



**INSURANCE  
GROUP**

Insurance Answers Together

## Climate Risk Disclosure Survey | 2023

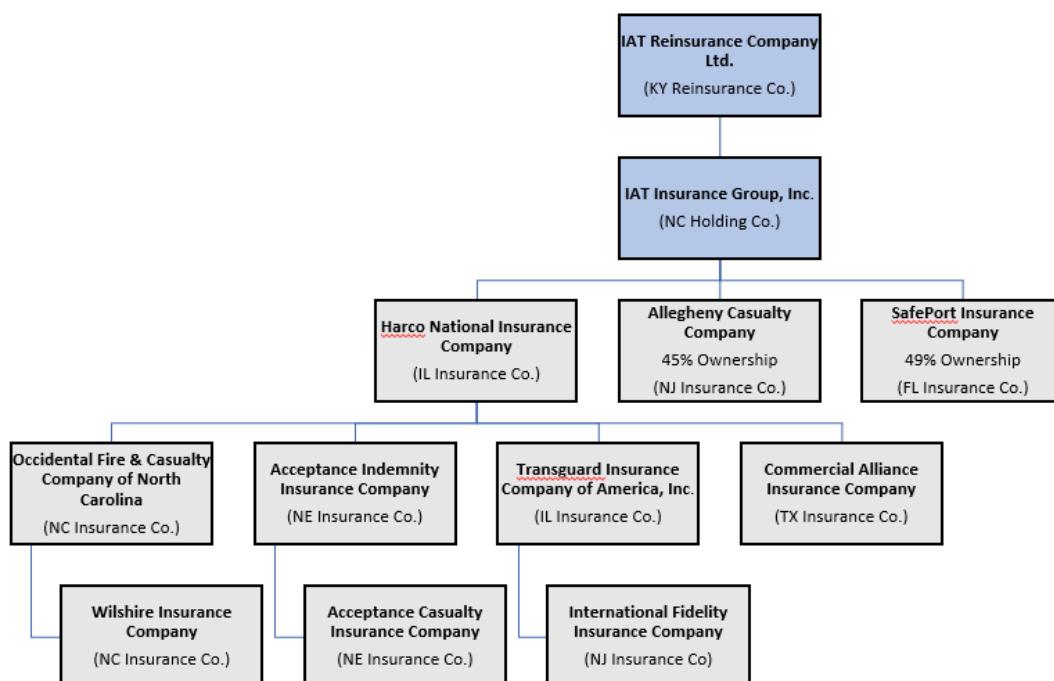
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# Introduction

IAT Insurance Group (IAT, Group, Company), is a privately owned specialty insurance company providing property, casualty, and surety products for niche markets. The group is wholly owned subsidiary of IAT Reinsurance Company, Ltd. and consists of ten U.S. licensed insurance companies and other holding and service companies; headquartered in Raleigh, North Carolina (Figure 1).

**FIGURE 1: IAT ORGANIZATIONAL STRUCTURE**



*Note for Figure 1: Licensed insurance companies are in gray highlighted boxes.*

There are eight business units (Table 1), each maintaining the same quality standards, commitment to service, and innovation, and overall mission of excellence. These entities leverage experienced leadership, sound analytics, proven operating platforms and extensive risk capabilities across the entire enterprise to deliver specialized, sustainable solutions for their customers. IAT has offices throughout the country with approximately 1,000 employees.

