are to our wholly-owned subsidiary Alleghany Properties Holdings LLC and its subsidiaries.

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NOTE ON FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-K may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as may, will, expect, project, estimate, anticipate, plan, believe, potential, should or tl of those words or other comparable words. Forward-looking statements do not relate solely to historical or current facts, rather they are based on management s expectations as well as certain assumptions and estimates made by, and information available to, management at the time. These statements are not guarantees of future performance. These forward-looking statements are based upon Alleghany s current expectations and are subject to a number of uncertainties and risks that could significantly affect current plans, anticipated actions and Alleghany s future financial condition and results. Factors that could cause these forward-looking statements to differ, possibly materially, from that currently contemplated include:

- significant weather-related or other natural or man-made catastrophes and disasters;
- the cyclical nature of the property and casualty reinsurance and insurance industries;
- changes in market prices of our significant equity investments and changes in value of our debt securities portfolio;
- adverse loss development for events insured by our reinsurance and insurance subsidiaries in either the current year or prior years;
- the long-tail and potentially volatile nature of certain casualty lines of business written by our reinsurance and insurance subsidiaries;
- the cost and availability of reinsurance;
- the reliance by our reinsurance and insurance operating subsidiaries on a limited number of brokers;
- legal, political, judicial and regulatory changes;
- increases in the levels of risk retention by our reinsurance and insurance subsidiaries;
- changes in the ratings assigned to our reinsurance and insurance subsidiaries;

claims development and the process of estimating reserves;

exposure to terrorist acts and acts of war;

the willingness and ability of our reinsurance and insurance subsidiaries reinsurers to pay reinsurance recoverables owed to our reinsurance and insurance subsidiaries;

the uncertain nature of damage theories and loss amounts;

the loss of key personnel of our reinsurance or insurance operating subsidiaries;

fluctuation in foreign currency exchange rates;

the failure to comply with the restrictive covenants contained in the agreements governing our indebtedness;

the ability to make payments on, or repay or refinance, our debt;

risks inherent in international operations; and

difficult and volatile conditions in the global market.

Additional risks and uncertainties include general economic and political conditions, including the effects of a prolonged U.S. or global economic downturn or recession; changes in costs; variations in political, economic or other factors; risks relating to conducting operations in a competitive environment; effects of acquisition and disposition activities, inflation rates, or recessionary or expansive trends; changes in interest rates; extended labor disruptions, civil unrest, or other external factors over which we have no control; changes in our plans, strategies, objectives, expectations, or intentions, which may happen at any time at our discretion; and other factors discussed in this Form 10-K and subsequent filings with the Securities and Exchange Commission, or the SEC. All forward-looking statements speak only as of the date they are made and are based on information available at that time. Alleghany does not undertake any obligation to update or revise any forward-looking statements to reflect subsequent circumstances or events. See Part I, Item 1A, Risk Factors of this Form 10-K for additional information.

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PART I

Item 1. Business.

Overview

Alleghany Corporation owns and manages certain operating subsidiaries and investments, anchored by a core position in property and casualty reinsurance and insurance. We were incorporated in Delaware in 1984. Through our wholly-owned subsidiary TransRe, we are engaged in the property and casualty reinsurance business. TransRe has been a subsidiary of ours since March 2012. Through our wholly-owned subsidiary AIHL, we are engaged in the property and casualty insurance business. AIHL s insurance operations are principally conducted by its subsidiaries RSUI and CapSpecialty. Prior to December 31, 2017, AIHL s insurance operations also included PacificComp. RSUI has been a subsidiary of AIHL since July 2003 and CapSpecialty has been a subsidiary of AIHL since January 2002. AIHL Re, a captive reinsurance company which provides reinsurance to Alleghany s current and former insurance operating subsidiaries and affiliates, has been a wholly-owned subsidiary of Alleghany since its formation in May 2006.

Although our primary sources of revenues and earnings are our reinsurance and insurance operations and investments, we also generate revenues and earnings from a diverse portfolio of middle market businesses that are owned and managed through our wholly-owned subsidiary Alleghany Capital. Alleghany Capital s businesses include:

Bourn & Koch. On April 26, 2012, we acquired a controlling interest in Bourn & Koch, a manufacturer/ remanufacturer of specialty machine tools and supplier of replacement parts, accessories and services for a variety of cutting technologies.

Kentucky Trailer. On August 30, 2013, we acquired a controlling interest in Kentucky Trailer, a manufacturer of custom trailers and truck bodies for the moving and storage industry and other markets.

IPS. On October 31, 2015, we acquired a controlling interest in IPS, a technical service provider focused on the global pharmaceutical and biotechnology industries.

Jazwares. On April 15, 2016, we acquired a controlling interest in Jazwares, a global toy, entertainment and musical instrument company.

W&W|AFCO Steel. On April 28, 2017, we acquired a controlling interest in W&W|AFCO Steel, a structural steel fabricator and erector.

Wilbert Funeral Services, Inc, or Wilbert. On August 1, 2017, we acquired a 45 percent equity interest in Wilbert, a provider of products and services for the funeral and cemetery industries and precast concrete markets.

Concord. On October 1, 2018, we acquired a controlling interest in Concord, a hotel management and development company.

In addition, we own certain other holding company investments. Our wholly-owned subsidiary SORC is an exploration and production company focused on enhanced oil recovery. Our wholly-owned subsidiary Alleghany Properties owns and manages certain properties in the Sacramento, California region. Our public equity investments are managed primarily through our wholly-owned subsidiary Roundwood.

As of December 31, 2018, we had total assets of $25.3 billion and total stockholders equity attributable to Alleghany stockholders of $7.7 billion.

Our principal executive offices are located in leased office space at 1411 Broadway, 34th Floor, New York, New York, 10018. Our telephone number is (212) 752-1356. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available, free of charge, on our website at www.alleghany.com, as soon as reasonably practicable after we electronically file this material with, or furnish it to, the SEC. Reports and other information we file with the SEC may also be viewed at the SEC s website at www.sec.gov or viewed or obtained at the SEC Public Reference Room at 100 F Street, N.E., Washington, District of Columbia, 20549. Our Financial Personnel Code of Ethics, Employee Code of Business Conduct and Ethics, Director Code of Business Conduct and Ethics, Code of Business Conduct and Ethics for our Business Partners, Corporate Governance Guidelines and the charters for our Audit, Compensation and Nominating and Governance Committees are also available on our website. In addition, interested parties may obtain, free of charge, copies of any of the above reports or documents upon request to the Secretary of Alleghany.

Segment Information

Our segments are reported in a manner consistent with the way management evaluates the businesses. As such, we classify our businesses into three reportable segments reinsurance, insurance and Alleghany Capital. Reinsurance and insurance underwriting activities are evaluated separately from investment and other activities.

Corporate activities are not classified as a segment. The primary components of corporate activities are Alleghany Properties, SORC and activities at the Alleghany parent company.

See below and Note 13 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K for an analysis of our underwriting results by segment and other activities, and Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Consolidated Results of Operations.

Reinsurance Segment

General. The reinsurance segment consists of property and casualty reinsurance operations conducted by TransRe s reinsurance operating subsidiaries. TransRe also writes a modest amount of property and casualty insurance business, which is included in the reinsurance segment.

TransRe, through its principal wholly-owned subsidiaries Transatlantic Reinsurance Company, or TRC, TransRe London Ltd., or TRL, and TransRe Zurich Ltd., or TRZ, provides property and casualty reinsurance to insurance and other reinsurance companies. These products are distributed through brokers and on a direct basis in the domestic and foreign markets. TransRe is headquartered in New York, New York, with six other locations in the U.S. and has operations worldwide, including: Africa, Australia, Bermuda, Canada, five locations in Asia, three locations in Central and South America and four locations in the U.K. and Europe. TRC is licensed, accredited or authorized or can serve as a reinsurer in all 50 states and the District of Columbia in the U.S. and in Puerto Rico and Guam. TRC is also licensed in Bermuda, Canada, Japan, the U.K., the Dominican Republic, the Hong Kong Special Administrative Region of the People s Republic of China, Germany, Australia and Singapore. In addition, TRL is licensed as a reinsurer in the U.K. and TRZ is licensed as a reinsurer in Switzerland and Dubai.

The reinsurance segment constitutes the majority of our consolidated net premiums written, and is reported through two major product lines, property and casualty & other.

2018 Net Premiums Written

Property. TransRe s principal lines of business within property include: fire; allied lines; auto physical damage; and homeowners multiple peril (which include property catastrophe risks).

Casualty & other. TransRe s principal lines of business within casualty & other include: directors and officers liability; errors and omissions liability; general liability; medical malpractice; ocean marine and aviation; auto liability; accident and health; mortgage reinsurance; surety; and credit.

Reinsurance contracts are generally classified as treaty or facultative contracts. TransRe provides property and casualty reinsurance on both a treaty and facultative basis. Treaty reinsurance is a contractual arrangement that provides for the automatic reinsuring of all or a portion of a specified class of risk underwritten by the ceding company. Facultative reinsurance is the reinsurance of individual risks. Rather than agreeing to reinsure all or a portion of a class of risk, the reinsurer separately rates and underwrites each risk. Facultative reinsurance is normally purchased for risks not covered by treaty reinsurance or for individual risks covered by reinsurance treaties that are in need of capacity beyond that provided by such treaties.

A ceding company s reinsurance program may involve pro rata and excess-of-loss reinsurance on both a treaty and facultative basis. TransRe provides pro rata and excess-of-loss reinsurance for most major lines of business. Under pro rata reinsurance (also referred to as proportional or quota share reinsurance), the ceding company and the reinsurer share the premiums as well as the losses and expenses in an agreed proportion, and such proportional sharing of losses may be subject to a predetermined limit. As pro rata business is a proportional sharing of premiums and losses between the ceding company and the reinsurer, generally the underwriting results of such business more closely reflect the underwriting results of the business ceded than do the results of excess-of-loss business. In pro rata reinsurance, the reinsurer generally pays the ceding company a ceding commission, which is generally based on the ceding company s cost of obtaining the business being reinsured, such as brokers and agents commissions, local taxes and administrative expenses. Under excess-of-loss reinsurance (also referred to as non-proportional reinsurance), the reinsurer indemnifies the ceding company for all or a portion of the losses in excess of a predetermined amount, usually up to a predetermined limit. Premiums paid by the ceding company to the reinsurer for excess-of-loss coverage are generally not proportional to the premiums that the ceding company receives because the reinsurer does not assume a proportionate risk. Often there is no ceding commission on excess-of-loss reinsurance and therefore the pricing mechanism used by reinsurers in those instances is a rate applicable to premiums of the individual policy or policies subject to the reinsurance agreement. Both pro rata and excess-of-loss reinsurance may provide for aggregate limits of indemnification.

In July 2016, TransRe entered into a five-year agreement with General Reinsurance Corporation, a wholly-owned subsidiary of Berkshire Hathaway Inc., for TransRe to act as exclusive underwriting manager on behalf of General Reinsurance Corporation for U.S. and Canadian property and casualty treaty reinsurance business produced by brokers and intermediaries. Fees earned under this agreement are included in noninsurance revenue in the Consolidated Statements of Earnings and Comprehensive Income.

As of December 31, 2018, the statutory surplus of TRC was $4.6 billion, as determined in accordance with statutory accounting principles, or SAP, and the consolidated equity of TransRe was $4.7 billion, as determined in accordance with accounting principles generally accepted in the U.S., or GAAP.

Distribution. TransRe provides property and casualty reinsurance through brokers as well as directly to insurance and reinsurance companies in domestic and foreign markets. In 2018, approximately 84 percent of TransRe s gross premiums written were written through brokers with the balance written directly with ceding company clients. In the reinsurance brokerage industry, brokers are engaged by the ceding companies to place reinsurance on their behalf. In 2018, companies controlled by Aon plc, TigerRisk Partners, LLC and Marsh & McLennan Companies, Inc. were TransRe s largest brokerage sources of business, accounting for approximately 26 percent, 18 percent and 15 percent, respectively, of gross premiums written. The reinsurance brokerage industry is dominated by certain of these brokers. Due to the substantial percentages of premiums written through these brokers, the loss of business from any one of them could have a material adverse effect on TransRe s business.

Underwriting. TransRe s underwriting process emphasizes a team approach among TransRe s underwriters, actuaries, claims staff and senior management, as appropriate. Treaties are reviewed for compliance with TransRe s underwriting guidelines and objectives, and most treaties are evaluated in part based upon actuarial analyses conducted by TransRe. TransRe s actuarial models used in such analyses are tailored in each case to the exposures and experience underlying the specific treaty and the loss experience for the risks covered. Property catastrophe-exposed treaties are generally evaluated using industry standard models, as well as proprietary TransRe models. These models are used as a guide for risk assessment and portfolio optimization and are continually updated. TransRe also frequently conducts underwriting and claims audits at the offices of a ceding company before and after entering into major treaties, because reinsurers, including TransRe, do not separately evaluate each of the individual risks assumed under their treaties and, consequently, are largely dependent on the original underwriting decisions made by the ceding company.

Such dependence subjects TransRe, and reinsurers in general, to the possibility that the ceding companies have not adequately evaluated and priced the risks to be reinsured and, therefore, that the premiums ceded may not adequately compensate reinsurers for the risk assumed.

TransRe often seeks to lead treaty placements. The lead reinsurer on a treaty generally accepts one of the largest percentage shares of the treaty and takes the initiative in negotiating price, terms and conditions. TransRe believes that this strategy enables it to influence more effectively the terms and conditions of the treaties in which it participates. TransRe may decline any treaty business offered to it based upon its assessment of all relevant factors. Such factors include type and level of risk assumed; actuarial and underwriting judgment with respect to rate adequacy; various treaty terms; prior and anticipated loss experience (including exposure to natural and man-made catastrophes) on the treaty; prior business experience with the ceding company; overall financial position; operating results; ratings from credit rating agencies of the ceding company; and social, legal, regulatory, environmental and general economic conditions affecting the risks assumed or the ceding company.

Ratings. TRC, TRL and TRZ are rated A+ by Standard & Poor s Ratings Services, or S&P, and A+ (Superior) by A.M. Best Company, Inc., or A.M. Best, and TRC is rated A1 by Moody s Investors Service Inc., or Moody s. Additional information regarding ratings and the risks related to ratings from ratings agencies can be found on page 57 of this Form 10-K.

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Insurance Segment

The insurance segment consists of property and casualty insurance operations conducted in the U.S. by AIHL through RSUI, headquartered in Atlanta, Georgia; CapSpecialty, headquartered in Middleton, Wisconsin; and, prior to December 31, 2017, PacificComp, headquartered in Westlake Village, California. AIHL Re, our Vermont-domiciled captive reinsurance company, provides reinsurance to our current and former insurance operating subsidiaries and affiliates. Unless we state otherwise, references to AIHL include the operations of RSUI, CapSpecialty, AIHL Re and, prior to December 31, 2017, PacificComp.

The insurance segment constitutes a smaller portion of our consolidated net premiums written and is reported through our RSUI and CapSpecialty subsidiaries.

2018 Net Premiums Written

RSUI

General. RSUI, which includes the operations of its wholly-owned subsidiaries RSUI Indemnity Company, or RIC, Landmark American Insurance Company, or Landmark, and Covington Specialty Insurance Company, or Covington, underwrites specialty insurance coverages in the property, umbrella/excess liability, general liability, management liability and professional liability lines of business. RSUI also writes a modest amount of reinsurance business on an assumed basis, which is included in the insurance segment.

The market for specialty insurance coverages differs significantly from the market for standard insurance coverages. The specialty market provides coverage for hard-to-place risks that generally do not fit the underwriting criteria of the standard market which provides coverage for largely uniform and relatively predictable exposures and is highly regulated with respect to rates and forms.

