2023 NAIC State Climate Risk Disclosure Survey
0201 Utica National Insurance Group

I. **Governance**
1. Disclose the insurer's governance around climate-related risks and opportunities. *<u>TCFD Guidance</u>: 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's oversight of climate-related risks and opportunities.** *<u>TCFD Guidance</u>: In describing the board's oversight of climate-related issues, insurers should consider including a discussion of the following:* • *Processes and frequency by which the board and/or board committees (e.g., audit, risk, or other committees) are informed about climate-related issues;* • *Whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the insurer's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures; and* • *How the board monitors and oversees progress against goals and targets for addressing climate-related issues.* **B. Describe management's role in assessing and managing climate-related risks and opportunities.** *<u>TCFD Guidance</u>: In describing management's role related to the assessment and management of climate-related issues, insurers should consider including the following information:* • *Whether the insurer has assigned climate-related responsibilities to management-level positions or committees; and, if so, whether such management positions or committees report to the board or a committee of the board and whether those responsibilities include assessing and/or managing climate-related issues,* • *A description of the associated insurer's organizational structure(s),* • *Processes by which management is informed about climate-related issues, and* • *How management (through specific positions and/or management committees) monitors climate-related issues.* **<u>Company Response to Question #1</u>**: **The Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated**

by reference into the response to each survey question, as applicable. The Company is fully Compliant with the NYS DFS "Guidance for Domestic Insurers on Managing the Financial Risks from Climate Change" requirements needed as of 8/15/22. Please note that the responses to this Question 1 are based on the TCFD guidance and communications from New York. As to publicly stated goals on climate-related risks and opportunities, a summary of the response to the Climate Survey is posted on our public facing website.

The disclosure is being made by Utica Mutual Insurance Company (a member company of the Utica National Insurance Group) the level at which (1) the Group's risk appetite is determined; (2) the Group's earnings, capital, liquidity, operations and reputation are overseen collectively and at which the supervision of these factors is coordinated and exercised; and (3) legal responsibility for general corporate governance duties, including climate risk, is placed. All climate related activities are undertaken by Utica Mutual (all employees of the Group are either Utica Mutual or Founders Insurance Company employees) on behalf of all group companies.

<u>Company Response to Question #1A and #1B:</u>

1. **<u>Senior management and Board Committee responsible for overseeing the insurer's management of climate risks:</u> The Company has a multipronged approach regarding the Board's oversight of Climate Related Risk and Opportunities. The Enterprise Risk Oversight Committee (EROC) of the Board of Directors has been designated responsible for overseeing the Company's management of climate risk. The Chief Risk Officer (CRO) has been designated as member of Senior Management responsible for the insurer's management of Climate Risk. In addition, the Company has a cross functional committee to be responsible for the various elements relating to the management of climate risk (Emerging & Climate Risk Committee or E&CR), made up of C-Suite members (Chief Operating Officer, CRO, Chief Underwriting Officer, Chief Actuary, Chief Sales Officers, by segments, Chief Financial Officer, Chief Claims Officer), as well as additional members of their teams to supplement the operation of the Committee (e.g., data rich resources to ensure the committee has the information necessary to be effective).**

2. **<u>Organizational Structure - defined/articulated roles, responsibility & accountability for risk-based decision making in setting climate risk limits & implementation:</u> The roles and responsibilities of each member of the E&CR Committee are clearly defined in the Committee Charter and tracked by a Charter Scorecard. Executive Leadership considers and approves corporate goals and strategies that consider the impact of Climate Risk relating to business strategies and growth opportunities impacted by climate exposure, including coastal aggregation, correlation and business mix (as examples), as part of an overall decision-making process that determines the corporate strategy, both short and long term. EROC's charter requires that this Board level committee review the Company's risk exposure relating, but not limited, to Climate Risk. EROC approves the Company's risk tolerances and the Company's compliance therewith, reviews the Company's ORSA, receives reports and Director Education regarding Climate Risk, weather, and**

nonweather-related exposures; CAT modeling and return period loss estimates, etc. EROC meets quarterly and the CRO reports to EROC each quarter; the E&CR Committee reports to EROC at least once annually or as needed.

As noted in response to Questions 2 and 3, the Investment Advisory Committee, a subcommittee of the Board's Finance Committee, has responsibility for reviewing any investments in sectors deemed vulnerable to climate risk.