**TABLE 1: IAT's BUSINESS UNITS**

<b>Assumed Reinsurance</b>
<ul style="list-style-type: none"><li>• Offers a quoting market for all treaty classes of property and casualty lines and supports proportional and non-proportional reinsurance for domestic and international clients</li></ul>
<b>Commercial Transportation</b>
<ul style="list-style-type: none"><li>• Offers competitive products and loss control services through three segments, Independent Contractor, Moving &amp; Storage, and Commercial Truck. IAT is the sixth largest writer of truck coverage in the industry meeting the unique needs of the industry.</li></ul>
<b>Excess &amp; Surplus (E&amp;S)</b>
<ul style="list-style-type: none"><li>• Offers tailored solutions for surplus lines risks by partnering with national and regional partners through three business segments, binding authority, primary casualty and excess casualty. These coverages include unique and more complex risks that the standard lines markets may not insure.</li></ul>
<b>Homeowners</b>
<ul style="list-style-type: none"><li>• Offers innovative-focused homeowners coverage in underserved markets, primarily coastal properties. Program stems from long-term partnership with SageSure, the largest independent residential property managing general underwriter in the United States.</li></ul>
<b>Inland Marine, Property &amp; Aviation (IPA)</b>
<ul style="list-style-type: none"><li>• Offers insurance for all traditional lines of inland marine, commercial property and aviation. Inland Marine's key markets include construction, transportation and fine art. Commercial Property, through a network of independent agents, offers property and general liability coverages which includes office buildings. Aviation includes hard-to-place coverages with emphasis on safety and training. IAT applies unique expertise to deliver flexible, innovative, and high-quality insurance solutions.</li></ul>
<b>Management Liability Pro Plus</b>
<ul style="list-style-type: none"><li>• Offers a portfolio of management liability products for private and not-for-profit companies on a nationwide basis, including directors and officers liability, employment practices liability, fiduciary liability, fidelity insurance (commercial crime), and cyber liability.</li></ul>
<b>Programs</b>
<ul style="list-style-type: none"><li>• IAT partners with established managing general agents who benefit from IAT's breadth of licensure, product filing capabilities, regulatory reporting and financial strength. IAT takes limited net insurance risk on our programs business and benefits from fronting fees associated with these relationships while ensuring they have adequate collateral to reduce credit risk to an acceptable level.</li></ul>
<b>Surety</b>
<ul style="list-style-type: none"><li>• Offers products to construction and non-construction companies and individuals. The primary focus is small to mid-sized contractors (GC's/subs/engineering/heavy highway performance and payment bond obligations). Additionally, offering compliance, probate, financial guarantee, customs, commercial contract, and other obligations to a variety of industries and individuals.</li></ul>

As a core part of IAT's business, the Company continually monitors, assesses and responds to risks and opportunities including those posed by changing climate conditions to provide products and services that help their customers mitigate associated risks and are priced for IAT to meet capital return strategies.

This report discusses IAT's approach to managing changing climate conditions consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). IAT's enterprise advanced modeling and analytical techniques allow the ability to better understand the impact of climate-related issues on their business and customers. This enables holistic management of key risks and incorporates risk and return management into IAT's business model.

# 1. Governance

- a. Board and committees responsible for oversight of climate-related risks and opportunities.

**Describe the board and/or committee responsible for the oversight of climate-related risks and opportunities.**

IAT's Enterprise Risk Management (ERM) framework and process provides the lens to oversee climate change risks and opportunities. Risk governance is a shared and continuous process across the entire organization. Each function provides unique capabilities and plays a critical role in the checks and balances process.

The overall direction of the Company is led by the Advisory Board and Corporate Board of Directors. The following governing bodies have climate-related risk and opportunity responsibilities to promote both top-down risk management directives and bottom-up risk transparency throughout the organization (Figure 2):