RSUI writes specialty business on both an admitted and non-admitted basis. Insurers may market, sell and service insurance policies in the states where they are licensed. These insurers are referred to as admitted insurers. Admitted insurers are generally required to obtain regulatory approval of their policy forms and premium rates. Non-admitted insurance markets have developed to provide insurance that is otherwise unavailable from a state s admitted insurance markets. Non-admitted insurance is procured by either state-licensed surplus lines brokers who place risks with insurers not licensed in that state or by insureds direct procurement from non-admitted insurers. Non-admitted insurance is subject to considerably less regulation with respect to policy rates and forms. RSUI writes specialty business in the admitted specialty market primarily through RIC, a New Hampshire-domiciled insurer, in the 50 states and the District of Columbia where RIC is licensed and subject to state form and rate regulations. Most of the risks in the admitted specialty market are unique and hard-to-place in the standard market, but must remain with an admitted insurance company for regulatory and/or marketing reasons. As an admitted carrier, RIC is subject to more state regulation than a non-admitted carrier, particularly with regard to rate and form filing requirements, restrictions on the ability to exit lines of business, premium tax payments and membership in various state associations, such as state guaranty funds and assigned risk plans.

RSUI writes business on an approved, non-admitted basis primarily through Landmark, a New Hampshire-domiciled insurer. Landmark, as a non-admitted company, is not subject to state form and rate regulations and thus has more flexibility in its rates and coverages for specialized or hard-to-place risks. This typically results in coverages that are more restrictive and expensive

than coverages written by a standard insurance company. As of December 31, 2018, Landmark was approved to write business on a non-admitted basis in the 50 states.

Covington, a New Hampshire-domiciled insurer, was formed in September 2007 to, among other things, support non-admitted business written primarily by RSUI s binding authority department, which writes small, specialized coverages pursuant to underwriting authority arrangements with managing general agents.

Pursuant to quota share arrangements, effective as of January 1, 2009, Landmark and Covington cede 90 percent of all their respective premiums and losses, gross of third-party reinsurance, to RIC.

As of December 31, 2018, the statutory surplus of RIC was approximately $1.6 billion, the statutory surplus of Landmark was approximately $146 million, the statutory surplus of Covington was approximately $50 million, each as determined in accordance with SAP, and the consolidated equity of RSUI was $1.6 billion, as determined in accordance with GAAP.

Distribution. As of December 31, 2018, RSUI conducted its insurance business through approximately 95 independent wholesale insurance brokers located throughout the U.S. and 23 managing general agents. RSUI s wholesale brokers are appointed based on management s appraisal of expertise, premium production potential, loss history with other insurance companies that they represent and the size and experience of the agency. A wholesale broker s operations are appointed to distribute RSUI s products on a location by location basis. Producer agreements which stipulate premium collection, payment terms and commission arrangements are in place with each wholesale broker. No wholesale broker holds underwriting, claims or reinsurance authority for RSUI. RSUI s top five producing wholesale brokers accounted for approximately 71 percent of gross premiums written by RSUI in 2018. RSUI s top two producing wholesale brokers, CRC Insurance Services, Inc. and AmWINS Group, Inc., accounted for, in the aggregate, approximately 44 percent of RSUI s gross premiums written in 2018. RSUI has entered into underwriting authority arrangements with 23 managing general agents for small, specialized coverages.

Underwriting. RSUI s underwriting philosophy is based on handling only product lines in which its underwriters have underwriting expertise. RSUI generally focuses on higher severity, lower frequency specialty risks that can be effectively desk underwritten without the need for inspection or engineering reviews. RSUI tracks underwriting results for each of its underwriters and believes that the underwriting systems and applications it has in place facilitate efficient underwriting and high productivity levels. Underwriting authority is delegated on a top-down basis ultimately to individual underwriters based on experience and expertise. This authority is in writing and addresses maximum limits, excluded classes and coverages and premium size referral. Referral to a product line manager is required for risks exceeding an underwriter s authority.

Ratings. RIC, Landmark and Covington are each rated A+ (Superior) by A.M. Best and all three companies are rated A by S&P. RIC and Landmark are rated A2 by Moody s.

CapSpecialty

General. CapSpecialty, primarily through its wholly-owned subsidiaries Capitol Indemnity Corporation, or CIC, Capitol Specialty Insurance Corporation, or CSIC, and Platte River Insurance Company, or Platte River, operates in the 50 states and the District of Columbia. CapSpecialty also includes the operations and results of Professional Risk Management Services, Inc., which was acquired from TransRe effective January 1, 2014.

CIC conducts its property and casualty insurance business on an admitted basis throughout the U.S. CIC also writes surety products such as commercial surety bonds and contract surety bonds on a national basis. Commercial surety bonds include all surety bonds other than contract surety bonds and cover obligations typically required by law or regulation, such as licenses and permits. CIC offers contract surety bonds in the non-construction segment of the market which secure performance under supply, service and maintenance contracts.

CSIC conducts all of its business on an approved, non-admitted basis nationally and writes primarily specialty lines of property and casualty insurance, including the professional lines of business.

Platte River is licensed in the 50 states and the District of Columbia and operates in conjunction with CIC, primarily providing surety products and offering pricing flexibility in those jurisdictions where both CIC and Platte River are licensed.

Effective January 1, 2014, CapSpecialty was recapitalized pursuant to a series of transactions which included the exchange by AIHL of its common stock in CapSpecialty for Series A Convertible Preferred Stock carrying a five percent preference, or the Preferred Stock, and the subsequent sale by AIHL to TransRe of 24.9 percent of the Preferred Stock for a cash purchase price based on CapSpecialty s December 31, 2013 GAAP book value. At the same time, CapSpecialty reserved shares of restricted common stock, or the Restricted Stock, which are subordinate to the Preferred Stock, for issuance to the management of CapSpecialty pursuant to a restricted stock plan. To the extent all shares of Restricted Stock are vested and issued, the Restricted Stock will represent 20 percent of the value of CapSpecialty in excess of the Preferred Stock and its cumulative preference.

In the third quarter of 2015, AIHL Re and CapSpecialty entered into an intercompany reinsurance contract, effective July 1, 2015, pursuant to which AIHL Re provides CapSpecialty with coverage primarily for adverse development on certain net loss and allocated loss adjustment expenses, or LAE, in excess of its carried reserves at June 30, 2015. AIHL Re s commitments are intended to cover the statutory collateral requirements at CapSpecialty, if and when necessary, and AIHL Re s obligations are subject to an aggregate limit of $50.0 million. See Note 5(e) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K for additional detail on the reinsurance contract.

As of December 31, 2018, the statutory surplus of CIC was approximately $268 million, which included the statutory surplus of CSIC of approximately $61 million and the statutory surplus of Platte River of approximately $50 million, each as determined in accordance with SAP. As of December 31, 2018, the consolidated equity of CapSpecialty was $367.1 million, as determined in accordance with GAAP.

Distribution. CapSpecialty conducts its insurance business through independent wholesale brokerage and retail agents and general insurance agents located throughout the U.S. As of December 31, 2018, CapSpecialty had 71 general agents licensed to write property and casualty and surety coverages, approximately 170 brokers specializing in professional liability coverages and approximately 248 independent agents licensed to write surety coverages only. Certain independent agents have binding authority for specific business owner policy products, including property and liability coverages and non-contract surety products.

Underwriting. Elements of CapSpecialty s underwriting process include prudent risk selection, appropriate pricing and coverage customization. All accounts are reviewed on an individual basis to determine underwriting acceptability. CapSpecialty is a subscriber to the Insurance Service Organization, or ISO, and the Surety and Fidelity Association of America, or SFAA, insurance reference resources recognized by the insurance industry. CapSpecialty s underwriting procedures, rates and contractual coverage obligations are based on procedures and data developed by ISO for property and casualty lines and by SFAA for surety lines. Underwriting acceptability is determined by type of business, claims experience, length of time in business and business experience, age and condition of premises occupied and financial stability. Information is obtained from, among other sources, agent applications, financial reports and on-site loss control surveys. If an account does not meet pre-determined acceptability parameters, coverage is declined. If an in-force policy becomes unprofitable due to extraordinary claims activity or inadequate premium levels, a non-renewal notice is issued in accordance with individual state statutes and rules.

Ratings. CIC, CSIC and Platte River are rated A (Excellent) on a reinsured basis by A.M. Best.

PacificComp

On December 31, 2017, AIHL sold PacificComp to CopperPoint Mutual Insurance Company, or CopperPoint, for total cash consideration of approximately $158 million, at which time: (i) approximately $442 million of PacificComp assets, consisting primarily of debt securities, and approximately $316 million of PacificComp liabilities, consisting primarily of loss and LAE reserves, were transferred to CopperPoint; and (ii) AIHL recorded an after-tax gain of approximately $16 million, which included a tax benefit. In connection with the transaction, AIHL Re provides adverse development reinsurance coverage on PacificComp s pre-acquisition claims, subject to certain terms and conditions. AIHL Re s obligations, which are guaranteed by Alleghany, are subject to an aggregate limit of $150.0 million and a final commutation and settlement as of December 31, 2024.

Alleghany Capital Segment

We own and manage a diverse portfolio of middle market businesses primarily through Alleghany Capital. Alleghany Capital s businesses include:

Bourn & Koch. A manufacturer/remanufacturer of specialty machine tools and supplier of replacement parts, accessories and services for a variety of cutting technologies, headquartered in Rockford, Illinois. In October 2016, Bourn & Koch acquired Diamond Technology Innovations, Inc., or DTI, a manufacturer of waterjet orifices and nozzles. As of December 31, 2018, we owned approximately 89 percent of Bourn & Koch.

Kentucky Trailer. A manufacturer of custom trailers and truck bodies for the moving and storage industry and other markets, headquartered in Louisville, Kentucky. Since 2014, Kentucky Trailer has acquired several manufacturers of specialty trailers and mobile solutions and, on December 28, 2018, Kentucky trailer acquired a controlling interest in CEI Equipment Company, LLC, or CEI, a manufacturer of aluminum feed transportation equipment based in Cedar Rapids, Iowa. As of December 31, 2018, we owned approximately 77 percent of the common equity of Kentucky Trailer, as well as our original preferred equity interest.

Jazwares. On July 31, 2014, we invested in Jazwares, a global toy, entertainment and musical instrument company, headquartered in Sunrise, Florida, for a 30 percent interest. On April 15, 2016, we acquired a controlling interest in Jazwares and, beginning on that date, the results of Jazwares have been included in our consolidated results. Prior to April 15, 2016, Jazwares was accounted for under the equity method of accounting. In July 2016, Jazwares acquired a musical products business, and made two smaller acquisitions in 2018. As of December 31, 2018, we owned approximately 77 percent of Jazwares.

IPS. A technical service provider focused on the global pharmaceutical and biotechnology industries, headquartered in Blue Bell, Pennsylvania. As of December 31, 2018, we owned approximately 85 percent of IPS.

W&W|AFCO Steel. A structural steel fabricator and erector, headquartered in Oklahoma City, Oklahoma. On February 7, 2018, W&W|AFCO Steel acquired Hirschfeld Holdings, LP, or Hirschfeld, a fabricator of steel bridges and structural steel for stadiums, airports and other large commercial and industrial projects. As of December 31, 2018, we owned approximately 80 percent of W&W|AFCO Steel.

Wilbert. A provider of products and services for the funeral and cemetery industries and precast concrete markets, headquartered in Overland Park, Kansas. Wilbert is accounted for under the equity method of accounting.

Concord. A hotel management and development company, headquartered in Raleigh, North Carolina. As of December 31, 2018, we owned approximately 85 percent of Concord.

Corporate Activities

At the parent level, we seek out attractive investment opportunities, including strategic investments in operating companies, delegate responsibilities to competent and motivated managers at the operating business level, set goals for our operating businesses, assist managers in the achievement of these goals, define risk parameters and appropriate incentives for our operating businesses and monitor progress against their long-term objectives.

We own certain holding company investments, including:

Roundwood. Our public equity investments are managed primarily by Roundwood. For a discussion of our reinsurance and insurance subsidiaries investment results, see pages 94 and 95 of this Form 10-K.

SORC. In June 2011, we formed SORC, an exploration and production company focused on enhanced oil recovery, headquartered in Golden, Colorado. From formation through December 31, 2018, we have invested $267.7 million in SORC. As of December 31, 2018, SORC s stockholder s equity was $88.0 million.

Alleghany Properties. We own and manage properties in the Sacramento, California region through Alleghany Properties. These properties include primarily improved and unimproved commercial land, as well as residential lots. As of December 31, 2018, Alleghany Properties owned approximately 125 acres of property in various land use categories ranging from multi-family residential to commercial.

Reserves

Each of our reinsurance and insurance subsidiaries establishes reserves on its balance sheet for unpaid loss and LAE related to its property and casualty reinsurance and insurance contracts. The reserves for loss and LAE represent management s best estimate of the ultimate cost of all reported and unreported losses incurred through the balance sheet date. The process of estimating these reserves is inherently difficult and involves a considerable degree of judgment, especially in view of changing legal and economic environments that impact loss reserve development. Therefore, quantitative techniques have to be supplemented by subjective considerations and managerial judgment. In addition, conditions and trends that have affected development of liabilities in the past may not necessarily occur or affect liability development to the same degree in the future. See Part II, Item 7, Management s Discussion and

Analysis of Financial Condition and Results of Operations Critical Accounting Estimates of this Form 10-K for additional detail on our critical accounting estimates.

Information on prior year loss reserve development and incurred and paid loss and LAE development by segment can be found in Note 6(b) and Note 6(c), respectively, to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K.

The following table presents the reconciliation of the aggregate net loss and LAE reserves of our reinsurance and insurance subsidiaries reported in the annual statements filed with state insurance departments prepared in accordance with SAP and those reported in our consolidated financial statements prepared in accordance with GAAP for the three years ended December 31, 2018 is presented below:

Reconciliation of Reserves for Loss and LAE from SAP Basis to GAAP Basis

	As of December 31,		
	2018	2017	2016
		($ in millions)	
Statutory reserves	$ 9,796.0	$ 9,633.4	$ 9,339.8
Net reserves of non-U.S. subsidiaries[1]	596.9	587.8	511.2
Reinsurance recoverables[2]	1,857.4	1,650.1	1,236.2
GAAP reserves	$ 12,250.3	$ 11,871.3	$ 11,087.2

(1) TransRe s non-U.S. subsidiaries do not file annual statements with state insurance departments in the U.S.
(2) Reinsurance recoverables in this table include only unpaid ceded loss and LAE reserves.

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The following table presents the reconciliation of beginning and ending aggregate reserve balances for unpaid loss and LAE of our reinsurance and insurance subsidiaries for the last three years is presented below:

Reconciliation of Reserves for Loss and LAE

	Year Ended December 31,		
	2018	2017	2016
	($ in millions)		
Reserves as of January 1	$ 11,871.3	$ 11,087.2	$ 10,799.2
Less: reinsurance recoverables[1]	1,650.1	1,236.2	1,169.3
Net reserves as of January 1	10,221.2	9,851.0	9,629.9
Other adjustments	0.9	(293.7)[2]	2.4
Incurred loss and LAE, net of reinsurance, related to:			
Current year	3,849.4	3,918.8	3,285.2
Prior years	(329.0)	(298.6)	(368.0)
Total incurred loss and LAE, net of reinsurance	3,520.4	3,620.2	2,917.2
Paid loss and LAE, net of reinsurance, related to:[3]			
Current year	838.9	853.2	734.3
Prior years	2,419.0	2,225.2	1,866.5
Total paid loss and LAE, net of reinsurance	3,257.9	3,078.4	2,600.8
Foreign currency exchange rate effect	(91.7)	122.1	(97.7)
Net reserves as of December 31	10,392.9	10,221.2	9,851.0
Reinsurance recoverables as of December 31[1]	1,857.4	1,650.1	1,236.2
Reserves as of December 31	$ 12,250.3	$ 11,871.3	$ 11,087.2

(1) Reinsurance recoverables in this table include only ceded loss and LAE reserves.

(2) Primarily represents the impact on net reserves arising from the sale of PacificComp.
(3) Includes paid loss and LAE, net of reinsurance, related to commutations.