3. **<u>Explicit consideration of climate risks in risk management processes, in enterprise risk reports and ORSA Summary Reports:</u> See responses to #1 # 2 above. In addition: climate risk is considered and modeled in the Company's ORSA Summary Report, along with the impact of various climate (and non-climate related) impacts including NAT CAT & Severe Convective Storm, as examples.**

4. **<u>Objective, independent & regular reviews of functions & procedures for managing climate risks, report the findings of the reviews to the Board:</u> Internal Audit is charged with ensuring the Company is in compliance with the Climate Risk Guidance and the E&CR Committee's Charter & Scorecard. The Compliance Department (in Corporate Legal) ensures compliance with the climate related disclosure requirements such as the Climate Risk Survey.**

5. **<u>Consideration of implementing remuneration policies to align incentives with strategy for managing climate risks & performance against climate risk metrics:</u> The goal-setting process and Business Plan process, from which bonus goals are built, take climate risks into account.**

6. **<u>Implementation of reliable risk management processes across lines of business, operations and control functions: clear steps to ensure the effectiveness & adequacy of climate risk integration.</u> See Response to questions # 1-5 above & 7-8 below.**

7. **<u>Board & Senior Management Support - development of skill, expertise, and knowledge required for assessment & management of climate risks by new hires, all current employees & the Board of Directors.</u> The Company has arranged for and conducted numerous director education presentations to the Board of Directors, EROC as well as the E&CR Committee. In addition, the Company requires each employee and Board member to view a 30+ minute Climate Risk video in 2023.**

8. **<u>Manage Climate Risks through Existing ERM Functions: assessment, compliance internal control, internal audit and actuarial functions.</u> See response to items #1-7 noted above.**

With respect to the organizational structure, the Utica National Insurance Group is a group of insurance and related companies, for which Utica Mutual Insurance Company is the lead company. The Company respectfully incorporates the organizational chart filed with the Department of Financial Services.

II. 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.

<u>TCFD Guidance</u>: 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.

<u>TCFD Guidance</u>: 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 1-5years 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.

<u>TCFD Guidance</u>: 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.

<u>Company Response to Question #2</u>

The Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each survey question, as applicable.

Climate risks to the Company, include: underwriting risk, financial risk, liquidity risk, credit risk, operational risk, reputational risk, and human capital risk. These risks could affect our Company in various ways and to varying degrees, depending on the frequency and severity of extreme weather events that occur where the Company's insurance, as well as its

operations and workforce, are exposed. We rely upon our data as well as those of our reinsurance and investment partners to help us understand the changes we continue to see.

With respect to engaging with key constituencies, to gain a better understanding of current and future weather patterns and climate risk we have met with reinsurers, our reinsurance broker and their meteorologists & climatologists, reviewed CAT models and Climate models, sponsored Board of Director and Senior Leader education sessions, met with investment advisors, met with NYS DFS, attended conferences on Climate, and held a joint session with a college student risk management group to discuss climate risk. We have also instituted a course for all employees and Board members to educate them on the topic of climate risk.

The Company has proactively taken steps to reduce its own greenhouse gas emissions. As a result of COVID-19, we continue to be up against material and labor shortages for some of our larger planned projects. Some of the projects to mitigate emissions this past year included the following:

- **Continue to replace dated soft start (speed drives) with more energy efficient units.**
- **Continue to reduce or shut down HVAC to vacant floors in a large portion of the home office building.**
- **Continue to reduce the number of restrooms in use due to a hybrid work environment – saves on supplies and utilities.**
- **Replaced the final 4 smaller atrium roofs and increasing the insulation value from R-9 to R-31 - fully completed in 2023.**
- **Changing specialty accent lighting over to LED.**
- **Reduced our leased footprint in 2 regional offices by almost 12,000 sq. ft.**
- **Replaced (2) 1970's era heat pumps with energy efficient automation-controlled units.**
- **Continue to recycle all scrap metal.**
- **Continue to pursue grants and energy star programs.**

The Company continues to assess, reduce or mitigate its carbon footprint.

<u>Company Response to Question #2A:</u>

With respect to short, medium and long-term risks:

- **<u>Short-Term (through 2025)</u>: The Company will continue to run probabilistic hurricane models with current climate influences (e.g., warmer sea surface temperatures) and the AIR Warm Sea Surface Temperature Catalogue Impact to measure annual aggregate loss change estimates and stress tests at the 1 in 100 return period, as well as further out on the tail. The Company continues to leverage the model's secondary perils, such as storm surge and demand surge, across our modeling to ensure non-climate factors of increased loss potential are also contemplated. With careful underwriting, we provide flood coverage to commercial policyholders, as appropriate and consistent with our underwriting guidelines. To complement our probabilistic modeling, various severity stress tests of Long Island**

Hurricane exposure, sea level rise, temperature and ambient temperature are being tracked and analyzed. We continue to review our weather peril guidance as well as continuing to invest in new technologies to help us better establish our guidelines. As an example, we have recently updated our Flood Guidelines based on a new flood score we receive from a vendor partner. This takes into consideration the distance to flood zone, the elevation, and the estimated height of the floodwaters.