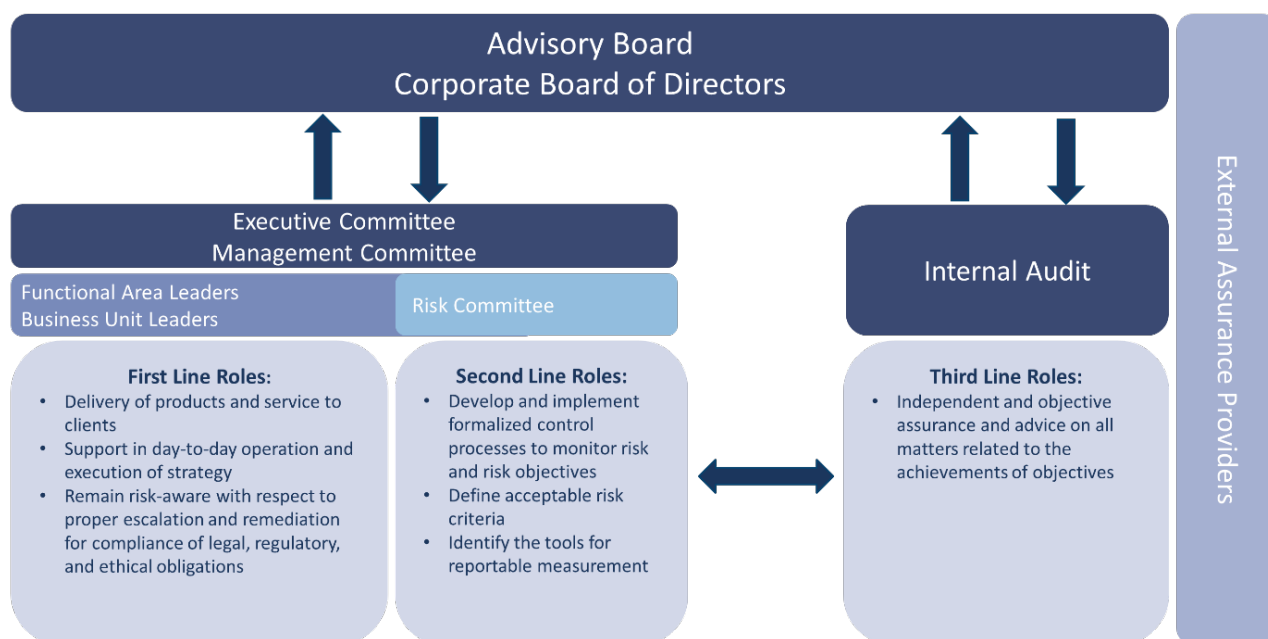
**Advisory Board**, comprised of owners, independent subject matter experts, and the CEO, meets regularly on a quarterly basis and ad hoc for significant events. This Board provides oversight of all risk and return activities and reviews environmental, social and governance (ESG) matters, including climate related risks and opportunities. Additionally, the Advisory Board evaluates assessment metrics and reports on of risk levels compared to established strategic risk targets and provides final approval over the Operating Plan as well as the Compensation Plan.

**Executive Committee**, led by the CEO, includes other executive leadership, meets at least quarterly. Each insurance company's Corporate Board of Directors delegates its authority throughout the year to the Executive Committee. The Executive Committee also acts as the reporting liaison between the Management Committee and Advisory Board.

**Management Committee**, led by the CEO and includes other executive and senior leadership, meets monthly and is responsible for managing risks at the overall business segment and line level, while considering their business objectives, climate-related risks and opportunities as well as the current business environment.

**Risk Committee**, led by the Chief Risk Officer, meets at least quarterly and is responsible for overseeing ERM program ensuring the Management Committee, Advisory Board and Corporate Board of Directors have insight into aggregate risk levels and that risks are managed within IAT's overall risk appetite, as well as active involvement in the decision-making process related to key enterprise risks which encompasses climate-related risks and opportunities. The Risk Committee includes members of management, selected based on their functional and subject matter expertise in their respective departments, and can apply ERM practices to specific risks across the Group.

**FIGURE 2: IAT THREE LINES MODEL**



## b. Management's role in assessing and managing climate-related risks and opportunities.

### **Describe management's role in assessing and managing climate-related risks and opportunities.**

Business Unit and Functional Area leaders identify, measure, manage, monitor and report on risks at a granular level, including climate risks. These leaders remain risk-aware with respect to proper escalation and remediation for risks in excess of established limits as well as emerging risks and to ensure compliance of legal, regulatory, and ethical obligations. Risks considered material, based on defined thresholds, are escalated to executive leadership and the Board.