Asbestos-Related Illness and Environmental Impairment Reserves

Our reinsurance and insurance subsidiaries reserves for loss and LAE include amounts for risks related to asbestos-related illness and environmental impairment. The reserves carried for such claims, including the reserves for loss and LAE incurred but not reported, or IBNR, claims, are based upon known facts and current law at the respective balance sheet dates. However, significant uncertainty exists in determining the amount of ultimate liability for asbestos-related illness and environmental impairment losses. This uncertainty is due to, among other reasons, inconsistent and changing court resolutions and judicial interpretations with respect to underlying policy intent and coverage and uncertainties as to the allocation of responsibility for resultant damages. Further, possible future changes in statutes, laws, regulations, theories of liability and other factors could have a material effect on these liabilities and, accordingly, future earnings. Although we are unable at this time to determine whether additional reserves, which could have a material adverse effect upon our results of operations, may be necessary in the future, we believe that our asbestos-related illness and environmental impairment reserves were adequate as of December 31, 2018.

The following table presents the gross and net loss and LAE reserve balances for asbestos-related illness and environmental impairment liabilities as of December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	Gross	Net	Gross	Net
	($ in millions)			
TransRe	$ 128.1	$ 124.6	$ 152.4	$ 148.0
CapSpecialty	5.6	5.6	6.0	6.0
Total	$ 133.7	$ 130.2	$ 158.4	$ 154.0

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At December 31, 2018 and 2017, the reserves for asbestos-related illness liabilities were approximately seven and eight times, respectively, the average paid claims for the respective prior three year period. At December 31, 2018 and 2017, the reserves for environmental impairment liabilities were approximately six times the average paid claims for the respective prior three year period.

The following tables present the reconciliation of the beginning and ending gross reserve balances for unpaid loss and LAE related to asbestos related illness and environmental impairment claims of our reinsurance and insurance subsidiaries for the three years ended December 31, 2018.

Reconciliation of Asbestos-Related Illness Claims Reserves for Loss and LAE

	2018	2017	2016
		($ in millions)	
Reserves as of January 1	$ 39.4	$ 47.2	$ 43.2
Loss and LAE incurred	-	4.1	8.6
Paid losses	(3.1)	(11.9)	(4.6)
Reserves as of December 31	$ 36.3	$ 39.4	$ 47.2
Type of reserves			
Case	$ 14.4	$ 15.4	$ 15.9
IBNR	21.9	24.0	31.3
Total	$ 36.3	$ 39.4	$ 47.2

Reconciliation of Environmental Impairment Claims Reserves for Loss and LAE

	2018	2017	2016
		($ in millions)	
Reserves as of January 1	$ 119.0	$ 124.8	$ 140.4
Loss and LAE incurred	(8.1)	7.1	8.2
Paid losses	(13.5)	(12.9)	(23.8)
Reserves as of December 31	$ 97.4	$ 119.0	$ 124.8
Type of reserves			
Case	$ 25.4	$ 30.7	$ 34.0
IBNR	72.0	88.3	90.8

Total	$ 97.4	$ 119.0	$ 124.8

Catastrophe Risk Management

Our reinsurance and insurance subsidiaries businesses expose them to losses related to various catastrophe events. In a catastrophe event, losses related to many insureds across multiple lines of business may result directly or indirectly from any such event. The extent of losses caused by catastrophes is a function of the amount and type of insured exposure in the area affected by the event, as well as the severity of the event, potentially mitigated by any reinsurance coverage purchased by our reinsurance and insurance subsidiaries. Our reinsurance and insurance subsidiaries take certain measures to mitigate the impact of catastrophe events through various means, including considering catastrophe risks in their underwriting and pricing decisions, monitoring and modeling accumulated exposures and managing exposure in key geographic zones and product lines that are prone to catastrophe events. Our reinsurance and insurance subsidiaries also use reinsurance to further limit their exposure to catastrophes, as is discussed in more detail under Reinsurance Protection below.

Natural disasters such as hurricanes, other windstorms, earthquakes and other catastrophes have the potential to materially and adversely affect our operating results. Other risks, such as an outbreak of a pandemic disease, a major terrorist event, the bankruptcy of a major company or a marine or an aviation disaster, could also have a material adverse effect on our business and operating results.

We evaluate catastrophe events and assess the probability of occurrence and magnitude through the use of industry recognized models and other techniques. In addition, our reinsurance and insurance subsidiaries use modeled loss scenarios and internal analyses to set risk retention levels and help structure their reinsurance programs in an effort to ensure that the aggregate amount of catastrophe exposures conform to established risk tolerances and fit within the existing exposure portfolio. We supplement these models by interpreting and adjusting when appropriate the modeled output and monitoring our operations exposure to risks. There is no single standard methodology to project possible losses related to catastrophe exposures. Further, there are no industry standard assumptions used in projecting these losses and the form and quality of the data obtained, including data obtained from insureds and ceding companies, and used in these models are not uniformly compatible with the data requirements of all models. Therefore, the use of different methodologies and assumptions could materially change our estimates of projected losses. Finally, these modeled losses may not be comparable with estimates made by other companies.

Reinsurance Protection

General

Our reinsurance and insurance subsidiaries reinsure portions of the risks they underwrite in order to reduce the effect of individual or aggregate exposure to losses, manage capacity, protect capital resources, reduce volatility in specific lines of business, improve risk-adjusted portfolio returns and enable them to increase gross premium writings and risk-capacity without requiring additional capital. Our reinsurance and insurance subsidiaries purchase reinsurance and retrocessional coverages from highly-rated third-party reinsurers. If the assuming reinsurers are unable or unwilling to meet the obligations assumed under the applicable reinsurance agreements, our reinsurance and insurance subsidiaries would remain liable for such reinsurance portion not paid by these reinsurers. As such, funds, trust agreements and letters of credit are held to collateralize a portion of our reinsurance and insurance subsidiaries reinsurance recoverables, and our reinsurance and insurance subsidiaries reinsure portions of the risks they underwrite or assume with multiple reinsurance programs.

TransRe enters into retrocession arrangements, including property catastrophe retrocession arrangements, in order to reduce the effect of individual or aggregate exposure to losses, reduce volatility in specific lines of business, improve risk-adjusted portfolio returns and increase gross premium writings and risk-capacity without requiring additional capital.

RSUI reinsures its property lines of business through a program consisting of surplus share treaties, facultative placements, per risk and catastrophe excess-of-loss treaties. RSUI s catastrophe reinsurance program and property per risk reinsurance program run on an annual basis from May 1 to the following April 30 and portions of these programs expired on April 30, 2018. Both programs were renewed on May 1, 2018 with substantially similar terms as the expired programs.

Terrorism Act

With respect to potential losses arising from acts of terrorism, the Terrorism Risk Insurance Act of 2002, as extended and amended, most recently by the Terrorism Risk Insurance Program Reauthorization Act of 2015, which we collectively refer to as the Terrorism Act, established a program to provide federal assistance to the insurance industry in order to meet the needs of commercial insurance policyholders for coverages against losses due to certain acts of terrorism. The Terrorism Act fixes the insurer deductible at 20 percent of an insurer s direct earned premium of the preceding calendar year. The Terrorism Act also initially fixed the federal share of compensation at 85 percent of insured losses that exceed insurer deductibles. As provided in the Terrorism Act, beginning on January 1, 2016, the federal share began to decrease by 1 percentage point per calendar year and will continue to decrease on that basis until the federal share is equal to 80 percent. The Terrorism Act is administered by the U.S. Secretary of the Treasury.

The Terrorism Act applies to foreign or domestic acts of terrorism occurring within the U.S. (including in the U.S. territorial sea and the Outer Continental Shelf), at U.S. missions abroad or on U.S. flag vessels or aircraft. In return for requiring insurers writing certain lines of property and casualty insurance to offer coverage to commercial insurance policyholders against specified acts of terrorism, the Terrorism Act requires the U.S. federal government to reimburse such insurers for the federal share (81 percent, as of January 1, 2019) of insured losses during a program year resulting from such acts of terrorism above a statutorily-defined deductible. In addition, federal reimbursement will only be paid under the Terrorism Act if the aggregate industry insured losses resulting from a covered act of terrorism exceed $180.0 million for insured losses occurring in 2019, but no payment will be made for any portion of aggregate industry insured losses that exceeds $100.0 billion during a particular calendar year. The Terrorism Act program trigger gradually increases from $140.0 million to $200.0 million by 2020.

In general, TransRe does not provide coverage for certified acts of terrorism, as defined by the Terrorism Act, but it is nonetheless exposed to potential losses related to both certified and uncertified acts of terrorism in the U.S. or elsewhere, such as from terrorism-specific treaty coverages offered to ceding companies or terrorism risk pools outside of the U.S. on a limited basis, and with respect to other lines of business from the assumption of terrorism risk in marine, aviation and other casualty treaties. Although TransRe assumes such terrorism risk after careful underwriting consideration and, in many cases, with limitations, a major terrorist event could have a material adverse impact on TransRe and us.

Approximately 10 percent of all policies and approximately 12 percent of property policies written by RSUI in 2018 contained coverage for domestic and foreign acts of terrorism. RSUI uses various underwriting strategies to mitigate its exposure to terrorism losses. In addition, its casualty reinsurance programs provide coverage for domestic and foreign acts of terrorism. RSUI s property reinsurance programs provide coverage only for domestic acts of terrorism and, as a result, RSUI is liable for losses under property policies that provide coverage for foreign acts of terrorism, subject to potential Terrorism Act reimbursement.

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Reinsurance Security Committee

We have established a Reinsurance Security Committee, which includes certain of our officers and the chief financial officers of each of our reinsurance and insurance subsidiaries. The Reinsurance Security Committee meets to track, analyze and manage the use of reinsurance by our reinsurance and insurance subsidiaries. The Reinsurance Security Committee also considers and oversees the limits on the maximum amount of unsecured reinsurance recoverables that should be outstanding from any particular reinsurer, the lines of business that should be ceded to a particular reinsurer and, where applicable, the types of collateral that should be posted by a reinsurer. As of December 31, 2018, our reinsurance and insurance subsidiaries had total reinsurance recoverables of $1,921.3 million, consisting of $1,857.4 million of ceded outstanding loss and LAE and $63.9 million of recoverables on paid losses. The reinsurance purchased by our reinsurance and insurance subsidiaries does not relieve them from their obligations to their policyholders and cedants, and therefore, the financial strength of their reinsurers is important. Approximately 70 percent of our reinsurance recoverables balance as of December 31, 2018 was due from reinsurers having an A.M. Best financial strength rating of A (Excellent) or higher, with a majority of the other reinsurance recoverables being secured by funds held, trust agreements or letters of credit. Our reinsurance and insurance subsidiaries had no allowance for uncollectible reinsurance as of December 31, 2018. Information related to concentration of reinsurance recoverables can be found in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Reinsurance Recoverables of this Form 10-K and Note 5(b) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K. Information regarding the risks faced by our reinsurance and insurance subsidiaries with respect to their use of reinsurance can be found on pages 56 and 57 of this Form 10-K.

Competition

The reinsurance and insurance industry is highly competitive, and industry consolidation has created an even more competitive business environment. Competition in the businesses of our reinsurance and insurance subsidiaries is based on many factors, including the perceived financial strength of the company, premiums charged, other terms and conditions offered, services provided, commissions paid to producers, ratings assigned by independent rating agencies, speed of claims payment and reputation and experience in the lines of business to be written.

Our reinsurance and insurance subsidiaries compete with a large number of major U.S. and non-U.S. reinsurers and insurers in their selected lines of business, including regional companies, mutual companies, specialty insurance companies, underwriting agencies, government-owned or subsidized facilities, European underwriting syndicates and diversified financial services companies. In our reinsurance segment, TransRe s property and casualty businesses compete on a worldwide basis. In our insurance segment, RSUI s property and casualty businesses, and CapSpecialty s admitted property and casualty businesses and surety and non-admitted specialty businesses, compete on a national basis. Some of these competitors have significantly more premiums, capital and resources than our reinsurance and insurance subsidiaries.

In addition to competition from the reinsurance industry, TransRe faces competition from the capital markets, as well as some traditional reinsurers, which from time to time produce alternative products or reinsurance vehicles (such as collateralized reinsurance, reinsurance securitizations, catastrophe bonds and various derivatives, such as swaps and sidecars) that may compete with certain types of reinsurance, such as property catastrophe. Hedge funds also provide reinsurance and retrocessional protections through captive companies or other alternative transactions on a fully collateralized basis for property and energy catastrophe business. Over time, these initiatives could significantly affect supply, pricing and competition in the reinsurance industry.

A discussion of the risks faced by our reinsurance and insurance subsidiaries due to competition within, and the cyclicality of, the reinsurance and insurance business can be found on page 56 of this Form 10-K.

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Employees

As of December 31, 2018, we employed a total of 9,300 persons, as presented below:

(1) Primarily consisting of 3,709 employees at Concord, 1,773 employees at W&W|AFCO Steel, 1,087 employees at IPS and 903 employees at Kentucky Trailer.

Regulation

General

Our reinsurance and insurance subsidiaries are subject to extensive supervision and regulation in the jurisdictions in which they operate and are required to comply with a wide range of laws and regulations applicable to insurance and reinsurance companies, although the degree and type of regulation varies from jurisdiction to jurisdiction. We expect the scope and extent of regulation globally, as well as regulatory oversight generally, to continue to increase. The material regulations under which we operate are described below.

U.S. Regulation

Our reinsurance and insurance subsidiaries are regulated in all U.S. jurisdictions in which they are licensed to conduct business. The extent of this regulation varies, but state insurance laws and regulations generally govern the financial condition of reinsurers and insurers, including standards of solvency, types and concentrations of permissible investments, establishment and maintenance of reserves, credit for reinsurance and requirements of capital adequacy. In addition, state insurance laws and regulations govern the business conduct of insurers, including marketing and sales practices and claims handling and require the approval of nearly all rates, policy forms and related materials for lines of insurance. We anticipate that U.S jurisdictions will continue to make some movement towards a harmonized regulatory environment at the state level through solvency regulation modernization efforts.

Through state credit for reinsurance laws, our reinsurance companies are indirectly subject to the effects of regulatory requirements imposed by the states in which their ceding insurers are domiciled. In general, an insurer that obtains reinsurance from a reinsurer that is licensed, accredited, authorized or approved by the state in which the insurer is domiciled is permitted to take a credit on its statutory financial statements in an aggregate amount equal to all of the reinsurance recoverable on paid losses and LAE and the liabilities for unearned premiums and loss and LAE reserves ceded to the reinsurer, subject to certain limitations. Additionally, a majority of states allow credit to be taken for the amount ceded to a non-U.S. reinsurer domiciled in a country recognized as a qualified jurisdiction (based upon an assessment of the strength of such jurisdiction s supervisory structure) that is designated by the state as a certified reinsurer. In such instances the ceding company is permitted to take credit on its statutory financial statements in an aggregate amount equal to all of the reinsurance recoverable on paid losses and LAE and the liabilities for unearned premiums and loss and LAE reserves ceded to the reinsurer, subject to certain limitations and provided the reinsurer posts acceptable security in an amount that varies in proportion to the reinsurer s ratings (A.M. Best, S&P, Moody s and/or Fitch Ratings Inc., or Fitch). Finally, for reinsurance ceded to reinsurers that are not licensed, accredited, authorized, approved or certified in the ceding company s state, the reinsurer must agree to post 100 percent qualified security, either in the form of a deposit, trust or letter of credit, in order that the ceding insurer be allowed to take full credit on its statutory financial statements in an aggregate amount equal to all or a portion of the reinsurance recoverable on paid losses and LAE and the liabilities for unearned premiums and loss and LAE reserves ceded to such reinsurers.

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As described in more detail below, in September 2017, U.S. federal authorities signed a covered agreement with the European Union, or the EU, on matters including reinsurance collateral. Such covered agreement requires U.S. states to adopt, over the next several years, laws removing reinsurance collateral requirements for reinsurance ceded to a qualifying non-U.S. reinsurer domiciled in an EU jurisdiction. We cannot currently predict whether this covered agreement or any future covered agreements will be successfully adopted and implemented, and cannot currently estimate the impact of changes to the laws and regulations as a consequence of any such adopted covered agreements on our business, financial condition or operating results.