- **Medium-Term (through 2030s): See above, plus develop a more refined assessment of the Company's portfolio that is susceptible to increasing trends (e.g., severe tornados & large hail), with an expectation that the trend will continue for the next 10-20 years. This analysis will help identify pockets of exposure that may currently or historically have been seen as lower risk to thunderstorm, which may shift to increasing propensity for severe tornado or hail outcomes in the future.**

- **Long-Term (2040 & beyond): See above, plus determine which coastal insureds are at risk of becoming a stranded asset due to sea level rise.**

Company Response to Question #2B:

Turning to business, strategy and financial planning, and helping customers adapt to climate-related risk, the Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each Survey question, as applicable. In both our Commercial and Personal Lines offerings, we have adopted the ISO Green Coverage Endorsements. These help to cover any increased costs if the insured has "environmentally friendly" equipment or substitutes such equipment during a claim. We will continue to research and monitor for opportunities to develop or implement any new products that will help our policyholders adapt to climate-related risk.

In addition to the building and policyholder-related investments described above, the Company has incorporated climate considerations into its investment strategy. The Company engages with asset managers to understand how climate risks are considered in their overall credit review process. Exposure to sectors deemed vulnerable to risks from climate hazards is monitored and asset managers report on individual issuers and holdings that that they consider at risk. Analysis is done to assess the impact of credit rating changes in our portfolio on surplus. An Investment Advisory Committee Charter scorecard item was added for an annual review of securities deemed vulnerable to climate risks. We engaged our investment consultant to perform an annual ESG/climate risk review and scoring of our portfolios versus benchmarks using MSCI ESG data. In addition to MSCI scoring data, our primary asset manager utilizes a proprietary ESG rating system. In addition, our quarterly review process for other than temporarily impaired assets ("OTTI") was enhanced to include a focus on sectors deemed vulnerable to climate risks. Unrelated to monitoring the impact climate risk has on the credit quality of the investment portfolio, a 1% target

allocation to "green" bonds has been made part of the Investment Policy Statement and Guidelines.

<u>Company Response to Question #2C:</u>
Concerning the resilience of the Company's strategy, taking into account different climate-related scenarios, the time frames relative to 2 degrees C of warming are most applicable for our long-term scenarios due to the expected gradual impact over time. The sea level rise analysis for the Company contemplates a view every 20 years out to 2100, and as a result captures scenarios both below and above 2 degrees C of warming.

III. Risk Management

3. Disclose how the insurer identifies, assesses, and manages climate-related risks.
<u>TCFD Guidance</u>: 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 insurer's processes for identifying and assessing climate-related risks
<u>TCFD Guidance</u>: 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.
<u>TCFD Guidance</u>: Insurers should describe their processes for managing climate-related risks, including how they make decisions to mitigate, transfer, accept, or control those risks. In addition, insurers should describe their processes for prioritizing climate-related risks, including how materiality determinations are made within their insurers. Insurance companies should describe key tools or instruments, such as risk models, used to manage climate-related risks in relation to product development and pricing. Insurance companies should also describe the range of climate-related events considered and how the risks generated by the rising propensity and severity of such events are managed.

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

TCFD Guidance: 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.*

Company Response to Question #3:

The Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each survey question, as applicable.

With respect to underwriting risk, corporately, we strive to keep a geographic spread of business to avoid exposure beyond our appetite to a storm or other climate risks in one area. We continue to monitor risks with coastal exposure to hurricane surge/wind via our coastal proximity guidelines. We also monitor our aggregation as far as tornado/wind exposure inland on individual risks as they are submitted, as well as from a corporate level. We have grown substantially away from the coast to diversify the underwriting portfolio. We consistently review our results from a geographic standpoint to understand if there are any changes related to weather/climate exposures. We have limited transition risk in our underwriting portfolio given the markets that we write. We will continue to assess any liability risks.

With respect to assisting policyholders, the Company prepares loss control surveys that it provides to insureds to address identified risk exposures. The Company also offers technical loss control support to policyholders on weather-related exposures.

