

## Climate Risk Survey 2023

August, 2024

### Governance

1. Federated Rural Electric Insurance Exchange (the “Company”) is a reciprocal insurance exchange licensed in 48 states. The Company is owned by, governed by, and exclusively insures rural electric cooperatives located in all 48 states. The Company has no public debt or equity and has no public presence. As such it does not have any publicly stated goals on climate-related risks or opportunities. There is no climate-related disclosure.
  - A. The Board as a whole is responsible for the oversight of climate-related risks and opportunities. Given that the Board functions as a whole regarding this area, there is no particular position on the Board or committee that is responsible for the oversight of managing the climate-related financial risks.
  - B. Management has an extensive role in assessing and managing climate-related risks and opportunities and then interfacing with the Board to ensure the Board has the appropriate information with which to exercise their oversight responsibilities. Climate-related risks are a significant part of the enterprise risk management undertaken by the Company, with risks separated by categories with attendant descriptions of the risk, action plan and mitigating action, risk owner, likelihood of occurrence, potential impact, and priority. In addition, management ensures that its reinsurance partners understand the climate-related risks faced by the Company’s insureds and works with its reinsurance partners to secure appropriate treaty language and limits of liability. Management has been proactive in identifying climate-related risks and working with reinsurers to secure limits of liability responsive to the risks. In addition, management has partnered with industry experts in specific areas of climate-related risk to create and implement strategies designed to mitigate the risks faced by the Company’s insureds. Given its homogenous market, the Company is able to concentrate appropriate resources on the unique climate-related risks faced by its insured. Management tracks legislative, regulatory, and litigation trends and alerts its insured to risks. Management also ensures a geographic spread of risk spanning the entire country because storm and weather-related intensive events are one of the climate-related risks faced by the Company’s insureds.

### Strategy

2. Given the nature of the Company’s organization as set forth in the Governance section, it is important to understand that the Company’s organic documents prohibit it from insuring any entity other than a rural electric cooperative. With such a focused market, the Company’s interaction with its insureds (roughly numbering 1,000 accounts) is very personal and frequent. The Company’s policyholders have significant involvement in any legislative mandates regarding climate change. Frequently, management works with its insureds directly on legislative language related to climate-related risk and risk mitigation directly related to climate-related risk in an effort to reduce potential liability and/or potential damage. The Company also assists in sponsoring numerous educational seminars presented by the national trade

association for its insureds; these seminars address the significant issues arising as a result of climate change.

The Company works with national, regional, and statewide partners to develop risk management protocols and strategies specific to its insureds; senior staff spends a significant amount of time in training and educating its insureds in person with regard to these risk management protocols. In addition, the Company's loss control consultants meet at least once a year with every insured to assess the individual insured's operations from a risk management standpoint; this assessment includes assessing operations from a climate-related risk perspective. Management believes that helping its insureds assess this risk has a positive impact on total losses.

Key constituents other than insureds are very engaged with the Company. From a financial perspective, the Company ensures that its reinsurance partners fully understand the climate-related risks faced by the Company's insureds and works diligently to educate the reinsurers about the loss control and risk mitigation services provided by the Company. The Company also partners with organizations to mitigate the major climate-related risks caused by storms and weather. This includes wildfire, which is a significant risk for many of the Company's insureds. The Company has retained the service of an entity to assist its insureds in mapping their systems in an effort to spot potential wildfire risk as well as assist with regulation and regulatory standards as well as the development and implementation of wildfire mitigation plans on a local and statewide basis.

The Company does not have a formal plan to reduce or mitigate its greenhouse gas emissions in its operations. The Company's emissions are minimal, and the Company is conscious of the environment. The insureds of the Company are located in very rural parts of the country, and the Company services these insureds in person, working out of their homes in their respective territories. The primary emissions over which the Company has direct control are cars driven by the Company's field staff in remote areas of the United States. When possible, these cars are smaller and get above-average gas mileage. With regard to energy use for data storage, the Company has located its backup systems in caves with controlled access and constant temperatures for a number of reasons all associated with risk management. The low, constant temperatures of the caves require less energy to keep the systems at the required temperatures.

- A. Climate-related risks and opportunities the Company has identified over the short, medium, and long term. The Company has not identified any opportunities specific to climate-related risks other than the opportunities to assist its insureds with regard to risk management and mitigation as described above in this section as well as in the Risk Management section.