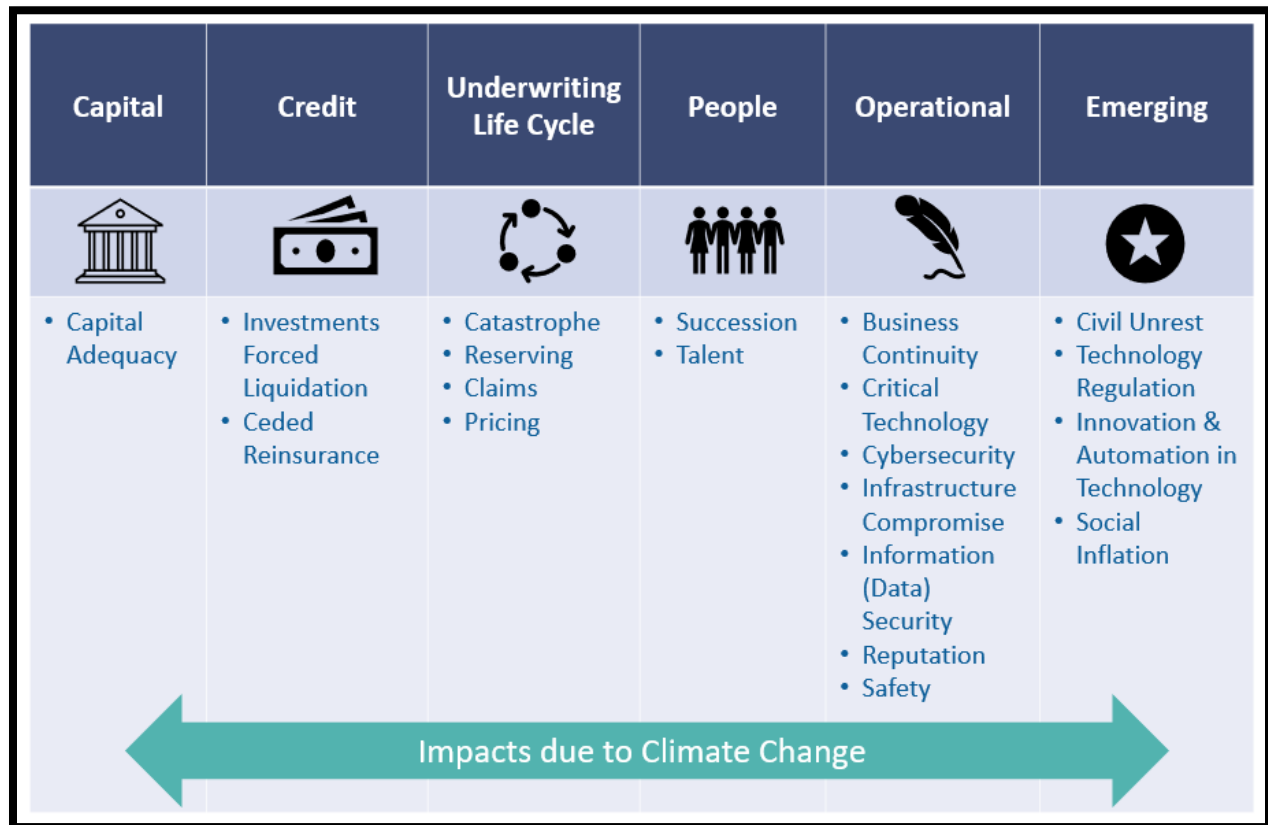
## 2. Strategy

### a. Climate-related risks and opportunities identified over the short, medium, and long term.

#### **Describe the climate-related risks and opportunities the insurer has identified over the short, medium, and long term.**

IAT's risks and return opportunities are evaluated across six key categories (capital, credit, underwriting life cycle, people, operation, emerging) with the effect of climate impacting all six areas (Figure 3). As a result of increasing severe weather and rising loss costs, homeowners, auto physical damage, and commercial property insurance are requiring responsive changes in pricing, product coverages, underwriting practices and reinsurance utilization. Residual impacts will continue to evolve as severe weather driven by climate change increases in frequency and severity.