Insurance Holding Company Regulation. As an insurance holding company, we and our reinsurance and insurance subsidiaries are subject to regulation under the insurance holding company laws enacted in those states where our reinsurance and insurance subsidiaries are domiciled or where they conduct business. These laws generally require an insurance holding company and its reinsurer and insurer subsidiaries to register with their respective insurance regulators and to file with those regulators certain reports, including information concerning their capital structure, ownership, financial condition, certain intercompany transactions, including dividends and distributions, and general business operations. The insurance holding company laws of some states, including with respect to the payment of dividends and distributions, may be more restrictive than the insurance holding company laws of other states.

Under the insurance holding company laws and regulations, our reinsurance and insurance subsidiaries may not pay an extraordinary dividend or distribution without the approval of state insurance regulators. In general, an extraordinary dividend or distribution is defined as a dividend or distribution that, together with other dividends and distributions made within the preceding 12 months, exceeds the lesser (or, in some jurisdictions, the greater) of (i) 10 percent of the statutory surplus of the reinsurer or insurer as of the end of the prior calendar year (or, in certain states, as of the end of the prior quarter) and (ii) statutory net income during the prior calendar year (or, in certain states, the adjusted statutory net investment income). In addition, certain states where Alleghany s reinsurance and insurance subsidiaries are domiciled prohibit a domestic insurance company from paying dividends except out of earned surplus.

In addition, insurance holding company laws and regulations to which we and our reinsurance and insurance subsidiaries are subject generally require prior notification and approval or non-disapproval by the applicable insurance regulators of certain other significant transactions, including sales, loans, reinsurance agreements and service agreements between an insurer subsidiary, on the one hand, and its holding company or other subsidiaries of the holding company, on the other hand.

Insurance holding company laws and regulations to which we and our reinsurance and insurance subsidiaries are subject also generally require the ultimate controlling person of the reinsurer or insurer to comply with certain informational requirements with the purpose of protecting such reinsurer or insurer from enterprise risk, including requiring an annual enterprise risk report by the ultimate controlling person of the reinsurer or insurer that identifies the material risks within the insurance holding company system that could pose enterprise risk to the reinsurer or insurer.

The insurance holding company laws and regulations of the states in which our reinsurance and insurance subsidiaries are domiciled also generally require that, before a person can acquire direct or indirect control of a reinsurer or an insurer domiciled in the state (or any person controlling such domestic insurer or reinsurer), prior written approval must be obtained from the insurer s domiciliary state insurance regulator. The state insurance regulators are required to consider various factors, including the financial strength of the acquirer, the integrity and management experience of the acquirer s board of directors and executive officers and the acquirer s plans for the future operations of the reinsurer or insurer. Pursuant to applicable laws and regulations, control over a reinsurer or an insurer is generally presumed to exist if any person, directly or indirectly, owns, controls, holds the power to vote or holds proxies representing

10 percent or more of the voting securities of that reinsurer or insurer. Indirect ownership includes ownership of the shares of the ultimate controlling person s common stock.

The acquisition of control laws described above may discourage potential acquisition proposals and may delay, deter or prevent an acquisition of control of us, including through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

Risk Management. State insurance laws enacted in nearly all U.S. states (including all of the states where our reinsurance and insurance subsidiaries are domiciled) require reinsurers and insurers that exceed certain specified premium thresholds to maintain a framework for managing the risks associated with their entire holding company group, including non-insurance companies. In addition these laws require that, at least annually, the reinsurer or insurer must prepare a summary report, or the ORSA Report, regarding its internal assessment of risk management and capital adequacy for the entire holding company group. The ORSA Report is filed, on a confidential basis, with the insurance holding company group s lead state regulator and made available to other domiciliary regulators within the holding company group.

Corporate Governance. The National Association of Insurance Commissioners, or the NAIC, has adopted the Corporate Governance Annual Disclosure Model Act and the Corporate Governance Annual Disclosure Model Regulation, or the Corporate Governance Model Act, which, following enactment at the state level, will require insurers and reinsurers to disclose detailed information regarding their governance practices. As of December 31, 2018, the Corporate Governance Model Act had been adopted in full or in substantial part in approximately 26 states, including some of the states where our reinsurance and insurance subsidiaries are domiciled, and legislation was pending or under consideration in certain other states. The NAIC has adopted a requirement, effective January 1, 2020, that the provisions of the Corporate Governance Model Act must be adopted by the states in order for them to maintain their NAIC accreditation. The Corporate Governance Model Act is therefore expected to be adopted in full or substantial part by the remaining states over the next year.

Group Supervision and Group Capital. In response to international developments, the NAIC has established procedures for the supervision of domestic and international insurance groups, including those groups with both insurance and non-insurance entities. The NAIC has also adopted amendments to the Model Insurance Holding Company System Regulatory Act and Regulation, or the Model Holding Company Act, which, following enactment at the state level, would authorize U.S. regulators to lead or participate in the group-wide supervision of certain international insurance groups. As of December 31, 2018, these amendments to the Model Holding Company Act had been adopted by approximately 26 states, including some of the states where our reinsurance and insurance subsidiaries are domiciled. The NAIC has adopted a requirement, effective January 1, 2020, that these amendments to the Model Holding Company Act must be adopted by the states in order for them to maintain their NAIC accreditation. The amendments to the Model Holding Company Act are therefore expected to be adopted in full or substantial part by the remaining states over the next year.

Additionally, the NAIC is continuing the development of a methodology for the calculation of group capital for all entities in an insurance holding company system. The goal is to provide U.S. regulators with a simple method to aggregate the available capital and the minimum capital of each entity in a group in a way that applies to all companies regardless of their structure. The NAIC has stated that the calculation will be a regulatory tool and does not constitute a requirement or standard. While it is still under discussion and will be field tested by volunteers in 2019, it is anticipated that this new calculation tool will use a risk-based capital, or RBC, (discussed in further detail below) aggregation methodology.

Cybersecurity. The NAIC has adopted an Insurance Data Security Model Law, which, when adopted by the states, will require insurers, insurance producers and other entities required to be licensed under state insurance laws to comply with certain requirements under state insurance laws, such as developing and maintaining a written information security program, conducting risk assessments and overseeing the data security practices of third-party vendors. To date, the Insurance Data Security Model Law has only been adopted in South Carolina, which is not a domiciliary state for our insurance and reinsurance companies. In addition, certain state insurance regulators are developing or have developed regulations that may impose regulatory requirements related to cybersecurity on insurance and reinsurance companies (potentially including insurance and reinsurance companies that are not domiciled, but are licensed, in the relevant state). For example, the New York State Department of Financial Services has adopted a regulation pertaining to cybersecurity for all banking and insurance entities under its jurisdiction, effective as of March 1, 2017, which applies to us.

Rates and Policy Forms. The policy forms and various premium rates and rates for property or casualty or surety insurance policies of our insurance subsidiaries are subject to regulation in every state in which they conduct business. In many states, rates and policy forms must be filed with the applicable insurance regulator prior to their use, and in some states, rates and forms must be affirmatively approved by the applicable insurance regulator prior to use.

The rates and coverage terms of reinsurance agreements with non-affiliates are generally not subject to regulation by any governmental authority. As a practical matter, however, the rates charged by primary insurers and the policy terms of primary insurance agreements may affect the rates charged and the policy terms under associated reinsurance agreements.

Market Conduct Examinations. The insurance laws and regulations to which our insurance companies are subject govern their marketplace activities, affecting the form and content of disclosure to consumers, product illustrations, advertising, product replacement, sales and underwriting practices and complaint and claims handling. These provisions are generally enforced through periodic market conduct examinations. Such insurance laws and regulations also govern the licensing of insurance companies and agents and regulate trade practices.

Periodic Financial Reporting and Risk-Based Capital. Reinsurance and insurance companies in the U.S. are required to report their financial condition and results of operations in accordance with SAP prescribed or permitted by state insurance regulators in conjunction with the NAIC. State insurance regulators also prescribe the form and content of statutory financial statements, perform periodic financial examinations of reinsurers and insurers, set minimum reserve and loss ratio requirements, establish standards for permissible types and amounts of investments and require minimum capital and surplus levels. These statutory capital and surplus requirements include RBC rules promulgated by the NAIC. These RBC standards are intended to assess the level of risk inherent in a reinsurance or an insurance company s business and consider items such as asset risk, credit risk, underwriting risk and other business risks relevant to its operations. In accordance with RBC formulas, a company s RBC requirements are calculated and compared with its total adjusted capital to determine whether the company may be undercapitalized and whether regulatory intervention is warranted. As of December 31, 2018, the total adjusted capital of our U.S. domiciled reinsurance and insurance companies exceeded the minimum levels required under applicable RBC rules, and each had excess capacity to write additional premiums in relation to these requirements. Specifically, as of December 31, 2018, the amount of statutory capital and surplus necessary to satisfy regulatory requirements was not significant in relation to the actual statutory capital and surplus of our reinsurance and insurance companies in the U.S.

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The NAIC annually calculates certain statutory financial ratios for most reinsurance and insurance companies in the U.S. These calculations are known as the Insurance Regulatory Information System, or IRIS, ratios. There presently are thirteen IRIS ratios, with each ratio having an established usual range of results. The IRIS ratios assist state insurance departments in executing their statutory mandate to oversee the financial condition of insurance companies. A ratio falling outside the usual range is not considered a failing result; rather, unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. The NAIC reports the ratios to state insurance departments that may then contact a company if four or more of its ratios fall outside the NAIC s usual ranges. Our reinsurance and insurance subsidiaries are not currently subject to regulatory scrutiny based on their respective IRIS ratios.

Guarantee Associations and Similar Arrangements. Certain U.S. insurance companies are required under the guaranty fund laws of most states in which they transact business to pay assessments up to certain prescribed limits to fund policyholder losses or liabilities of insolvent insurance companies. Our U.S. insurance companies also are required to participate in various involuntary pools, principally involving windstorms.

Statutory Accounting Principles. State insurance regulators have developed SAP as a basis of accounting used to monitor and regulate the solvency of reinsurers and insurers. SAP is primarily concerned with measuring a reinsurer s or insurer s surplus to policyholders. Accordingly, SAP focuses on valuing assets and liabilities of a reinsurer or insurer at financial reporting dates in accordance with applicable insurance laws and regulations in the state in which such reinsurer or insurer is domiciled. SAP determines, among other things, the amount of statutory surplus and statutory net income of our reinsurance and insurance subsidiaries and thus determines, in part, the amount of funds they have available to pay as dividends.

GAAP is concerned with a company s solvency, but it is also concerned with other financial measurements, such as income and cash flows. Accordingly, GAAP gives more consideration to appropriate matching of revenue and expenses and accounting for management s stewardship of assets than does SAP. Due to differences in methodology between SAP and GAAP, the values for assets, liabilities and equity reflected in financial statements prepared in accordance with GAAP are materially different from those reflected in financial statements prepared in accordance with SAP.

Legislative and Regulatory Initiatives. As discussed in more detail under Reinsurance Protection above, the Terrorism Act established a federal assistance program to help the commercial property and casualty insurance industry cover claims arising from terrorism-related losses and regulates the terms of insurance related to the terrorism coverage provided by our insurance companies.

On July 21, 2010, President Barack H. Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. The Dodd-Frank Act made extensive changes to the laws regulating financial services firms and requires various federal agencies to adopt a broad range of new implementing rules and regulations. In addition to introducing sweeping reform of the U.S. financial services industry, the Dodd-Frank Act adopts certain changes to U.S. insurance regulation in general, and to non-admitted insurance and reinsurance in particular. While the Dodd-Frank Act does not result in the federal regulation of insurance, it does establish federal measures that will impact the reinsurance and insurance business and preempt certain state insurance measures. For example, the Dodd-Frank Act incorporates the Non-Admitted and Reinsurance Reform Act, or the NRRA, which became effective on July 21, 2011. Among other things, the NRRA establishes national uniform standards on how states may regulate and tax surplus lines insurance (and also sets national standards concerning the regulation of reinsurance). In particular, the NRRA gives regulators in the state where an insurer is domiciled exclusive authority to regulate and tax surplus lines insurance transactions, and regulators in a ceding insurer s state of domicile are given the sole responsibility for regulating the balance sheet credit that the ceding insurer may take for reinsurance recoverables. It is difficult to predict whether legislative or executive action will amend the Dodd-Frank Act, as described below.

The Dodd-Frank Act created the Financial Stability Oversight Council, or the FSOC, to identify and respond to risks to the financial stability of the U.S. and to promote market discipline. The FSOC is authorized to designate a nonbank financial company as systemically significant if its material financial distress could threaten the financial stability of the U.S. There are currently no such nonbank financial companies designated by the FSOC as systemically significant. When the FSOC designates an entity as systemically significant, it becomes subject to supervision by the Board of Governors of the Federal Reserve System as well as enhanced prudential standards, including stress tests, liquidity requirements, annual resolution plans or living wills, and enhanced public disclosures. The FSOC s potential recommendation of measures to address systemic risk in the insurance industry could affect our insurance and reinsurance operations as could a determination that we or our counterparties are systemically significant.

The Dodd-Frank Act also created the Federal Insurance Office, or the FIO, within the U.S. Department of the Treasury, or the Treasury Department, which is designed to promote national coordination within the insurance sector and which has the authority, in part, to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of reinsurers and insurers that could contribute to a systemic crisis in the insurance industry or the U.S. financial system. Although the FIO is intended principally to exercise a monitoring and information gathering role, it does have the authority to assist the Secretary of the Treasury Department in negotiating covered agreements with regulatory authorities outside the U.S. with respect to certain agreements with foreign governments regarding the supervision and regulation of the global reinsurance and insurance markets. In implementing such international agreements, the FIO has the authority to preempt state law if it is determined that state law is inconsistent with the agreement and treats a non-U.S. reinsurer or insurer less favorably than a U.S. reinsurer or insurer.

In January 2017, the Treasury Department and the Office of the U.S. Trade Representative announced their successful completion of negotiations of a covered agreement with the EU. The covered agreement addresses three areas of prudential insurance and reinsurance supervision: reinsurance, group supervision and the exchange of information between the U.S. and EU. The covered agreement was thereafter signed on September 22, 2017, and each party has begun the process of completing its internal requirements and procedures (such as amending or promulgating appropriate statutes and regulations) in order for the covered agreement to enter into force. In terms of reinsurance, the covered agreement eliminates collateral and local presence requirements for EU and U.S. reinsurers operating in each other s markets. In connection with an alien reinsurer s assumption of insurance business from a U.S. cedent, the covered agreement gives the U.S. states five years from the execution of the covered agreement to remove the existing reinsurance collateral requirements for such alien, non-admitted reinsurers domiciled in the EU that meet certain standards. These standards include, among others, minimum capital and solvency ratios, confirmation of financial condition by the reinsurer s domestic regulator and claims payment standards. If U.S. states do not remove such reinsurance collateral requirements, the states credit for reinsurance laws will face federal pre-emption determinations. The NAIC is working on proposed amendments to the NAIC s Credit for Reinsurance Model Law in order to satisfy the substantive and timing requirements of the covered agreement. In addition, the covered agreement establishes group supervision practices that apply only to U.S. and EU insurance groups operating in both territories. For instance, the covered agreement provides that U.S. insurance groups with operations in the EU will be supervised at the worldwide level only by U.S. insurance regulators, provided those regulators apply a group capital assessment calculating risk at the group level, and precludes EU insurance supervisors from exercising solvency and capital requirements over the worldwide operations of U.S. insurers. While on the face of it, this covered agreement would appear to be beneficial to TransRe, we cannot currently predict whether this covered agreement or any future covered agreements will be successfully adopted and implemented, and cannot currently estimate the impact of changes to the laws and regulations as a consequence of any such adopted covered agreements on our business, financial condition or operating results.

The Dodd-Frank Act gave federal agencies significant discretion in drafting the rules and regulations to implement the Dodd-Frank Act. In addition, the Dodd-Frank Act mandated multiple studies and reports for the U.S. Congress, which could result in additional legislative or regulatory action. We cannot predict the requirements of the regulations ultimately adopted under the Dodd-Frank Act or any related additional legislation, the additional costs resulting from compliance with such regulations or legislation or any changes to our operations that may be necessary to comply with the Dodd-Frank Act.

