Reporting Year 2023 Climate Risk Survey (NAIC)

Responses to be submitted here: https://interactive.web.insurance.ca.gov/apex_extprd/f?p=416:1

Responses Due: THURSDAY, AUGUST 30, 2024

*****Closed-ended (Y/N) Questions are optional this year.**

Survey Questions:

Section I – Governance (narrative)

1. Disclose the insurer's governance around climate-related risks and opportunities. In disclosing the insurer's governance around climate-related risks and opportunities insurers should consider including the following:
    - Identify and include any publicly stated goals on climate-related risks and opportunities
    - Describe where climate-related disclosure is handled within the insurer's structure, e.g., at a group level, entity level, or a combination. If handled at the group level, describe what activities are undertaken at the company level
    - A. Describe the board and/or committee responsible for the oversight of climate-related risks and opportunities
    - In describing the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks, insurers should consider including the following:
    - Describe the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks.
    - B. Describe management's role in assessing and managing climate-related risks and opportunities.

Governance (closed-ended questions answered in addition to the narrative)

- Does the insurer have publicly stated goals on climate-related risks and opportunities? (Y/N)
    - ***Answer: No***
- Does your board have a member, members, a committee, or committees responsible for the oversight of managing the climate-related financial risk? (Y/N)
    - ***Answer: Yes***
- Does management have a role in assessing climate-related risks and opportunities? (Y/N)
    - ***Answer: Yes***
- Does management have a role in managing climate-related risks and opportunities? (Y/N)
    - ***Answer: Yes***

Narrative Response: Harford Mutual Insurance Group, including all of its parent and subsidiary entities [hereafter referred to as "The Group"], does not have publicly stated goals relating to climate risks and opportunities. Climate-related disclosures are handled at a group level by its Enterprise Risk Management Committee and reported to the Group's Board of Directors.

The Group does not have a documented climate change policy for risk management and investment management. Climate change is being incorporated into the Enterprise Risk Management process and an internal ESG position paper was developed that will bring more clarity to our efforts relating to climate change.

Section II – Strategy (Narrative)

2. Disclose the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy, and financial planning where such information is material. In disclosing the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy and financial planning, insurers should consider including the following:
    - Describe the steps the insurer has taken to engage key constituencies on the topic of climate risk and resiliency
    - Describe the insurer's plan to assess, reduce, or mitigate its greenhouse gas emissions in its operations or organizations
    - A. Describe the climate-related risks and opportunities the insurer has identified over the short, medium, and long term.
    - In describing the climate-related risks and opportunities the insurer has identified over the short, medium, and longer term, insurers should consider including the following:
        i. Define short, medium, and long-term, if different than 1-5years as short term, 5-10years as medium term, and 10-30years as long term
    - B. Describe the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning
    - In describing the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning, insurers should consider including the following:
        i. Discuss if and how the insurer provides products or services to support the transition to a low carbon economy or helps customers adapt to climate-related risk.
        ii. Discuss if and how the insurer makes investments to support the transition to a low carbon economy.
    - Describe the resilience of the insurer's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario.

Strategy (closed-ended questions answered in addition to the narrative)

- Has the insurer taken steps to engage key constituencies on the topic of climate risk and resiliency? (Y/N)
    - ***Answer: No***
- Does the insurer provide products or services to support the transition to a low carbon economy or help customers adapt to climate risk? (Y/N)
    - ***Answer: No***
- Does the insurer make investments to support the transition to a low carbon economy? (Y/N)

    - ***Answer: No***
- Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations? (Y/N)
    - ***Answer: Yes***

Narrative Response: On an ongoing basis The Group looks for opportunities to reduce our carbon emissions and environmental impacts. The Group has taken steps to reduce its greenhouse gas emissions in its operations by modernizing our corporate office with a focus on energy efficiency in the heating, cooling, water, and electric usage. We also provide a flexible and hybrid work strategy for all employees that reduces their carbon footprint with less travel to and from the office.

Section III – Risk Management (narrative)

3. Disclose how the insurer identifies, assesses, and manages climate-related risks. In disclosing how the insurer identifies, assesses, and manages climate-related risks, insurers should consider including the following:
    - Describe how the insurer considers the impact of climate related risks on its underwriting portfolio, and how the company is managing its underwriting exposure with respect to physical, transition and liability risk
    - Describe any steps the insurer has taken to encourage policyholders to manage their potential physical and transition climate related risks, if applicable
    - Describe how the insurer has considered the impact of climate-related risks on its investment portfolio, including what investment classes have been considered
    - A. Describe the insurers' processes for identifying and assessing climate-related risks.
    - In describing the insurers' processes for identifying and assessing climate-related risks, insurers should consider including the following:
        i. Discuss whether the process includes an assessment of financial implications and how frequently the process is completed.
    - B. Describe the insurer's processes for managing climate-related risks.
    - C. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management.
    - In describing how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management, insurers should consider including the following:
        i. Discuss whether climate-related risks are addressed through the insurer's general enterprise-risk management process or a separate process and how frequently the process is completed.
        ii. Discuss the climate scenarios utilized by the insurer to analyze its underwriting risks, including which risk factors the scenarios consider, what types of scenarios are used, and what timeframes are considered.
        iii. Discuss the climate scenarios utilized by the insurer to analyze risks on its investments, including which risk factors are utilized, what types of scenarios are used, and what timeframes are considered.