FIGURE 3: IAT'S RISKS AND RETURN OPPORTUNITIES



The Table 2 summarizes relevant climate-related risk drivers and their potential impact across the identified time horizon.

TABLE 2 CLIMATE-RELATED RISKS OVER SHORT TO LONG TERM

Risk Issue	Timeframe	Likelihood	Impact	Severity
<b>Severe Convective Storms</b> Example: Severe U.S. convective storms	Short Term	Likely	Moderate	Medium Risk
<b>Tropical Cyclone</b> Example: Atlantic Hurricane	Medium Term	Likely	Severe	High Risk
<b>Rising Sea Levels</b> and associated risks such as increased storm surge events	Long Term	Likely	Severe	High Risk

IAT manages and monitors these risks through IAT's Catastrophe Modeling Team, Analytics Team and Pricing Groups which focus on detecting and responding to risk changes. Additionally, IAT annually renews

reinsurance covers which allows for high flexibility in adapting risk management as hazards, impacted by climate change, develop over time.

## **b. Business, strategy and financial planning impact of climate-related risks and opportunities**

**Describe the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning.**

For IAT, the homeowners business is the most impacted by climate-related risks and opportunities. The Group manages risks through geographical diversity, coverages provided, pricing in excess of loss trends (which includes the effect of climate change), utilization of risk reduction efforts such as reinsurance, and provision of various loss mitigation techniques. The Company encourages customers to mitigate exposures to wind and hurricane losses by making homes safer through protective credits for loss control measures such as installation of storm shutters, reinforced doors and roofs, and higher impact resistant glass. As the climate continues to change, this expertise will serve customers well, and IAT will continue to adjust its strategy and risk profile to protect customers, reputation and IAT's capital.

The Catastrophe Reinsurance Program is integral part of IAT's catastrophe management strategy. See section "Risk Management - Managing climate-related risks" (Page 11) for additional information about the ceded reinsurance program.

## **c. Strategy resilience utilizing climate-related scenarios**

**Describe the resilience of the insurer's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario**

IAT analyzes the potential impact of climate-related changes as part of the strategic planning process. Along with changing product details and underwriting practices, the Company has a comprehensive Catastrophe Reinsurance Program to manage the impact of climate change related risks (further discussed in "Risk Management - Managing climate-related risks", page 11.).

The Company's Catastrophe Modeling Team, Analytics Team and Pricing Groups monitor climate change information as part of their analysis of weather-related trends. In assessing property insurance exposure to catastrophe losses, the Company employs various models, developed by third-party vendor, along with IAT's historical data. Losses and changes in exposure for key perils are analyzed and reported to senior leaders monthly. The Group's internal stress tests focus on predicting business continuity, resiliency and solvency through a variety of catastrophe scenarios. This allows IAT to employ peril-specific insights to craft mitigation and adaptation strategies.

IAT uses stochastic methods and scenario analysis approaches to measure and monitor insurance risk for claims frequency and severity and catastrophes and severe weather. In 2024, the Group plans to employ third-party climate change projections for modeling U.S. hurricane. The view includes how average annual losses (AALs) and other loss metrics, such as 100-year losses and other return period losses may change in the future. These projections will allow IAT to consider future climate scenarios and time-horizons.