However, President Donald J. Trump has expressed goals to amend the Dodd-Frank Act, which may present risks to our business. For example, on February 3, 2017, President Trump 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 Department to consult with the heads of the member agencies of the FSOC 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. In furtherance, the Secretary of the U.S. Department of Treasury issued a report on asset management and insurance that 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. The U.S. Secretary of the Treasury also issued a report recommending changes to the FSOC s process for designating non-bank financial companies systemically significant, including prioritizing an activities-based approach instead of individual designations, and enhancing the analytical process, engagement, and transparency of the designation process.

In addition, on May 24, 2018, President Trump signed into law the Economic Growth, Regulatory Relief and Consumer Protection Act, or the Economic Growth Act, which includes provisions meant to roll back certain banking regulations contained in the Dodd-Frank Act. Section 211 of the Economic Growth Act, International Insurance Capital Standards Accountability, directs the Director of FIO and the Board of Governors of the Federal Reserve to (i) support increasing transparency at any global insurance or international standard-setting regulatory or supervisory forum in which they participate, including by advocating for greater public access to International Association of Insurance Supervisors, or the IAIS, meetings; and (ii) to achieve consensus positions with the states through the NAIC prior to taking a position with respect to an insurance proposal by a global insurance regulatory or supervisory forum. However, President Trump issued a signed statement with the Economic Growth Act signaling that the executive branch bodies may not achieve consensus positions with the states through the NAIC prior to taking a position on international insurance proposals.

International Regulation

General. TransRe is regulated in various foreign jurisdictions where it conducts business. In certain jurisdictions, TransRe operates through branches or representative offices of TRC and in other jurisdictions TransRe has local reinsurance or insurance subsidiaries, such as TRL in the U.K. and TRZ in Switzerland.

The extent of the regulation varies by foreign jurisdiction, but generally governs licensing requirements, solvency, currency, amount and type of security deposits, amount and type of reserves and amount and type of local investments. International operations and assets held abroad may be materially and adversely affected by economic, political and other developments in

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foreign countries and the U.S., including possible changes in foreign and U.S. laws and regulations, nationalization and changes in regulatory policy, unexpected financial restrictions that foreign governments may impose and potential costs and difficulties in complying with a wide variety of foreign laws and regulations, as well as by the consequences of international hostilities and unrest. The risks of such occurrences and their overall effect upon us vary from country to country and cannot easily be predicted. International operations are also subject to risks related to complying, or monitoring compliance, with the requirements of anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, the Office of Foreign Assets Control of the Treasury Department, or OFAC, Solvency II, and the economic and trade sanctions laws of the U.S., including but not limited to the regulations administered by the OFAC and sanctions laws implemented by other countries in which TransRe operates. Further, regulations governing technical reserves and remittance of balances in some countries may hinder remittance of profits and repatriation of assets. A discussion of risks unique to international operations faced by TransRe s offices that operate in jurisdictions outside the U.S. can be found on pages 59 through 61 of this Form 10-K.

U.K. Regulation. Prior to December 2013, TransRe s operations in the U.K. were conducted through a branch of TRC. Since December 2013, TransRe s operations in the U.K. have been conducted by TRL and TRC s branch in the U.K. TRL and TRC s operations in the U.K. are supervised by the Prudential Regulatory Authority, or the PRA, which is responsible, among other things, for regulating the solvency of insurance and reinsurance companies, and the Financial Conduct Authority, or the FCA, which is responsible, among other things, for regulating market conduct. The PRA and the FCA have extensive powers to intervene in the affairs of a regulated entity, including the power to enforce and take disciplinary measures in respect of breaches of its rules by authorized firms and approved persons. TRL and TRC s branch in the U.K. is required to maintain a margin of solvency at all times in respect of the business conducted in accordance with PRA and FCA rules. The calculation of the margin of solvency depends on the type and amount of reinsurance business written, the type and amount of reserves held and other risk-related factors, including market risk, counterparty default risk and operational risk.

Swiss Regulation. TRZ is licensed to carry on reinsurance business in Switzerland. As a result, TRZ is required to comply with the Federal Insurance Supervision Act, the Federal Insurance Supervision Ordinance and the regulations and guidance issued by the Swiss Financial Market Supervisory Authority, or FINMA. Some of the significant aspects of the Swiss regulatory framework include complying with capital and solvency, corporate governance, risk management and internal control requirements. In addition, TRZ is subject to annual reporting requirements enacted by FINMA.

Branch Regulation. TRC operates in a number of other jurisdictions through a series of foreign branches, including branches in Australia, Bermuda, Canada, France, Germany, Japan, the Hong Kong Special Administrative Region of the People s Republic of China, the U.K., Switzerland and Singapore, and TRZ operates in Dubai through a branch. As a result, TRC and TRZ are required, among other things, to meet local licensing, reserve, currency, investment and capital requirements for these branches.

Legislative and Regulatory Initiatives. Our insurance business throughout the EU is subject to an EU directive known as Solvency II, and its implementing rules, which have been in effect since January 1, 2016. The implementation of Solvency II represented a fundamental revision to the European regulatory regime that sought to enhance transparency and risk management and encourage a proactive approach to company solvency. It is built on a risk-based approach to setting capital requirements for reinsurers and insurers. TransRe could be materially impacted by Solvency II and a key risk is that Solvency II rules may reduce TRL s and/or TRC s branch s regulatory solvency position by, for example, increased capital requirements or a reduction in eligible funds. Solvency II could also materially impact TransRe, given that Solvency II affects the calculation of the solvency of international groups which, like TransRe, conduct reinsurance and insurance operations both inside and outside of the EU. Other risks include more complex and intensive regulatory reporting burdens, regulatory requirements that conflict with requirements in other jurisdictions, and shortages of skilled staff in critical areas such as the actuarial function, all of which may have a negative impact on the results of TRL, the branches of TRC and the TransRe group. In addition, we could be required to undertake a significant amount of additional work if compliance with the Solvency II regime came into question which in turn may divert finite resources from other business related tasks.

Within the EU, EU member states, or Member States, are required to adopt common standards for authorizing and supervising reinsurance companies that are head quartered in a Member State. TRC operates within the EU as a Third Country Reinsurer under Solvency II through a series of foreign branches and on a cross-border basis. Each branch of TRC in the EU is separately authorized by the relevant regulator in the Member State in which it is established. Currently, TRC continues to conduct business within the EU through its foreign branches with no significant impact on its operations. However, TransRe could be materially and adversely affected by rules adopted by a Member State related to Third Country Reinsurers. For example, TRC may be required to post additional collateral in EU countries or may need to consider restructuring its business in order to comply with the rules adopted in EU countries related to Third Country Reinsurers. Since 2013, TransRe has been working to mitigate the risks associated with being a Third Country Reinsurer by migrating business originating in the EU from TransRe branches to TRL.

The referendum on the U.K. s membership in the EU was held on June 23, 2016 and resulted in a vote in favor of the withdrawal of the U.K. from the EU, or Brexit. As a result of Brexit, our U.K. operations could lose their European Economic Area financial services passporting rights. Additional information on the uncertainty surrounding the implementation and effect of Brexit can be found on pages 59 through 61 of this Form 10-K.

In anticipation of the U.K. s pending exit from the EU, on December 1, 2018, the Treasury Department and the Office of the U.S. Trade Representative announced that they intend to sign a new Bilateral Agreement between the U.S. and the U.K. on Prudential Measures Regarding Insurance and Reinsurance. On December 18, 2018, the U.S. issued a policy statement to provide additional clarification with respect to the implementation of the U.S. and U.K. covered agreement. We cannot currently predict whether the covered agreement between the U.S. and the U.K. will be successfully adopted and implemented. We expect the final terms of this agreement to closely follow the U.S. and EU covered agreement. We also expect, that if successfully implemented, this covered agreement will resolve some of the regulatory uncertainty that will follow Brexit for U.S. reinsurers writing business in the U.K., as well as U.K. based reinsurers writing business in the U.S.

In Argentina, Brazil, Ecuador, People s Republic of China and India, emerging markets where TransRe underwrites business on a cross-border basis, local regulations have recently been adopted that may operate to limit, restrict or increase the costs of TransRe s access to these markets. If this trend continues to spread to other jurisdictions, TransRe s ability to operate globally may be materially and adversely affected.

In addition to regulation within the U.S., by the EU and by the various jurisdictions outside the U.S. where TransRe operates, we may be affected by regulatory policies adopted by the IAIS. Regulators in more than 200 jurisdictions and approximately 140 countries, representing both established and emerging markets, are working with the IAIS to consider changes to reinsurer and insurer solvency standards and group supervision of companies in a holding company system, including non-insurance companies. Current IAIS initiatives include development of a Common Framework for the Supervision of Internationally Active Insurance Groups, or ComFrame, which has been in progress since 2010. ComFrame is intended to provide a framework of basic standards for internationally active insurance groups, or IAIGs, and a process for supervisors to cooperate in the supervision of IAIGs. A fourth draft of ComFrame was published during 2014, to be followed by field testing. Since the field testing is expected to result in further modifications to ComFrame, IAIS currently anticipates that ComFrame will be adopted in 2018 and implemented in 2019. In October 2013, IAIS announced that it intends to develop a risk-based group-wide global insurance capital standard which will be included within ComFrame. When adopted and implemented, ComFrame may impose additional and duplicative supervisory and regulatory costs on our reinsurance and insurance companies. In 2018, the IAIS announced that it will commence development of a Holistic Framework for the Supervision of Insurance Companies. While it is too early to predict the final terms of this framework, we anticipate this development to affect to a broader group of companies and markets than ComFrame. When adopted and implemented, the Holistic Framework may impose additional and duplicative supervisory and regulatory costs on our reinsurance and insurance companies.

Regulatory Convergence

Regulators within and outside the U.S. are increasingly coordinating the regulation of multinational insurers by conducting a supervisory college. A supervisory college, as defined by the IAIS, is a forum for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of entities which belong to an insurance group; facilitating both the supervisor of the group as a whole on a group-wide basis and improving the legal entity supervision of the entities within the insurance group. We continue to assess the impact, if any, such coordination may have on insurance regulation and our reinsurance and insurance subsidiaries.

Item 1A. Risk Factors.

Our operating businesses and investments are subject to a number of risks and uncertainties, including those discussed below, which could have a material and adverse effect on our businesses, results of operations or financial condition.

Our businesses may also be materially and adversely affected by risks and uncertainties not currently known to us or that we currently consider immaterial.

Risk Factors Related to our Business

The reserves for loss and LAE of our reinsurance and insurance subsidiaries are estimates and may not be adequate, which would require our reinsurance and insurance subsidiaries to establish additional reserves.
Gross reserves for loss and LAE reported on our balance sheet as of December 31, 2018 were approximately $12.3 billion. These loss and LAE reserves reflect management s best estimates of the cost of settling all claims and related expenses with respect to insured events that have occurred. Reserves do not represent an exact calculation of liability, but rather an estimate of what management expects the ultimate settlement and claims administration will cost for events that have occurred, whether known or unknown. These reserve estimates, which generally involve actuarial projections, are based on management s assessment of facts and circumstances currently known and assumptions about anticipated loss emergence patterns, including expected future trends in claims severity and frequency, inflation, court resolutions and judicial interpretations, reinsurance coverage, legislative changes and other factors.

The inherent uncertainties of estimating reserves are greater for certain types of liabilities, where long periods of time elapse before a definitive determination of liability is made and settlement is reached. Our liabilities for loss and LAE can generally be categorized into two distinct groups, short-tail business and long-tail business. Short-tail business refers to lines of business, such as property, for which losses are usually known and paid relatively soon after the loss actually occurs. Long-tail business describes lines of business for which specific losses may not be known and reported for some period and losses take much longer to emerge. Given the time frame over which long-tail exposures are ultimately settled, there is greater uncertainty and volatility in these lines than in short-tail lines of business. Our long-tail coverages consist of most casualty lines of business including professional

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liability, directors and officers liability, general liability, umbrella/excess liability and certain workers compensation exposures. Some factors that contribute to the uncertainty and volatility of long-tail casualty business, and thus require a significant degree of judgment in the reserving process, include the inherent uncertainty as to the length of reporting and payment development patterns, the possibility of judicial interpretations or legislative changes that might impact future loss experience relative to prior loss experience and the potential lack of comparability of the underlying data used in performing loss reserve analyses. In general, reinsurance business for any particular line of business is longer-tailed and, by its nature, losses are more difficult to estimate than they are for comparable insurance business.

In periods with increased economic volatility, it becomes more difficult to accurately predict claims costs. It is especially difficult to estimate the impact of inflation on loss reserves given the current economic environment and related government actions. Reserve estimates are continually refined in an ongoing process as experience develops and further claims are reported and settled. Adjustments to reserves are reflected in the results of the periods in which the adjustments are made. Because setting reserves is inherently uncertain, our current reserves could prove to be too low or too high in light of subsequent events. Should our reinsurance and insurance subsidiaries need to increase or decrease their reserves, our pre-tax income for the period would decrease or increase, respectively, by a corresponding amount. Although current reserves reflect our best estimate of the costs of settling claims, we cannot assure you that our reserve estimates will not change, perhaps by a material amount, in the future.

Because our reinsurance and insurance subsidiaries are property and casualty reinsurers and insurers, we face losses related to natural and man-made catastrophes. Property and casualty reinsurers and insurers are subject to claims arising out of catastrophes that may have a significant effect on their results of operations, liquidity and financial condition. Catastrophe losses, or the absence thereof, have historically had a significant impact on our results.

Natural or man-made catastrophes can be caused by various events, including hurricanes, other windstorms, earthquakes, floods wildfires, as well as terrorist activities. The frequency and severity of catastrophes in any short period of time are inherently unpredictable. The extent of gross losses related to a catastrophe event is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event, potentially mitigated by any reinsurance coverage purchased by our reinsurance and insurance subsidiaries. Most catastrophes are restricted to limited geographic areas; however, hurricanes, other windstorms, earthquakes and floods may produce significant damage when those areas are heavily populated. It is therefore possible that a catastrophic event or multiple catastrophic events could produce significant losses and have a material adverse effect on our financial condition and results of operations.

In addition, longer-term natural catastrophe trends may be changing due to climate change, a phenomenon that has been associated with extreme weather events linked to rising temperatures, and includes effects on global weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain and snow. Climate change, to the extent it produces rising temperatures and changes in weather patterns, could impact the frequency or severity of weather events such as hurricanes, tornado activity, other windstorms and wildfires. To the extent climate change increases the frequency and severity of such weather events, our reinsurance and insurance subsidiaries, particularly TransRe and RSUI, may face increased claims, particularly with respect to properties located in coastal areas. Our reinsurance and insurance subsidiaries take certain measures to mitigate the impact of such events by considering these risks in their underwriting and pricing decisions, including their management of aggregate exposure levels and through the purchase of reinsurance. To the extent broad environmental factors, exacerbated by climate change or otherwise, lead to increases in insured losses, particularly if those losses exceed the expectations of our reinsurance and insurance subsidiaries, our financial condition and results of operations could be materially and adversely affected.

With respect to terrorism, to the extent that reinsurers have excluded coverage for certain terrorist acts or have priced this coverage at rates that make purchasing such coverage uneconomic, our reinsurance and insurance subsidiaries will not have reinsurance protection and are exposed to potential losses as a result of any acts of terrorism. To the extent an act of terrorism is certified by the U.S. Secretary of the Treasury, we may be covered under the Terrorism Act. This coverage under the Terrorism Act does not apply to reinsurers. Information regarding the Terrorism Act and its impact on our insurance subsidiaries can be found on page 46 of this Form 10-K.

In general, TransRe does not provide coverage for certified acts of terrorism, as defined by the Terrorism Act, but it is nonetheless exposed to potential losses related to both certified and uncertified acts of terrorism in the U.S. or elsewhere, such as from terrorism-specific treaty coverages offered to ceding companies or terrorism risk pools outside of the U.S. on a limited basis, and with respect to other lines of business from the assumption of terrorism risk in marine, aviation and other casualty treaties. Although TransRe assumes such terrorism risk after careful underwriting consideration and, in many cases, with limitations, a major terrorist event could have a material adverse impact on TransRe and us.