Short Term Climate-Related Risks – 1-3 years

Exposure to catastrophic storm and weather events

Regulatory changes

Increase in the frequency of severe, climate-related claims, including wildfires

Medium Term Climate-Related Risks – 3-6 years

Exposure to catastrophic storm and weather events, occurring over multiple years  
Regulatory changes or case precedent on the federal level or in numerous states that impact policy language and create unintended coverage for climate-related risk  
Dramatic increase in the frequency of severe, climate-related claims, including wildfires  
Inadequate reinsurance or loss of a reinsurer  
Inadequate IBNR reserves due to a new climate-related exposure

Longer Term Climate-Related Risks – 6-10 years

Exposure to catastrophic storm and weather events, occurring over multiple years  
Regulatory changes or case precedent on the federal level or in numerous states that impact policy language and create unintended coverage  
Dramatic increase in the frequency of severe, climate-related claims, including wildfires  
Inadequate reinsurance or loss of a reinsurer  
Inadequate IBNR reserves due to a new climate-related exposure

- B. The Company maintains a significant geographic spread of risk which mitigates the direct impact of a single weather-related event. The Company's long-term relationships with its reinsurers and its brokers ensures that these entities are comfortable with the Company's book of business and understand the risks attendant thereto. The Company has developed a number of new endorsements to assist its insureds in the new environment of renewable energy. The Company insures or brokers coverage for solar panels, wind turbines and wind farms, electric vehicles and electric vehicle charging stations, battery storage systems, and other areas of renewable energy development and innovation. The close relationship between the Company and its insureds gives the Company insight into the insurance needs of its insureds with enough lead time to develop the appropriate product. In addition, the Company has assisted its insureds in developing safety protocols with regard to renewable energy. The Company has a robust investment strategy designed to ensure financial security for its insureds. The Company has not altered its investment portfolio to specifically include investments that support the transition to a low carbon economy. The Company has a very sound investment policy with significant diversification.
- C. The Company relies on property exposure modeling related to storm and weather exposures that it receives from its reinsurers. With regard to this modeling, the Company has appropriately allocated additional IBNR to various lines of business for potential claims arising out of storm and weather-related occurrences. The Company does not engage in any climate-related or weather-related underwriting.

Risk Management

3. The Company does not engage in any climate-related or weather-related underwriting. The Company works with its reinsurers to monitor and manage the risks posed by climate change. The Company's reinsurers engage in significant catastrophe modeling, the results of which are shared with the Company. The Company takes this information into account when determining retentions and overall limits of liability on an annual basis.

The Company has partnered with an engineering company to develop and implement a mapping product for the areas in which its insureds provide electricity. The product maps the entire area of an individual rural electric cooperative and pinpoints areas of potential wildfire concerns. This improves the efficiency and effectiveness of an insured's wildfire mitigation plan. In addition, the Company works with its insureds in creating and implementing wildfire mitigation plans. The Company has also developed and provided risk mitigation information to its insureds for numerous climate-related risks.

The Company has also assisted in the legislative and regulatory areas to work with its insureds to ensure that any legislation enacted or regulations created mitigate the exposure of its insureds to climate-related risk. The Company has a robust investment strategy designed to ensure financial security for its insureds and has considered the impact of climate-related risk on its investment portfolio. The Company has a very sound investment policy with significant diversification. The Company does not believe that it has any material exposure in any of its investments.

- A. The financial implications of climate-related risks are constantly and routinely assessed; appropriate steps are taken to recognize those risks and work with insureds to mitigate those risks as identified in the Strategy section. However, it is important to point out that the Company's mission is to provide the appropriate insurance to any rural electric cooperative; the Company's organic documents limit the Company's provision of insurance solely to rural electric cooperatives. The formal enterprise risk management dashboard and strategic plan are reviewed annually by both management and the Board. The Board meets quarterly and receives information from management regarding climate-related risks and any potential financial implications.
- B. The Company's processes for managing climate-related risk are described in the sections above. The Company is most able to manage climate-related risk by ensuring that its insureds have the insurance coverages, risk mitigation tools, and financial stability to manage their climate-related risk. Long term relationships and education of reinsurance partners and brokers aid in providing financial stability to the Company's insureds.
- C. The Company's processes for identifying, assessing, and managing climate-related risks are integrated into the Company's overall risk management through its strategic plan and enterprise risk management dashboard. Climate-related risks are not addressed through a separate process as integration with other risks considered by the Company are necessary to assess corporate risks as a whole. Enterprise risk management is reviewed annually but implications of climate-related risks are considered on a much more frequent basis as events occur.

Storm and weather-related scenarios are modeled by the reinsurers from a property perspective and considered in the reinsurance renewal process. Given that the Company does not engage in climate-related risk underwriting, climate scenarios are not used to analyze underwriting risks. The investment advisors to the Company ensure a robust diversification in the investment portfolio.

## Metrics and Targets

4. Given the size limitations of the Company, the Company relies on its reinsurance partners to provide catastrophe modeling regarding climate-related risks for property. However, given that the Company does not engage in climate-related underwriting, the modeling is for the purpose of reinsurance treaty renewals.
  - A. The Company does not use climate-related underwriting and therefore does not have metrics to describe. Again, it is important to note that the Company's book of business is fixed.
  - B. The Company does not have Scope 1, Scope 2, or Scope 3 greenhouse gas emissions to disclose.
  - C. The Company does not utilize targets to manage climate-related risks.