### 3. Risk Management

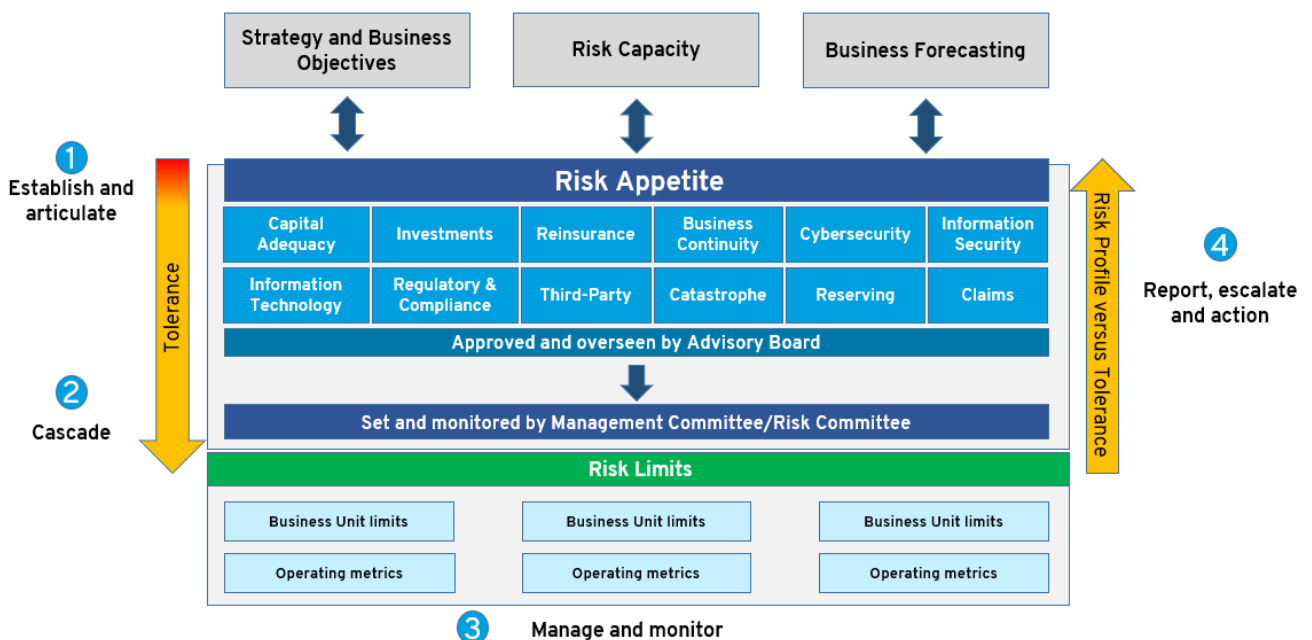
#### a. Identifying and assessing physical climate-related risks

##### **Describe the insurers' processes for identifying and assessing climate-related risks**

IAT is committed to its framework and process that ensures ERM program is an integral part of all the Group's activities. ERM is both a framework and a process, overseen at the Group level, by the Advisory Board and Corporate Board of Directors, facilitated by the Risk Committee.

The ERM Program is applied in strategic settings and across the Group's operations. It is designed to identify, assess, monitor, manage, and report on risks that could impact the Group's ability to achieve its strategic goals or maintain its operations, either positively or negatively (Figure 3). ERM includes components such as risk appetite, risk identification, risk assessment, risk tolerance and risk response. Together they ensure effective and efficient risk management across the Group. The ERM program is led by the Chief Risk Officer and approved by the Risk Committee and Board.

**FIGURE 3: RISK APPETITE FRAMEWORK INTEGRATION**



The Group's ERM framework, define clear roles and responsibilities, and outline processes for effective ERM activities and ensures risks, including those related to climate related risks:

- Significant current and emerging risks and opportunities are identified and understood
- Appropriate and prudent risk management practices are developed and effectively implemented
- Regular reviews are conducted to evaluate the effectiveness of risk mitigation measures
- Reports on the Group's ERM program are produced on a regular basis, to the Executive Committee, serving as both the audit committee and investment committee, as delegated and appointed by the Corporate Board of Directors

Through IAT’s advanced modeling capabilities, the Company considers the effects of climate change in its products, pricing and exposure (Table 3). IAT’s exposure modeling uses Verisk’s AIR Worldwide Corporation (AIR) for assessing catastrophe exposure due to hurricane, earthquake, severe convective storm, wildfire, and winter storm. IAT’s AIR modeling standard is “all switches on” (Table 4). This internal modeling is validated by external Managing General Underwriter (MGU) and Broker business partners.