Finally, other catastrophes, such as an outbreak of a pandemic disease, the bankruptcy of a major company or a marine or aviation disaster, could also have a materially adverse effect on our business and operating results.

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Significant competitive pressures may prevent our reinsurance and insurance subsidiaries from retaining existing business or writing new business at adequate rates. Our reinsurance and insurance subsidiaries compete with a large number of other companies in their selected lines of business. They compete, and will continue to compete, with major U.S. and non-U.S. reinsurers and insurers, other regional companies, mutual companies, specialty insurance companies, underwriting agencies, government-owned or subsidized facilities, European underwriting syndicates and diversified financial services companies. Many competitors have considerably more financial resources, greater experience and may offer more products or services than our reinsurance and insurance subsidiaries. Except for regulatory considerations, there are virtually no barriers to entry into the reinsurance and insurance industry.

Additionally, the reinsurance and insurance industry continues to consolidate and, accordingly, competition for customers will continue to increase. As a result, our reinsurance and insurance subsidiaries may incur greater customer retention and acquisition expense, which would affect the profitability of existing and new business. Further, as the industry continues to consolidate, reinsurance and insurance companies that merge could have increased market size and capital resources with which to negotiate price reductions and retain more risk, decreasing pricing and demand for reinsurance.

Competition in the businesses of our reinsurance and insurance subsidiaries is based on many factors, including the perceived financial strength of a company, premiums charged, other terms and conditions offered, services provided, commissions paid to producers, ratings assigned by independent rating agencies, speed of claims payment and reputation and experience in the lines to be written. Such competition could cause the supply or demand for insurance to change, which could affect the ability of our reinsurance and insurance subsidiaries to price their products at adequate rates. If our reinsurance and insurance subsidiaries are unable to retain existing business or write new business at adequate rates, our results of operations could be materially and adversely affected.

In addition to competition from the reinsurance industry, TransRe faces competition from the capital markets, as well as some traditional reinsurers, which from time to time produce alternative products or reinsurance vehicles (such as collateralized reinsurance, reinsurance securitizations, catastrophe bonds and various derivatives, such as swaps and sidecars) that may compete with certain types of reinsurance, such as property catastrophe. Hedge funds may also provide reinsurance and retrocessional protections through captive companies or other alternative transactions on a fully collateralized basis for property and energy catastrophe business. Over time, these initiatives could significantly affect supply, pricing and competition in the reinsurance industry.

Our results may fluctuate as a result of many factors, including cyclical changes in the reinsurance and insurance industries. Historically, the performance of the property and casualty reinsurance and insurance industries has tended to fluctuate in cyclical periods of price competition and excess underwriting capacity, followed by periods of high premium rates and shortages of underwriting capacity. Although an individual reinsurance and insurance company s performance is dependent on its own specific business characteristics, the profitability of most property and casualty reinsurance and insurance companies tends to follow this market cycle. Further, this cyclical market pattern can be more pronounced in the reinsurance market in which TransRe competes and in the excess and surplus market in which RSUI primarily competes than in the standard insurance market. In addition, compared with historical cyclical periods, a cycle of increased price competition and excess underwriting capacity may continue for a prolonged period of time as new and existing reinsurance and insurance market participants and products continue to enter the reinsurance and insurance markets. Unfavorable market conditions may affect the ability of our reinsurance and insurance subsidiaries to write business at rates they consider appropriate relative to the risk assumed. If we cannot write business at appropriate rates, our business would be significantly and adversely affected.

When premium rates are high and there is a shortage of capacity in the standard insurance market, growth in the excess and surplus market can be significantly more rapid than growth in the standard insurance market. Similarly, when there is price competition and excess underwriting capacity in the standard insurance market, many customers that were previously driven into the excess and surplus market may return to the standard insurance market, exacerbating the effects of price competition.

Demand for reinsurance is influenced significantly by underwriting and investment results in both the standard insurance and the excess and surplus markets and market conditions. The supply of reinsurance is related to prevailing prices, the levels of insured losses and the levels of reinsurance industry surplus, among other factors, that, in turn, may fluctuate in response to changes in rates of return on investments being earned in the reinsurance industry. In addition, the supply of reinsurance is affected by a reinsurer s confidence in its ability to accurately assess the probability of expected underwriting outcomes, particularly with respect to catastrophe losses.

Since cyclicality is due in large part to the collective actions of insurers, reinsurers and general economic conditions and the occurrence of unpredictable events, we cannot predict the timing or duration of changes in the market cycle. These cyclical patterns cause our revenues and net earnings to fluctuate. In addition, our results may fluctuate as a result of changes in economic, legal, political and social factors, among others.

We cannot guarantee that the reinsurers used by our reinsurance and insurance subsidiaries will pay in a timely fashion, if at all, and, as a result, we could experience losses even if reinsured. As part of their overall risk and capacity management strategy, our reinsurance and insurance subsidiaries purchase reinsurance by transferring or ceding part of the risk that they have underwritten to a reinsurance company in exchange for part of the premium received by our subsidiaries in connection with that risk. Although reinsurance makes the reinsurer liable to our reinsurance and insurance subsidiaries to the extent the risk is transferred or ceded to the reinsurer, our reinsurance and insurance subsidiaries remain liable for amounts not paid by a reinsurer.

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Reinsurers may not pay the reinsurance recoverables that they owe to our subsidiaries or they may not pay these recoverables on a timely basis. This risk may increase significantly if these reinsurers experience financial difficulties as a result of catastrophes, investment losses or other events. Accordingly, we bear credit risk with respect to our reinsurance and insurance subsidiaries reinsurers, and if they fail to pay, our financial results would be adversely affected. As of December 31, 2018, reinsurance recoverables reported on our balance sheet were $1.9 billion.

If market conditions cause reinsurance to be more costly or unavailable, our reinsurance and insurance subsidiaries may be required to bear increased risks or reduce the level of their underwriting commitments. As part of their overall risk management strategy, our reinsurance and insurance subsidiaries purchase reinsurance for certain amounts of risk underwritten by them, including catastrophe risks. The reinsurance programs purchased by our subsidiaries are generally subject to annual renewal. Market conditions beyond their control determine the availability and cost of the reinsurance protection they purchase, which may affect the level of their business written and thus their profitability. If our reinsurance and insurance subsidiaries are unable to renew their expiring facilities or to obtain new reinsurance facilities, which could result as the number of companies offering reinsurance coverage declines due to industry consolidation, either their net exposures on future policies or reinsurance contracts would increase, which could increase the volatility of their results or, if they are unwilling or unable to bear an increase in net exposures, they would have to reduce the level of their underwriting commitments, especially catastrophe-exposed risks, which may reduce their revenues and net earnings. In certain reinsurance contracts, a cedant, to the extent it exhausts its original coverage under a reinsurance contract during a single coverage period (typically a single twelve-month period), can pay a reinsurance reinstatement premium to restore coverage during such coverage period. If our reinsurance and insurance subsidiaries exhaust their original and, if applicable, reinstated coverage under their third-party reinsurance contracts during a single coverage period, they will not have any reinsurance coverage available for losses incurred as a result of additional loss events during that coverage period. The exhaustion of such reinsurance coverage could have a material adverse effect on the profitability of our reinsurance and insurance subsidiaries in any given period and on our results of operations.

TransRe and RSUI attempt to manage their exposure to catastrophe risk partially through the use of catastrophe modeling software. The failure of this software to accurately gauge the catastrophe-exposed risks they write could have a material adverse effect on our financial condition, results of operations and cash flows. As part of their approach to managing catastrophe risk, TransRe and RSUI use a number of tools, including third-party catastrophe modeling software, to help evaluate potential losses. TransRe and RSUI use modeled loss scenarios and internal analyses to set their level of risk retention and help structure their reinsurance programs. Modeled loss estimates, however, have not always accurately predicted their ultimate losses with respect to catastrophe events. Accordingly, TransRe and RSUI periodically review their catastrophe exposure management approach, which may result in the implementation of new monitoring tools and a revision of their underwriting guidelines and procedures. However, these efforts may not be successful in sufficiently mitigating risk exposures and losses resulting from future catastrophes.

Our reinsurance and insurance subsidiaries are rated by rating agencies and a decline in these ratings could affect the standings of these units in the reinsurance and insurance industries and cause their premium volume and earnings to decrease. Ratings have become an increasingly important factor in establishing the competitive positions of reinsurance and insurance companies. Some of our reinsurance and insurance subsidiaries are rated by A.M. Best, S&P and/or Moody s, which we collectively refer to as the Rating Agencies. The Rating Agencies financial strength ratings reflect their opinions of a reinsurance or an insurance company s financial strength, operating performance, strategic position and ability to meet its obligations to policyholders, and are neither an evaluation directed to investors of a security nor a recommendation to buy, sell or hold a security. These ratings are subject to periodic review, and we cannot assure you that any of our reinsurance or insurance companies will be able to retain their current ratings. If the ratings of our reinsurance or insurance companies are reduced from their current levels by the Rating Agencies, their competitive positions could suffer and it would be more difficult for them to market their products. A significant downgrade could result in a substantial loss of business as customers move to other companies with higher financial strength ratings.

In addition, in general, if the financial strength ratings of TransRe s operating subsidiaries from the Rating Agencies fall below A-, a significant portion of TransRe s operating subsidiaries contracts that contain rating agency triggers would allow customers to elect to take a number of actions such as terminating the contracts on a run-off or cut-off basis, requiring TransRe s operating subsidiaries to post collateral for all or a portion of the obligations or requiring commutation under the contracts. Some of these contracts, however, contain dual triggers, such as requiring both a ratings downgrade below A- and a significant decline in the statutory surplus of TransRe s operating subsidiaries before such cancellation or collateralization rights would be exercisable. Contracts may contain one or both of the aforementioned contractual provisions, or certain other collateralization or cancellation triggers. Whether a ceding company would exercise any of these cancellation rights would depend on, among other factors, the reason and extent of such downgrade or surplus reduction, the prevailing market conditions and the pricing and availability of replacement reinsurance coverage. We cannot predict the extent to which these contractual rights would be exercised, if at all, or what effect such exercises would have on our financial condition or future operations, but such effect potentially could be materially adverse to us.

TransRe may also enter into agreements with ceding companies that require it to provide collateral for its obligations, including where TransRe s obligations to these ceding companies exceed negotiated thresholds. These thresholds may vary depending on the ratings of TransRe s operating subsidiaries, and a ratings downgrade or a failure to achieve a certain rating may increase the amount of collateral TransRe is required to provide. An increase in the amount of collateral TransRe is obligated to provide to secure its obligations may have an adverse impact on, among other things, TransRe s ability to write additional reinsurance.

A limited number of brokers account for a large portion of TransRe s premiums; the loss of all or a substantial portion of the business provided by them may have an adverse effect on us. The great majority of TransRe s premiums are written through brokers. Several large international brokers dominate the reinsurance brokerage industry, and TransRe derives a significant portion of its premiums from these brokers. Further, TransRe may become increasingly reliant on these brokers due to continued consolidation in the broker sector. The loss of all or a substantial portion of the business provided by these brokers could have a material adverse effect on us.

Difficult and volatile conditions in the global capital and credit markets and in the overall economy could materially and adversely affect the results of our reinsurance and insurance subsidiaries. Disruption and volatility in the global capital and credit markets and in the overall economy affects our business in a number of ways, including the following:

- disruption in the capital and credit markets may increase claims activity in our reinsurance business, such as directors and officers liability, errors and omissions liability and trade credit lines;

- volatility in the capital and credit markets makes it more difficult to access those markets, if necessary, to maintain or improve financial strength and credit ratings of our reinsurance and insurance subsidiaries or to generate liquidity;

- disruption in the overall economy may reduce demand for reinsurance and insurance products; and

- increases in inflation could result in higher losses on reinsurance contracts, particularly in longer-tailed lines of business, increased operating costs and a decrease in the fair value of our investment portfolio.

It is difficult to predict when and how long these types of conditions may exist and how our markets, business and investments will be adversely affected. Accordingly, these conditions could have a material adverse effect on our consolidated financial condition or results of operations in future periods.

The businesses of our reinsurance and insurance subsidiaries are heavily regulated, and changes in regulation may limit their ability to pay dividends, reduce their profitability and limit their growth. Our reinsurance and insurance operating subsidiaries are subject to extensive regulation and supervision in the jurisdictions in which they conduct business, both in the U.S. and other countries. This regulation is generally designed to protect the interests of policyholders and not necessarily the interests of insurers, their stockholders or other investors. The regulation relates to authorization for lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non-financial components of a reinsurance or insurance company s business. Moreover, insurance laws and regulations, among other things: establish solvency requirements, including minimum reserves and capital and surplus requirements; limit the amount of dividends, tax distributions, intercompany loans and other payments our insurance subsidiaries can make without prior regulatory approval; and impose restrictions on the amount and type of investments we may hold. The application of these laws could affect our liquidity and ability to pay dividends, interest and other payments on securities, among other things.

Virtually all states in which our insurance operating subsidiary companies conduct their business require them, together with other insurers licensed to do business in that state, to bear a portion of the loss suffered by some insureds as the result of impaired or insolvent insurance companies. In addition, in various states, our insurance operating subsidiary companies must participate in mandatory arrangements to provide various types of insurance coverage to individuals or other entities that otherwise are unable to purchase that coverage from private insurers. A few states require our insurance operating subsidiary companies to purchase reinsurance from a mandatory reinsurance fund. Such reinsurance funds can create a credit risk for insurers if not adequately funded by the state and, in some cases, the existence of a reinsurance fund could affect the prices charged for the policies issued by our reinsurance and insurance subsidiaries. The effect of these and similar arrangements could reduce the profitability of our insurance operating subsidiaries in any given period or limit their ability to grow their business.

In recent years, the state insurance regulatory framework has come under increased scrutiny, and some state legislatures have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. Further, the NAIC and state insurance regulators are continually reexamining existing laws and regulations, specifically focusing on modifications to statutory accounting principles, credit for reinsurance laws, interpretations of existing laws and the development of new laws and regulations. On the federal level, the Dodd-Frank Act, signed into law on July 2010, mandated significant changes to the regulation of U.S. insurance effective as of July 21, 2011. We cannot predict the requirements of the regulations ultimately adopted under the Dodd-Frank Act or the impact such regulations will have on our business. In addition, we cannot predict the impact on our business, if any, of any potential roll back or dismantling of the Dodd-Frank Act. These regulations, and any proposed or future state or federal legislation or NAIC initiatives, if adopted, may be more restrictive on the ability of our reinsurance and insurance subsidiaries to conduct business than current regulatory requirements or may result in higher costs. Information regarding the impact of regulation and current regulatory changes on our reinsurance and insurance operating subsidiaries can be found on pages 48 through 54 of this Form 10-K.

TransRe s offices that operate in jurisdictions outside the U.S. are subject to certain limitations and risks that are unique to foreign operations. TransRe s international operations are also regulated in various jurisdictions with respect to licensing requirements, solvency, currency, amount and type of security deposits, amount and type of reserves, amount and type of local investments and other matters. International operations and assets held abroad are subject to significant legal, market, operational, compliance and regulatory risks, including risks related to:

- economic, political and other developments in foreign countries;
- changes in foreign or U.S. laws and regulations;
- nationalization and changes in regulatory policy;
- unexpected financial restrictions that foreign governments may impose;
- the potential costs and difficulties in complying with a wide variety of foreign laws and regulations; and
- the consequences of international hostilities and unrest.

The risks of such occurrences and their overall effect upon us vary from country to country and cannot be predicted. In addition, our results of operations and net unrealized currency translation gain or loss (a component of accumulated other comprehensive income) are subject to volatility as the value of the foreign currencies fluctuate relative to the U.S. dollar. Further, regulations governing technical reserves and remittance balances in some countries may hinder remittance of profits and repatriation of assets.