Risk Management (closed-ended questions answered in addition to the narrative)

- Does the insurer have a process for identifying climate-related risks? (Y/N)
    - ***Answer: Yes***
    - If yes, are climate-related risks addressed through the insurer's general enterprise-risk management process? (Y/N)
        - ***Answer: Yes***
- Does the insurer have a process for assessing climate-related risks? (Y/N)
    - ***Answer: Yes***
    - If yes, does the process include an assessment of financial implications? (Y/N)
        - ***Answer: Yes***
- Does the insurer have a process for managing climate-related risks? (Y/N)
    - ***Answer: Yes***
- Has the insurer considered the impact of climate-related risks on its underwriting portfolio? (Y/N/Not Applicable)
    - ***Answer: Yes***
- Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks? (Y/N)
    - ***Answer: Yes***
- Has the insurer considered the impact of climate-related risks on its investment portfolio? (Y/N)
    - ***Answer: Yes***
- Has the insurer utilized climate scenarios to analyze their underwriting risk? (Y/N)
    - ***Answer: No***
- Has the insurer utilized climate scenarios to analyze their investment risk? (Y/N)
    - ***Answer: No***

Narrative Response:

The Group recognizes the risks that climate change poses to our business through the increase in the frequency of natural catastrophes ranging from hurricanes to convective storms and flooding. The impacts of climate change primarily impact our Property book of business. We have taken specific steps to limit these impacts through our:

- ***Distribution Strategies: In our southern tier of states, we refrain from making agency appointments in coastal areas.***
- ***Risk Selection and Pricing: In southern states, we avoid writing property risks with significant property values. We typically write risks with incidental property values that support larger accounts with predominantly inland properties. Our limited property appetite in coastal areas reflects our assessment of the financial impact of hurricanes and the increased frequency of hurricanes due to climate change. In coastal areas, we have specific underwriting guidelines relative to distance to the coast for risk acceptability. With respect to convective storms, we use geographic storm indices to assess exposures and determine acceptable risks and pricing.***

- ***Catastrophe Modeling: We use RMS and Verisk catastrophe modeling software to measure our exposure to severe natural catastrophe events (hurricanes, convective storms, winter storms) and buy catastrophe reinsurance accordingly to protect our financial solvency.***

The Group provides loss mitigation tips and recommendations for our policyholders through our website and via several social media channels (Facebook, LinkedIn, Twitter). The Group also conducts property inspections and surveys for its policyholders and prospective policyholders and makes property improvement recommendations to mitigate exposures to weather hazards.

The Group is a member company of the Insurance Institute for Business & Home Safety (IBHS). IBHS is an industry association that research building standards and ways to increase the preparedness and resiliency of homes and commercial buildings. IBHS shares this information with the insurance industry and the public to promote loss mitigation and preparation. IBHS actively works with state and federal legislators to promote improved building standards to reduce the financial impact of storms for homeowners and businesses.

The Group   established an ESG position paper to communicate with our internal management team and Board of Directors relating to our efforts around climate change. The Group is also an active member of the National Association of Mutual Insurance Companies (NAMIC) and supports the BuildStrong Coalition. The BuildStrong Coalition works with state and federal legislators to promote stronger building codes and pre-disaster mitigation funding.

The Group has considered the impact of climate change on its investment portfolio. A peer study by the fixed-income investment manager revealed that 3.3% of Harford Mutual's fixed-income portfolio was labeled "green" compared to the P&C insurance industry's 2.4%. To date, the company has not altered its investment strategy. It is important to note that there are no accepted or standard definitions for what ESG factors are or are not.

Section IV – Metrics and Targets (narrative)

4. Disclose the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material. In disclosing the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material, insurers should consider including the following:
    - Discuss how the insurer uses catastrophe modeling to manage the climate-related risks to your business. Please specify for which climate-related risks the insurer uses catastrophe models to assess, if any.
    - A. Disclose the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process.

- In disclosing the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process, insurers should consider including the following:
    i. In describing the metrics used by the insurer to assess and monitor climate risks, consider the amount of exposure to business lines, sectors, and geographies vulnerable to climate-related physical risks [answer in absolute amounts and percentages if possible], alignment with climate scenarios, [1 in 100 years probable maximum loss, Climate VaR, carbon intensity], and the amount of financed or underwritten carbon emissions)
- B. Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
- C. Describe the targets used by the insurer to manage climate-related risks and opportunities and performance against targets.

Metrics and Targets (closed-ended questions answered in addition to the narrative)

- Does the insurer use catastrophe modeling to manage your climate-related risks? (Y/N)
    - ***Answer: Yes***
- Does the insurer use metrics to assess and monitor climate-related risks? (Y/N)
    - ***Answer: Yes***
- Does the insurer have targets to manage climate-related risks and opportunities? (Y/N)
    - ***Answer: Yes***
- Does the insurer have targets to manage climate-related performance? (Y/N)
    - ***Answer:*** No

Narrative Response: The Group actively manages the risks that climate change poses to its financial solvency and business growth using catastrophe modeling tools. We use RMS and AIR catastrophe modeling software to measure our exposure to severe natural catastrophe events (hurricanes, convective storms, winter storms, etc.). The modeling software used provides us with loss estimates for various return periods. The Group buys catastrophe reinsurance accordingly from "A-" or better reinsurers to protect its financial solvency based on the output from these modeling tools.