TABLE 3: RISK MANAGEMENT PROCESS FOR PROPERTY COVERAGES

Portfolio Development
<ul style="list-style-type: none"><li>•Homeowners and Personal Lines developed by property specialists, internal and external partners, employing sound underwriting practices, exposure management and reinsurance to mitigate financial impact of extreme natural catastrophe events.</li></ul>
Data Flow
<ul style="list-style-type: none"><li>•All data is interfaced between IAT and production partners to track portfolio development and provide timely data runs</li></ul>
Catastrophe Modeling
<ul style="list-style-type: none"><li>•Internal AIR licensed modeled monthly</li><li>•External (MGU) AIR and RMS modeled monthly in all coastal states</li><li>•External (Reinsurance Broker) corroborate AIR model and cross-check RMS model</li></ul>
Management Reporting
<ul style="list-style-type: none"><li>•Monthly exposure and production figures monitored actual-to-plan by key zone</li><li>•Exposure action steps communicated and implemented as needed</li><li>•Modeling results measured against catastrophe program framework</li></ul>
Aggregate Management
<ul style="list-style-type: none"><li>•Key Zone Cat Modeling</li><li>•Geospatial Mapping</li></ul>

TABLE 4: IAT’S CATASTROPHE EXPOSURE MODELING STANDARDS USING AIR | “ALL SWITCHES ON”

Demand Surge
Storm Surge
<ul style="list-style-type: none"><li>•Default Leakage Percentage, where applicable</li></ul>
Warm Sea Surface Temperature (WSST) Conditioned Catalog
<ul style="list-style-type: none"><li>•Near-Term to reflect Warming Sea Surface Temperatures for Hurricane Peril</li></ul>

## b. Managing climate-related risks

### **Describe the insurer's processes for managing climate-related risks**

As noted above, on an on-going basis IAT identifies, assesses, mitigates, reports and monitors material risks, including climate change, through the Group's integrated ERM program. This enables holistic management of key risks and incorporates risk and return management into IAT's business model. (See ERM program process discussion in section "Risk Management - Identifying and assessing physical climate-related risks, starting on page 9.) Risks that are considered material are escalated to senior management and the Board.

The Group manages property risks through pricing, underwriting and reinsurance. This includes:

- purchasing multi-year reinsurance protection as well as aggregate coverage
- limiting new business for auto and property insurance in areas most exposed to hurricanes
- implementing tropical cyclone and/or wind/hail deductibles or exclusions where appropriate

The Catastrophe Reinsurance Program is part of IAT's catastrophe management strategy, which is intended provide stakeholders with an acceptable return on the risks assumed, reduce earnings variability, and provide protection to customers. Coverages for losses include all property and physical damage exposures. IAT manages PML by zone and monitors the PML to ensure the peak zone exposure is within risk tolerance for a "Black Swan" catastrophic event (1,000-year event) (Table 5).

Aggregate exposure modeling is performed using key zone catastrophe modeling, broker tools and geospatial mapping. The Company also compares actual losses incurred on specific catastrophic events to modeled expectations, based on final event sets released by the modeling vendors. IAT's collective experience from this process has yielded an outperformance of actual to modeled results for the personal lines business which drives the Company's catastrophe exposure. The Group continues to purchase catastrophe reinsurance based on the more conservative model PMLs.