Our investment management function is supported by multiple industry advisors. Our primary asset manager utilizes a proprietary ESG rating system for corporate and municipal issues. Exposure in the portfolio to the energy and metals and mining sectors is reported monthly. Our quarterly OTTI process has been enhanced to include a focus on sectors deemed vulnerable to climate risk and to determine if there is concern with individual issuers. As part of that review, our primary asset manager provides a transition risk assessment for each industry, indicating the degree of preparedness to transition towards a lower carbon economy and assigns a ticker-level transition risk factor to identify companies at risk for non-alignment. These factors also feed into their overall ESG rating system for corporate and municipal issues. Monthly, asset managers report on individual

holdings they consider to be at risk, or which have been placed on close watch. Our investment consultant performs an annual ESG/climate risk review and scoring of our portfolios versus benchmarks using MSCI ESG data; MSCI ratings do not cover municipals, High Yield Bank Loans, non-Agency asset backed securities, or private securities. We have utilized the 2DII PACTA tool as an additional way of viewing our portfolio's alignment with various climate scenarios. Annually, we assess the impact to RBC from a sweeping downgrade of credit ratings across the portfolio (a one-notch drop across the entire fixed income portfolio). We maintain a 1% target allocation to "green" bonds, which has been made part of the Investment Policy Statement and Guidelines.

Company Response to Question #3A:

With respect to the process for identifying and assessing climate-related risks, the Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each survey question, as applicable. See also the responses to Question 1. Based on historical and modeling data along with our property reinsurance placement, the Company has developed exposure aggregation restrictions in high-risk areas. The Company incorporates the weather exposure and corresponding reinsurance charges in our property pricing.

Company Response to Question 3B:

With respect to managing risk, please see above and below responses, which are incorporated herein. Additionally, the Company uses deterministic models with various scenarios including CAT & Non-CAT, (e.g., CAT 1-100, 1-250 and beyond, climate risk, Cyber, Pandemic, Epidemic, inflation, severe convective storm, reverse stress tests/tail events, etc.) and stochastic models. The Company manages risk with mitigation strategies informed by modeled results. The Company's robust reinsurance programs ensure adequate transfer of risk and are analyzed each year based on exposure changes.

Company Response to Question #3C:

With respect to the first two bullet points under question 3, the Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each survey question, as applicable. See response to Questions 2(A), 3(B), 4, 4(A).

With respect to the third bullet point, please refer to the portion of the response to Question 3 addressing investments.

IV. Metrics and Targets

4. Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

TCFD Guidance: 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.

TCFD Guidance: 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.

TCFD Guidance: In disclosing Scope 1/ Scope 2 GHG emissions and, if appropriate, Scope 3 GHG emissions and related risks, insurers should disclose weighted average carbon intensity or GHG emissions associated with commercial property and specialty lines of business where data and methodologies allow. GHG emissions should be calculated in line with the GHG Protocol method to allow for aggregation and comparability across insurers and jurisdictions. Insurers should consider providing related, industry-specific GHG efficiency ratios. GHG emissions and associated metrics should be provided for historical periods to allow for trend analysis. In addition, where not apparent, insurers should provide a description of the methodologies used to calculate or estimate the metrics.

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

TCFD Guidance: In describing their targets, insurers should consider including the following:

- *whether the target is absolute or intensity based,*
- *time frames over which the target applies,*
- *base year from which progress is measured, and*
- *key performance indicators used to assess progress against targets.*

Company Response to Question #4 and 4A:

The Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each survey question, as applicable. The Company uses catastrophe modeling to analyze Natural Catastrophe losses as well as specific impacts to various gates around the country, which could impact our underwriting portfolio. The return period estimates in the 1 in 100 and 1 in 250 return period loss estimates provide information for mitigation strategies, including our reinsurance purchase. The Company sets and monitors targets for impact to surplus at risk tolerance limits. The CAT reinsurance protection purchased by the Company annually maintains compliance with our stated risk tolerance limits. Those limits are approved by EROC annually.

The Company reviews exposure accumulations by distance to coast bands every three months with regional leadership and then identifies any new business written by inception date in these areas of concern to ensure that sufficient underwriting was maintained. Utica Mutual utilizes catastrophe models to annually determine how much catastrophe reinsurance coverage to purchase based on the 1:100 and 1:250 return period estimates.

Company Response to Question #4B:

With respect to greenhouse gas emissions, the Company has not calculated our GHG emissions and we are not aware of a rule that would require a mutual insurance company to do so.

Company Response to Question #4C:

With respect to targets, the surplus impact targets are absolute, annual and the base year is current year and the KPI is the compliance with the stated target. The placement of the Company's property catastrophe reinsurance coverage is based on risk tolerance metrics which are a function of the surplus position at year-end, are absolute, and are applied annually to the Company's risk modeled exposure across the portfolio.