The international and U.S. laws and regulations that are applicable to TransRe s operations are complex and may increase the costs of regulatory compliance, limit or restrict TransRe s reinsurance business or subject TransRe to regulatory actions or proceedings in the future. Although TransRe attempts to comply with all applicable laws and regulations and seeks licenses to undertake various activities where appropriate, there can be no assurance that TransRe is, or will be, in full compliance with all applicable laws and regulations, or interpretations of these laws and regulations, at all times. In addition, it is TransRe s policy to continually monitor compliance with, and voluntarily report to appropriate regulatory authorities any potential violations of, all applicable laws and regulations where it is deemed appropriate, including anti-corruption and trade sanction laws, and any failure to comply with any such laws and regulations may subject TransRe to investigations, sanctions or other remedies, including fines, injunctions, increased scrutiny or oversight by regulatory authorities. The cost of compliance or the consequences of non-compliance, including reputational damage, could have a material adverse effect on our consolidated financial condition or results of operations in future periods.

On January 16, 2016, following implementation of the Joint Comprehensive Plan of Action, or the JCPOA, certain trade sanctions laws of the EU and the United Nations restricting dealings with Iran and Iranian entities were substantially eased, and the U.S. also provided relief for certain restrictions on individuals and entities outside of the U.S. On Implementation Day, the U.S. also authorized, under General License H, foreign companies owned or controlled by U.S. persons, such as TRL and TRZ, to engage in certain transactions involving Iran and Iranian entities.

Pursuant to General License H and a specific license issued to TransRe, TRL and TRZ provided reinsurance coverage to non-Iranian cedants that had exposure to de minimis Iran-related risks that were permissible under General License H. On May 8, 2018, the U.S. announced it would cease participation in the JCPOA and reinstated the sanctions that were in effect prior to U.S. participation. Foreign companies owned or controlled by U.S. persons were allowed 180 days to withdraw from any business dealings that were entered into under General License H and any additional authoriziations, including general or specific licenses, granted by OFAC. Consequently, TRL and TRZ timely discontinued such coverage. As the failure to comply with trade sanctions prohibitions could subject TransRe to investigations, significant fines and other penalties, TransRe has implemented processes and procedures to comply with the reinstated trade sanctions laws of the U.S. Additionally, as the decision to withdraw from the JCPOA was unilateral, TransRe may be subject to penalties and fines in jurisdictions, such as the EU, that disallow compliance with such unilateral trade sanctions by TransRe s operations within those jurisdictions. The cost of compliance or the consequences of non-compliance with the trade sanctions laws of the U.S. and other jurisdictions, including reputational damage, could have a material adverse effect on our consolidated financial condition or results of operations.

Prior to January 13, 2017, the U.S. maintained comprehensive sanctions against Sudan. On January 13, 2017, OFAC issued a general license authorizing all transactions previously prohibited by the Sudan Sanctions Regulations, which sanctions were then revoked on October 12, 2017. As a result, beginning January 13, 2017, sanctions exclusions clauses, which TransRe utilizes in its reinsurance contracts to exclude coverage of prohibited risks, no longer excluded coverage by TransRe of Sudanese risks authorized under such license, and TransRe was obliged under the language of its reinsurance contracts to provide coverage and pay valid claims occurring on or after that date on any covered Sudanese risks legally permissible. TransRe continues to be exposed to Sudanese risks on treaties underwritten after January 13, 2017. Despite the lifting of U.S. sanctions, Sudan remains on the U.S. list of State Sponsors of Terrorism. TransRe has no direct business with Sudanese cedants or any contracts with Sudanese entities. TransRe has determined that a small number of Sudanese-related risks are underwritten by non-Sudanese cedants for which TransRe provides coverage under reinsurance treaties and which are not, as a result of the lifting of U.S. sanctions, excluded under such treaties. The revenue associated with such reinsurance covering this small number of Sudanese-related risks is immaterial to both TransRe and Alleghany.

With regards to TransRe s operations within the EU, TRC operates within the EU as a Third Country Reinsurer under Solvency II through a series of foreign branches and on a cross-border basis. Each branch of TRC in the EU that is required to be authorized is separately authorized by the relevant regulator in the Member State in which it is established. Currently, TRC continues to conduct business within the EU through its foreign branches with no significant impact on its operations. However, TransRe could be materially and adversely affected by rules adopted by a Member State related to Third Country Reinsurers. For example, TRC may be required to post additional collateral in EU countries or may need to consider further restructuring its business in order to comply with the rules adopted in EU countries related to Third Country Reinsurers.

Solvency II, which is a fundamental revision to the European regulatory regime that seeks to enhance transparency and risk management and encourages a proactive approach to company solvency, came into effect on January 1, 2016. It is built on a risk-based approach to setting capital requirements for reinsurers and insurers. Solvency II may affect the way in which TransRe s international group, including TRL and TRC s branches in the EU operate and may have a negative impact on our results. Solvency II may reduce TRL s and/or TRC s EU branches regulatory solvency position, for example, by increased capital requirements or a reduction in eligible funds. Solvency II could also materially impact the group, since Solvency II affects the calculation of the solvency of international groups which, like TransRe, conduct reinsurance and insurance operations both inside and outside of the EU. The changes also require an accelerated quarterly close process across the group to allow TRL and TRC s EU branches to meet the regulatory disclosure timetable under Solvency II. Other risks include more complex and intensive regulatory reporting burdens, regulatory requirements that conflict with requirements in other jurisdictions, and shortages of skilled staff in critical areas such as the actuarial function, all of which may have a negative impact on the results of TRL, the branches of TRC and the TransRe group. In addition, we could be required to undertake a significant amount of additional work to comply with the Solvency II regime, which in turn may divert finite resources from other business related tasks.

Although Solvency II is now in force, uncertainty remains as to how the Solvency II regime will be enforced or amended and the effectiveness of the coordination and cooperation of information sharing among supervisory bodies and regulators or the effect, if any, these developments may have on the TransRe group s operations and financial condition. This uncertainty has increased as a result of the Brexit referendum which will lead to the U.K. leaving the EU at a yet to be determined date. Following Brexit, the U.K. would be free to determine its own regulatory regime. We cannot currently predict whether the U.K. s regulatory regime will be deemed equivalent to Solvency II or the impact on TRL and TRC if the future U.K. regulatory regime is not found to be equivalent to Solvency II.

The uncertainty has also increased as a result of the announcement in January 2017 by the Treasury Department and the Office of the U.S. Trade Representative that the covered agreement with the EU has been successfully negotiated. For example, the covered agreement provides for the elimination of local presence and reinsurance collateral requirements for EU-domiciled reinsurers operating in the U.S. and for U.S.-domiciled reinsurers operating in the EU. Further, the covered agreement includes certain provisions limiting the ability of EU jurisdictions to impose group supervision (including governance, solvency and capital, and reporting) requirements on U.S. insurance and reinsurance groups. While this development would appear to be beneficial to TransRe, we cannot currently predict whether the covered agreement between the U.S. and the EU will be successfully adopted, nor, if adopted, what its application to the U.K. will be post-Brexit. Our Solvency II implementation approach is based on our current understanding of the Solvency II requirements and any material changes thereto could have a material adverse effect on our business.

The 2016 Brexit vote whereby the U.K. electorate voted in favor of the U.K. s exit from the EU could have an adverse effect on our business, financial condition and results of operations. The Brexit vote means that insurance and reinsurance carriers operating in the U.K. are experiencing a period of regulatory uncertainty as the U.K. and the EU undertake the challenge of redefining the U.K. s economic and political relationships with the EU. The U.K. will remain a member state of the EU until it negotiates and reaches an agreement in relation to the withdrawal from the EU or, if earlier, upon the expiration of a two year period following the Article 50 notification (i.e. on March 29, 2019). In November 2018, the U.K. and the EU announced their agreement on a draft text of a withdrawal agreement, which would include the application of transitional provisions under which EU law would broadly remain in force in the U.K. until the end of December 2020. However, there is uncertainty as to whether the withdrawal agreement, with is subject to approval of the U.K. Parliament, will actually be entered into. In the absence of such an agreement there would be no transitional provisions and a hard Brexit would occur on March 29, 2019, unless the U.K. government were to revoke its Article 50 notice or if the two year Article 50 period were to be extended. It is possible that the withdrawal process may last significantly longer than the two year period envisaged by the Treaty of the EU. The uncertainty surrounding the implementation and effect of Brexit, including the commencement of the exit negotiation period, the terms and conditions of such exit, the uncertainty in relation to the legal and regulatory framework that would apply to the U.K. and its relationship with the remaining members of the EU (including in relation to trade and services) during a withdrawal process and after any Brexit is effected, has caused and is likely to cause increased economic volatility and market uncertainty globally, in particular volatility of currency exchange rates, interest rates and credit spreads. It has already led, and may continue to lead, to disruptions for the European and global financial markets, such as the decrease in the value of the British Pound and of market values of listed U.K. companies, in particular from the financial services and insurance sector, and the recent downgrade of the credit ratings for the U.K. by S&P, Moody s and Fitch (each with a negative outlook).

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The long-term effect of Brexit on the value of our investment portfolio at this time is uncertain and such volatility and uncertainty will likely continue as negotiations progress to determine the future terms of the U.K. s relationship with the EU.

Brexit could lead to potentially divergent national laws and regulations as the U.K. determines which EU laws to replace or replicate. We may have to review our underwriting platforms and incur additional regulatory and transactional costs as a result. For example, depending on the outcome of the negotiations referred to above, TRL could lose its EEA financial services passport which provides it the license to operate across borders within the single EU market without obtaining any required local regulatory approval where insurers and cedants are located. In addition, depending on the terms of Brexit, the U.K. s regulatory regime in terms of Solvency II regulation and governance could also diverge and no longer be equivalent.

Depending on the terms of Brexit or if there is a hard Brexit, the U.K. could also lose tariff-free access to the single EU market and to the global trade deals negotiated by the EU on behalf of its Member States. Any consequential decline in trade could affect the attractiveness of the U.K. as a global investment center and, as a result, could have a detrimental impact on U.K. growth. We could be adversely affected by reduced growth and greater volatility in the U.K. economy.

In Argentina, Brazil, Ecuador, India and the People s Republic of China, emerging markets where TransRe underwrites business on a cross-border basis, local regulations have recently been adopted that may operate to limit, restrict or increase the costs of TransRe s access to these markets. If this trend continues to spread to other jurisdictions, TransRe s ability to operate globally may be materially and adversely affected.

The loss of key personnel at our reinsurance and insurance subsidiaries could adversely affect our results of operations, financial condition and cash flows. We rely upon the knowledge and talent of the employees of our reinsurance and insurance subsidiaries to successfully conduct their business. Changes in local employment legislation, taxation and the approach of regulatory bodies to compensation practice within our operating jurisdictions may impact our ability to recruit and retain senior employees or the cost to us of doing so. A loss of key personnel, especially the loss of underwriters or underwriting teams, could have a material adverse effect on our results of operations, financial condition and cash flows in future periods. Our success has depended, and will continue to depend in substantial part, upon our ability to attract and retain teams of underwriters in various business lines at our reinsurance and insurance subsidiaries. The loss of key services of any members of current underwriting teams at our reinsurance and insurance subsidiaries may adversely affect our business and results of operations.

Errors and misconduct by our employees, agents, intermediaries or representatives may be difficult to detect and prevent and could expose us to significant legal liability and reputational harm. Our employees and the employees of our subsidiaries could engage in misconduct that adversely affects our business. It is not always possible to deter or prevent employee error or misconduct, and the controls and procedures that we have in place to prevent and detect this activity may not be effective in all cases. Losses may result from, among other things, illegal acts, unethical behavior, fraud, errors, failure to document transactions properly, failure to obtain proper internal authorization, failure to comply with underwriting or other internal guidelines by our reinsurance and insurance subsidiaries, or failure to comply with regulatory requirements or our internal policies. We could be subject to litigation, regulatory sanctions and serious harm to our reputation or financial position if employees were to engage or be accused of engaging in illegal or suspicious activities or failing to comply with internal guidelines and protocols. Misconduct by employees, or even unsubstantiated allegations, could result in a material adverse effect on our reputation, financial condition and results of operations.

We are subject to the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar worldwide anti-bribery laws, which impose restrictions and may carry substantial penalties. Violations of these laws or allegations of such violations could adversely affect results of operations or financial condition. The U.S. Foreign Corrupt Practices Act and anti-bribery laws in other jurisdictions, including the U.K. Bribery Act that took effect in 2011, generally prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining business or other commercial advantage. Our policies and controls are designed to ensure compliance with these anti-bribery laws and regulations, which often carry substantial penalties. We cannot assure you that our internal control policies and procedures always will protect us from reckless or other inappropriate acts committed by our affiliates, employees, agents or other third parties with whom we do business. In such event, we could be exposed to civil penalties, criminal penalties and other sanctions, including fines or other punitive actions. In addition, such violations could damage our business and/or our reputation. Such criminal or civil sanctions, penalties, other sanctions and damage to our business or reputation, could have a material adverse effect on our business, financial position and results of operations.

There are significant hazards associated with oil exploration and production activities, some of which may not be fully covered by insurance. The business of exploring for, producing, storing and transporting oil is subject to risks and hazards, including environmental hazards, construction risks, industrial accidents, the encountering of unusual or unexpected geological formations, cave-ins, blowouts, fires, explosions, craterings, pipeline ruptures and spills, flooding, earthquakes and other natural disasters. These occurrences could result in personal injury or death, environmental damage, damage to, or destruction of, mineral properties or production facilities or other physical assets, monetary losses and possible legal liability. Although we maintain insurance against some of these risks, insurance fully covering many of these risks is not generally available to us or if it is, we may elect not to obtain it due to the high premium costs or commercial impracticality. Any liabilities that we may incur for these risks and hazards could be significant and could have a material adverse effect on our reputation, financial condition and results of operations.

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We are subject to risks related to our use of information technology. We rely on information technology in virtually all aspects of our business. Our reinsurance and insurance subsidiaries in particular depend on the proper functioning and availability of their information technology platforms, including communications and data processing systems, in operating their businesses. These systems consist of software programs that are integral to the efficient operation of the businesses of our reinsurance and insurance subsidiaries, including programs for proprietary pricing and exposure management, processing payments and claims, filing and making changes to records and providing customer support. Our reinsurance and insurance subsidiaries are also required to effect electronic transmissions with third parties including brokers, clients, vendors and others with whom they do business.

A significant disruption or failure of our information technology systems may have a significant impact on our operations, potentially resulting in service interruptions, security violations, regulatory compliance failures and other operational difficulties. In addition, any attack perpetrated against our information systems including through a system failure, security breach or disruption by malware or other damage, could similarly impact our operations and result in loss or misuse of information, litigation and potential liability. Although we have taken steps intended to mitigate the risks presented by potential cyber incidents, it is not possible to protect against every potential power loss, telecommunications failure, cybersecurity attack or similar event that may arise. Moreover, the safeguards we use are subject to human implementation and maintenance and to other uncertainties. Any of these cyber incidents may result in a violation of applicable laws or regulations (including privacy and other laws), damage our reputation, cause a loss of customers and give rise to monetary fines and other penalties, which could be significant. Such events could have an adverse effect on our results of operations, financial condition and liquidity.

The costs of complying with, or our failure to comply with, U.S. and foreign laws related to privacy, data security and data protection, such as the EU General Data Protection Regulation, could adversely affect our results of operations or financial condition and our reputation. The regulatory environment surrounding information security and privacy is increasingly demanding. We are subject to numerous U.S. federal and state laws and non-U.S. regulations governing the protection of personal and confidential information of our clients or employees, including the New York Department of Financial Services Cybersecurity Regulation, or the NYDFS Cybersecurity Regulation, which mandates detailed cybersecurity standards for all institutions, including insurance entities, authorized by the NYDFS to operate in New York. Among the requirements are the maintenance of a cybersecurity program with governance controls, risk-based minimum data security standards for technology systems, cyber breach preparedness and response requirements, including reporting obligations, vendor oversight, training and program record keeping and certification obligations. The NYDFS Cybersecurity Regulation has increased our compliance costs and the consequences of noncompliance could include regulatory enforcement actions and penalties, as well as reputation risk.

