

# NAIC CLIMATE RISK DISCLOSURE SURVEY

## TCFD-ALIGNED QUESTIONS

### UPDATED 2022

FIRST ACCEPTANCE INSURANCE COMPANY, INC.  
(NAIC 10336)

#### GOVERNANCE

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.*

#### RESPONSE:

The oversight of climate risk for the First Acceptance Insurance Group (the "Group" or "First Acceptance Insurance") occurs at the level of the Ultimate Controlling Person which is First Acceptance Corporation ("FAC"). The Group consists of the three insurance companies that share employees and operate under common management, systems, and processes. They write the same lines of business to the same class of customers and are only differentiated by the states in which they underwrite business. They also collectively share risk under a Reinsurance and Pooling Agreement. The oversight of the Group as executed by the senior management of FAC therefore occurs through the Board of Directors of FAC and its committees.

Regularly, analysts at First Acceptance Insurance review the performance of our book of business investigating loss trends. The analysis collected is reviewed in comparison to the Company's historic loss results, anticipated performance, as well as industry macro and micro trends. Loss trends drivers related to climate change factors and changing weather patterns are discussed with senior leadership and the Board if and when they are perceived as influencers to our loss performance. These trends could be unique weather catastrophe events or newly emerging loss trends that have increased our automobile loss frequency in a certain state. With

this information, we partner across disciplines to identify how best to address the issue going forward whether it be changes to product offerings, rating, risk selection, and/or underwriting guidelines.

The Company also engages in formalized enterprise risk management (ERM) through a designated Risk Committee that meets at least quarterly with the Company's senior leadership to conduct qualitative and quantitative enterprise risk assessments. Such assessments inherently include discussion related to identification and management of any perceived physical risks of climate change on business operations as well as associated financial risks and opportunities for the Company. The Board is informed and monitors/directs the Company's enterprise risk management, including relevant climate related risk concerns, through reports and recommendations from the Risk Committee.

## STRATEGY

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:*

- Define short, medium, and long-term, if different than 1-5 years as short term, 5-10 years as medium term, and 10-30 years 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:*

- 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.
- Discuss if and how the insurer makes investments to support the transition to a low carbon economy.

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

## RESPONSE:

Management takes into account ESG impacts on financials, financial ratios and security valuation when determining Company/portfolio positioning and has developed a structure of management committees responsible for identifying and assessing matters related to the seven primary risk categories:

1. Pricing & Underwriting
2. Operations: Claims
3. Operations: Distribution (Independent Agencies)

4. Strategic
5. Financial
6. Legal & Compliance
7. Information & Technology

Key management positions hold ongoing discussions to prevent and mitigate potential issues and, if necessary, address and manage critical risk-related items facing the Company.

The nature of the Company's business (primarily a geographically dispersed book of minimum limits liability automobile insurance policies) has an inherently low catastrophic risk. The Company now employs a diversified distribution model that includes independent agents as well as web and call center that accommodates sales with a reduced physical business footprint. Nevertheless, Management continually analyzes updated climate information to determine potential impacts on the business.

Additionally, the Company has recognized the benefits of a hybrid/remote workforce in both terms of employee productivity and minimizing the need for employee travel with a resulting reduction in fuel consumption and emissions. The Company continues to promote "paperless" transactions with customers and has recently invested in additional technology and security controls to limit wasteful document printing internally.

## RISK MANAGEMENT

### 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:*

- 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:*

- 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.
- 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.
- 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.

## RESPONSE:

The Company engages in formalized enterprise risk management (ERM) through a designated Risk Committee that meets at least quarterly with the Company's senior leadership to conduct qualitative and quantitative enterprise risk assessments. Such assessments inherently include discussion related to identification and management of any perceived physical risks of climate change on business operations as well as associated financial risks and opportunities for the Company.

The objectives of Enterprise Risk Management (ERM) at First Acceptance Insurance are articulated below:

- Determine Key Risk Categories of the Organization: Identify and annually confirm the key risks areas within our Company's three business units: Insurance Carrier, Claims and Corporate.
- Establish Enterprise Risk Management Culture: Design enterprise risk management to be a collaborative process including ongoing discussions with Leadership and consistent reporting that provides insight into key risk categories.
- Develop Risk Appetite and Risk Tolerances: Clarify risk management roles and responsibilities throughout the organization and set risk appetites and risk tolerances to align organizational decision making with our annual strategic plan.
- Understand the Greatest Threats to Company Performance: Anticipate new and emerging risks and create preventative measures through scenario planning and stress testing to mitigate the impact and likelihood of potential risk events.

First Acceptance Insurance has developed a structure of management committees responsible for identifying and assessing matters related to the primary risk categories. Key management positions hold ongoing discussions to prevent and mitigate potential issues and, if necessary, address and manage critical risk-related items facing the Company. Management also takes into account ESG impacts on financials, financial ratios and security valuation when determining Company/portfolio positioning and continually analyzes updated climate information to determine potential impacts on the business.

Additionally, the Company deliberately invested in digital and paperless options for customers including e-delivery of notices and paperless claims processing. The Company's newest pricing models consider the unique risks and benefits of alternatively fueled vehicles and include risk appropriate pricing and/or discounts to support the hybrid and electric market.

## METRICS AND TARGETS

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:*

- 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.*

\* Asterisks represent questions derived from the original Climate Risk Disclosure Survey.

## RESPONSE:

Management continually analyzes updated climate information to determine potential impacts on the business in determining future goal and targets.

Loss trends drivers related to climate change factors and changing weather patterns are discussed with senior leadership and the Board if and when they are perceived as influencers to our loss performance in order to consider future modification or refocusing of business practices or processes.

Work From Home/hybrid model and partnering with independent agents and third-party providers lessens our carbon footprint. Additionally, we review relevant information by third party providers as well as annual reports of companies with which we invest to determine risks and suitability within the portfolio.

The Company operates a small corporate headquarters in Nashville. At the present time, the Company has not identified any risk from climate change that would materially impact these facilities from a risk management perspective, that would not be covered by its current insurance coverage.

While First Acceptance Insurance remains vigilant about assessing the impacts and opportunities presented by climate risk, due to the relatively small size of the Company, specific metrics are not currently feasible.