**TABLE 5: RISK TOLERANCE FOR SINGLE 1,000 YEAR CATASTROPHE EVENT, PROJECTED SEPTEMBER 2023**

Risk Tolerances	Loss Net of Catastrophe Reinsurance & Tax	Actual % of Equity	Tolerance % of Equity
Single 1,000-year Event	\$599,500,000	44.1%	50.0%

## c. ERM integrated processes for identifying, assessing, and managing climate-related risks.

### **Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management**

IAT continually reviews material risks and determines how to mitigate risks most effectively and efficiently. Management considers the severity of climate-related risks based on the likelihood and impact. Based on this risk assessment management has identified severe convective storms, hurricanes,

and rising sea levels (Table 2) to be the most significant climate change related risks. The Group uses externally developed models to assist in quantifying these risks, using conservative modeling standards (Table 4). This modeling is utilized to develop the Group's catastrophe ceded reinsurance program to mitigate the potential financial impact posed by these risks.

## 4. Metrics and Targets

### a. Strategy and risk management metrics used to assess climate-related risks and opportunities

#### **Disclose the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process**

IAT measures and reports on climate related risk in several different ways. The chief metrics and targets are related to natural catastrophe losses. The Company monitors changes in catastrophe model output on the Group's book of business, changes in the state-of-the-science, and weather and non-weather loss trends as part of the natural catastrophe planning process by business unit and by peril.

As noted in Risk Management section, starting on page 9, IAT manages PML by zone and monitors these PMLs to ensure the peak zone hurricane PML is consistent with the purchased catastrophe limit (AIR 250-year event) and the risk tolerances set by stakeholders (Table 6).

**TABLE 6: EXPOSURES AND RISK TOLERANCES FOR CATASTROPHE EVENTS, PROJECTED SEPTEMBER 2023**

Risk Tolerances	Loss net of Catastrophe Reinsurance & Tax	Actual % of Equity	Tolerance % of Equity
Single 100-year Event	\$106,700,000	7.9%	10.0%
Single 250-year Event	\$129,100,000	9.5%	12.5%
Single 1,000-year Event	\$599,500,000	44.1%	50.0%
Two 100-year Events	\$267,300,000	19.7%	20.0%

### b. Scope 1 and Scope 2 greenhouse gas emissions and related risks.

#### **Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas emissions, and the related risks.**

As an insurance company, most of IAT's greenhouse gas emissions (GHG) result from office related activity, mobile combustion (e.g., claim vehicles, commuting) and business travel. IAT's emissions reduction initiatives are included below in Table 7.

TABLE 7: IAT'S INITIATIVES TO REDUCE EMISSIONS

**Reduce GHG Emission related to Office Activity and Mobile Combustion:**

- Paperless programs proving reduction in paper consumption through in imaging, electronic reporting, electronic claim settlement, estimated 60% paper reduction over six-year period
- LEED Gold Workspaces at Headquarters providing reduction in related energy consumption through electrochromic glass ("smart" glass), higher utilization of floor space, motion sensitive lighting, auto-shutoffs on most faucets, water bottle filling stations and recycling program.
- Server optimization providing reduction in related power consumption by an estimated 50%
- Information Technology equipment upgrades providing more energy efficient IT equipment in IAT's data centers.
- Cloud storage solution providing less dependence on data centers, and thereby reduce the Group's carbon footprint over time
- Hybrid Work Options by offering work-from-home option

Additionally, IAT supports emissions reduction through investing in a nine acre, two-megawatt solar field in Massachusetts supplying energy for a school. IAT has done similar projects for other charities including Frost Valley YMCA, the Bayshore Center Museum and also invested in a geothermal energy project for the New York-New Jersey Trail Conference.

**c. Climate-related risks and opportunities targets and performance.**

**Describe the targets used by the insurer to manage climate-related risks and opportunities and performance against targets.**

While IAT strives to reduce emissions, the Group's primary climate-related risks and opportunities relate to their property insurance business segments. See above for more detailed discussion. IAT continues to explore improvements and opportunities to reduce the Group's emissions intensity.