The NAIC adopted an Insurance Data Security Model Law, which would require licensed insurance entities to comply with detailed information security requirements. The NAIC model law is similar in many respects to the NYDFS Cybersecurity Regulation. It is not yet known whether, and to what extent, states legislatures or insurance regulators where our insurance and reinsurance subsidiaries operate will enact the Insurance Data Security Model Law. Such enactments, especially if inconsistent between states or with existing laws and regulations could raise compliance costs or increase the risk of noncompliance, with the attendant risk of being subject to regulatory enforcement actions and penalties, as well as reputational harm. Any such events could potentially have an adverse impact on our business, financial condition or results of operations.

More broadly, the General Data Protection Regulation, or the GDPR, which regulates data protection for all individuals within the EU, including foreign companies processing data of EU residents, became effective on May 25, 2018 and applies to all of our subsidiaries operating in the EU. The regulation sets out a number of requirements that must be complied with when handling the personal data of such EU based data subjects including: the obligation to appoint data protection officers in certain circumstances; new rights for individuals to be forgotten and rights to data portability; the principal of accountability and the obligation to make public notification of significant data breaches. The GDPR also retains and adds to some existing requirements, including restrictions on transfers outside the European Economic Area, or the EEA (including Switzerland), and the requirement to include specific data protection provisions in agreements with data processors. The GDPR enhances individuals rights, introduces complex and far-reaching company obligations and increases penalties significantly in case of violation. The interpretation and application of data protection laws in the U.S., Europe and elsewhere are developing and are often uncertain and in flux. The introduction of the GDPR, and any resultant changes in EU member states national laws and regulations, may increase our compliance obligations and costs, and may necessitate the review and implementation of policies and processes relating to our collection and use of data. It is possible that these laws or cybersecurity regulations may be interpreted and applied in a manner that is inconsistent with our data protection or security practices.

If any person, including any of our employees, our subsidiaries employees or those with whom we share such information, negligently disregards or intentionally breaches our established controls with respect to our client or employee data, or otherwise mismanages or misappropriates that data, we could be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution in one or more jurisdictions. For example, the GDPR increases sanctions for non-compliance, which could result in a penalty of up to the higher of (a) 20 million; and (b) 4 percent of a company s global annual revenue for the preceding financial year for certain infringements, such as unlawful data transfer outside of the EEA. In addition, a data breach could result in negative publicity which could damage our reputation and have a material adverse effect on our financial condition and results of operations.

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The impact of changes in current accounting practices and future pronouncements could have a material adverse effect on our financial condition, results of operations and cash flows. Our financial statements are prepared in accordance with GAAP, which is periodically revised by the Financial Accounting Standards Board, or the FASB, and they are subject to the accounting-related rules and interpretations of the SEC. We are required to adopt new and revised accounting standards implemented by the FASB. Unanticipated developments in accounting practices may require us to incur considerable additional time and expenses to comply with such developments, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. For a description of changes in accounting standards that are currently pending and, if known, our estimates of their expected impact, see Note 1(r) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K.

Risk Factors Related to our Investments and Assets

The valuation of our investments includes methodologies, estimates and assumptions which are subject to differing interpretations or judgments; a change in interpretations or judgments could result in changes to investment valuations that may adversely affect our results of operations or financial condition. The vast majority of our investments are measured at fair value using methodologies, estimates and assumptions which are subject to differing interpretations or judgments. Financial instruments with quoted prices in active markets generally have more price observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Investments recorded at fair value in the consolidated balance sheet are classified in a hierarchy for disclosure purposes consisting of three levels based on the observability of inputs available in the market used to measure the fair values.

Securities that are less liquid are more difficult to value and trade. During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain of the securities in our investment portfolio if trading becomes less frequent or market data becomes less observable. Certain asset classes in active markets with significant observable data may become illiquid due to changes in the financial environment. In such cases, valuing these securities may require more subjectivity and judgment. In addition, prices provided by third-party pricing services and broker quotes can vary widely even for the same security.

As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods which are more sophisticated, thereby resulting in values which may be greater or less than the value at which the investments may be ultimately sold. Further, rapidly changing or strained credit and equity market conditions could materially impact the value of securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

Our investments in debt and equity securities are subject to market fluctuations. As of December 31, 2018, our investments in debt securities were approximately $11.8 billion, or approximately 67 percent of our total investment portfolio, and our investments in equity securities had a fair value of approximately $3.6 billion, which represented approximately 20 percent of our investment portfolio. The fair value of these assets and the investment income from these assets fluctuate depending on general economic and market conditions.

With respect to our investments in debt securities, a rise in interest rates would decrease unrealized gains and/or increase unrealized losses on our debt securities portfolio and potentially produce a net unrealized loss position, offset by our ability to earn higher rates of return on reinvested funds. Conversely, a decline in interest rates would increase unrealized gains and/or decrease unrealized losses on our debt securities portfolio, offset by lower rates of return on reinvested funds. Based upon the composition and duration of our investment portfolio as of December 31, 2018, a 100 basis point increase in interest rates would result in an approximate $490.7 million decrease in the fair value of our debt securities portfolio. In addition, some debt securities, such as mortgage-backed and other asset-backed securities, carry prepayment risk, the risk that principal will be returned more rapidly or slowly than expected, as a result of interest rate fluctuations.

With respect to our investments in equity securities, we consider all of our equity securities to be measured at fair value with changes in fair value recognized in net earnings.

Defaults, downgrades or other events impairing the value of our debt securities portfolio may reduce our earnings. We are subject to the risk that the issuers of debt securities we own may default on principal and interest payments they owe us. The occurrence of a major economic downturn, acts of corporate malfeasance, widening risk spreads or other events that adversely affect the issuers of these debt securities could cause the value of our debt securities portfolio and our net earnings to decline and the default rate of the debt securities in our investment portfolio to increase. In addition, with economic uncertainty, the credit quality of issuers could be adversely affected and a ratings downgrade of the issuers of the debt securities we own could also cause the value of our debt securities portfolio and our net earnings to decrease. Any event reducing the value of these securities other than on a temporary basis could have a material adverse effect on our business, results of operations and financial condition. We continually monitor the difference between cost and the estimated fair value of our investments in debt securities. If a decline in the value of a particular debt security is deemed to be temporary, we record the decline as an unrealized loss in stockholders equity. If the decline is deemed to be other than temporary, we write it down to the carrying value of the investment and record an other than temporary impairment loss in our statement of earnings, which may be material to our operating results.

Changes in foreign currency exchange rates could impact the value of our assets and liabilities denominated in foreign currencies. A principal exposure to foreign currency risk is our obligation to settle claims denominated in foreign currencies in the subject foreign currencies. The possibility exists that we may incur foreign currency exchange gains or losses when we ultimately settle these claims. To mitigate this risk, we maintain investments denominated in certain foreign currencies in which the claims payments will be made and we have recently initiated a hedging program that is designed to mitigate this risk for a portion of our exposure to certain currencies. To the extent we do not seek to hedge our foreign currency risk or our hedges prove ineffective, the resulting impact of a movement in foreign currency exchange rates could materially and adversely affect our results of operations or financial condition. For example, stockholders equity attributable to Alleghany stockholders was decreased by $21.9 million during 2018 from the impact of changes in foreign currency exchange rates.

If any of our businesses do not perform well, we may be required to recognize an impairment of our assets, including goodwill or other intangible assets or to establish a valuation allowance against the deferred income tax asset, which could adversely affect our results of operations or financial condition. Goodwill represents the excess of the amount we paid to acquire subsidiaries and other businesses over the fair value of their net assets as of the date of acquisition. We test goodwill at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the operating subsidiary to which the goodwill relates. The fair value of the operating subsidiary is impacted by the performance of the business. The performance of our businesses may be adversely impacted by prolonged market declines. If we determine the goodwill has been impaired, we must write down the goodwill by the amount of the impairment, with a corresponding charge to net earnings. Such write-downs could have a material adverse effect on our results of operations or financial position. A decrease in the expected future earnings of an operating subsidiary could lead to an impairment of some or all of the goodwill or other long-lived intangible assets associated with such operating subsidiaries in future periods.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are recoverable. Factors in management s determination include the performance of the business including the ability to generate capital gains. If it is more likely than not that the deferred income tax asset will not be realized based on available information then a valuation allowance must be established with a corresponding charge to net earnings. Net earnings charges and reduced value of our net deferred tax assets could have a material adverse effect on our results of operations or financial position.

Deterioration of financial market conditions could result in the impairment of long-lived intangible assets and the establishment of a valuation allowance on our deferred income tax assets.

Oil and gas prices are volatile and a prolonged reduction in these prices could adversely affect the value of our investments in energy-related businesses. As of December 31, 2018, we had holdings in energy-related businesses of $385.2 million, comprised of $288.9 million of debt securities, $8.3 million of equity securities and $88.0 million of our equity attributable to SORC. The results and prospects of these energy-related businesses tend to depend highly upon the prices of oil and gas. Historically, the markets for oil and gas have been volatile and are likely to continue to be volatile in the future. A prolonged reduction in the prices of oil and gas may adversely affect the results and prospects of, and the potentially the value of our investments in, these energy-related businesses.

Risks Related to our Senior Notes and the Credit Agreement

Our failure to comply with restrictive covenants contained in the indentures governing the Senior Notes (as defined on page 110 of this Form 10-K) or any other indebtedness, including indebtedness under our revolving credit facility and any future indebtedness, could trigger prepayment obligations, which could adversely affect our business, financial condition and results of operations. The indentures governing the Senior Notes contain covenants that impose restrictions on Alleghany and TransRe with respect to, among other things, the incurrence of liens on the capital stock of certain of our subsidiaries. In addition, the indentures governing the Senior Notes contain certain other covenants, including covenants to timely pay principal and interest, and the Credit Agreement (as defined on page 108 of this Form 10-K) also requires us to comply with certain covenants. Our failure to comply with such covenants could result in an event of default under the indentures, under the Credit Agreement or under any other debt agreement we may enter into in the future, which could, if not cured or waived, result in us being required to repay the Senior Notes, the indebtedness under the Credit Agreement or any other future indebtedness. As a result, our business, financial condition, results of operations and liquidity could be adversely affected.

To service our debt, we will require a significant amount of cash, which may not be available to us. Our ability to make payments on, or repay or refinance, our debt, including the Senior Notes, will depend largely upon the future performance and use of our investment portfolio and our future operating performance, including the operating performance of our subsidiaries. Our future performance, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, our ability to borrow funds in the future will depend on the satisfaction of the

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covenants in the indentures governing the Senior Notes, in the Credit Agreement and in other debt agreements we may enter into in the future. Under the Credit Agreement, we also need to maintain certain financial ratios. We cannot assure you that our business, including the operating performance of our subsidiaries, will generate sufficient cash flow from operations or that future borrowings will be available to us under the Credit Agreement or from other sources in an amount sufficient to enable us to pay our debt, including the Senior Notes, or to fund our other liquidity needs.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The principal executive offices of Alleghany, Alleghany Capital and Roundwood are located in leased office space in New York, New York. TransRe leases office space in New York, New York for its headquarters and office space in almost all of its locations around the world. RSUI leases office space in Atlanta, Georgia for its headquarters and office space in Sherman Oaks, California. CapSpecialty leases office space in Middleton, Wisconsin for its headquarters and office space in its other locations throughout the U.S. Bourn & Koch owns its principal offices and manufacturing facilities, which are located in Rockford, Illinois and leases certain offices and manufacturing facilities, which are located in Olympia, Washington. Kentucky Trailer leases its principal offices and manufacturing facilities, which are located in Louisville, Kentucky, and has additional leased manufacturing facilities in locations including Michigan, Illinois, Iowa and the Netherlands. IPS leases office space in Blue Bell, Pennsylvania for its headquarters and office space in its locations around the world. Jazwares owns and leases office space in Sunrise, Florida for its headquarters and office space in its locations around the world. W&W|AFCO Steel owns its principal office in Oklahoma City, Oklahoma for its headquarters and owns its principal facilities, which are located in Arkansas, Colorado, Oklahoma, North Carolina and Texas. Concord leases office space in Raleigh, North Carolina for its headquarters. SORC leases office space in Golden, Colorado for its headquarters and owns facilities, mineral rights and land in other locations in the Midwestern and Southeastern U.S. Alleghany Properties leases office space in Sacramento, California. Management considers its facilities suitable and adequate for the current level of operations. See Note 12(b) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K for additional information on our leases.

Item 3. Legal Proceedings.

Certain of our subsidiaries are parties to pending litigation and claims in connection with the ordinary course of their businesses. Each such subsidiary makes provisions for estimated losses to be incurred in such litigation and claims, including legal costs. We believe such provisions are adequate and do not believe that any pending litigation will have a material adverse effect on our consolidated results of operations, financial position or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information, Holders and Dividends

Our common stock trades under the symbol Y on the New York Stock Exchange.

As of February 10, 2019, there were approximately 530 holders of record of our common stock. This figure does not represent the actual number of beneficial owners of our common stock because such stock is frequently held in street name by securities dealers and others for the benefit of individual owners who may vote the shares.

In February 2018, our Board of Directors declared a special dividend of $10.00 per share for stockholders of record on March 5, 2018. On March 15, 2018, we paid dividends to stockholders totaling $154.0 million. Our Board of Directors determined not to declare a dividend for 2017. Any future determination to pay dividends to holders of our common stock will be at the discretion of our Board of Directors and will be dependent upon many factors, including our earnings, financial condition, business needs and growth objectives, capital and surplus requirements of our reinsurance and insurance subsidiaries, regulatory restrictions, rating agency considerations and other factors.

Repurchases of Equity Securities

The following table presents our common stock repurchases in the quarter ended December 31, 2018:

	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs(1) (in millions)
October 1 to October 31	131,017	$ 603.86	131,017	$ 402.0
November 1 to November 30	101,572	621.10	101,572	338.9
December 1 to December 31	110,338	610.66	110,338	271.5
Total	342,927	611.15	342,927	

(1) In November 2015, our Board of Directors authorized the repurchase of shares of our common stock, at such times and at prices as management determines to be advisable, up to an aggregate of $400.0 million. In June 2018, our Board of Directors authorized, upon the completion of the previously announced program, the repurchase of additional shares of our common stock, at such times and at prices as management determines to be advisable, up to an aggregate of $400.0 million.

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Performance Graph

The following information is not deemed to be soliciting material or to be filed with the SEC or subject to the liabilities of Section 18 of the Exchange Act, and the information shall not be deemed to be incorporated by reference in any filing by us under the Securities Act of 1933 or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

The following graph presents (i) the cumulative total stockholder return on our common stock; (ii) the cumulative total return on the Standard & Poor s 500 Stock Index, or the S&P 500 Index; and (iii) the cumulative total return on the BI Global P&C Reinsurance Competitive Peer Group Index, or the Bloomberg Reinsurance Index, for the five year period beginning on December 31, 2013 through December 31, 2018. The graph assumes that the value of the investment was $100.00 on December 31, 2013.

INDEXED RETURNS

	Base Period	Year Ending				
	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Alleghany	$100.00	$115.89	$119.49	$152.05	$149.04	$158.47
S&P 500 Index	$100.00	$113.68	$115.24	$129.02	$157.17	$150.27
Bloomberg Reinsurance Index	$100.00	$107.01	$114.76	$133.73	$138.32	$140.41

The graph and table above are based on the assumption that cash dividends are reinvested on the ex-dividend date in respect of such dividend.

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Item 6. Selected Financial Data.

Alleghany Corporation and Subsidiaries[1]

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	($ in millions, except per share and share amounts)				
Operating Data					
Revenue	$ 6,887.2	$ 6,424.6	$ 6,131.1	$ 4,999.5	$ 5,231.8
Net earnings[2]	$ 39.5	$ 90.1	$ 456.9	$ 560.3	$ 679.2
Basic earnings per share of common stock[2]	$ 2.62	$ 5.85	$ 29.60	$ 35.14	$ 41.40