

# NAIC CLIMATE RISK DISCLOSURE SURVEY

## TCFD-ALIGNED QUESTIONS

### UPDATED 2022

#### 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 to Governance

Banner Life Insurance Company underwrites and issues insurance policies and retirement products under the Legal & General America (LGA) umbrella. Our parent company, Legal & General Group Plc ("Group"), is headquartered in London and provides protection and retirement solutions as well as offers investment management services. L&G Group have a mature policy, strategy and framework for governance related to the financial risks posed by climate change.

Addressing climate change is one of Legal & General's strategic growth drivers. The three pillars of the climate strategy are: Invest, Influence, and Operate; driving positive change throughout the entire global organization.

Invest – through reducing the intensity of our financed emissions and through investing in the transition.

Influence – through the products that we offer and through our engagement with companies, governments and policymakers.

Operate – through our operations and the businesses we control.

The 2023 L&G Group Climate and Nature Report is in line with the recommendations made by the Task Force on Climate-related Financial Disclosure (TCFD).

Environmental management is central to Group's commercial success. Accountability for building a sustainable business is shared across the business and supported by governance that is led by our Board. The L&G group Board ('the Board') is ultimately accountable for the long-term stewardship of the group. Responding to climate change and addressing nature-loss and the opportunities and risks associated these issues are of significant importance to the Board. The Board received regular updates on the group's strategic approach and progress on climate matters, highlighting areas of opportunity and challenge.

The Group Risk Committee (GRC) oversees the risks associated with climate change to ensure exposures are controlled in line with the group's risk appetite, and ensures that management actions are also aligned. Alongside regular updates on the risks associated with climate change, the committee receives regular climate-specific management information.

During 2023, L&G Group transitioned to a new Group Climate Change Director, with responsibility for coordinating the Group's response to climate change and incorporating nature and biodiversity risks. The role has the senior manager responsibility of ensuring that an appropriate strategy is in place to understand, identify, measure, monitor, control and report risks from climate change in line with the risk strategy and risk appetite parameters set by the Board. The Board, through the GRC, Executive Risk Committee (ERC) and Group Management Committee (GMC) has delegated oversight of the management of the risks associated with climate change to the Group Environment Committee (GEC).

The GEC is chaired by the Group Climate Change Director and includes senior level members of the Group's management team. This Committee is responsible for providing strategic direction of the Group's environmental response, including to climate change, with reference to the Group's broader strategy to the management of environmental impact on the group, with a particular focus on the delivery of our strategic response to climate change. The Group Environment Committee has clearly defined relationships with other Group oversight committees to ensure a consistent group-wide approach and to support how we are implementing our ambitious strategy.

The Divisional CEO's ensure climate risk is embedded within their respective divisions. They are the ultimate owners of the risk, responsible for identifying, managing and monitoring climate related risks within the risk appetites agreed at the GEC.

Locally, Legal & General America (LGA) leverages the Group's risk management framework and has its own Climate Risk Committee which has been a sub-committee of the LGA Board since May 2023. The primary role of the LGA Climate Risk Committee is to ensure that adequate governance and oversight is in place for the assessment and management of the financial risks associated with climate change. The LGA Climate Risk Committee includes LGA Executive sponsorship and representatives from both the Protection and Pension Risk Transfer businesses. A representative from the Group Climate team serves on this Committee in an advisory capacity.

The principal duties of the LGA Climate Risk Committee include:

- Integrate Group Climate Policy principles into LGA's governance frameworks, risk management processes, and business strategies.
- Steer the development of a LGA written risk policy and set risk tolerance and risk limits for financial risks associated with climate change.
- Monitor regulatory guidance and develop additional actions based on regulatory requirements as they become available and are applicable to LGA.
- Oversee the creation of a mechanism for disclosing climate risks to appropriate regulatory authorities.
- Monitor appropriate climate risk related reporting on behalf of the LGA Board and provide periodic updates to the LGA Board as needed.
- Ensure that an appropriate strategy is in place to understand, identify, measure, monitor, control and report risks from climate change in line with the risk strategy and risk appetite parameters set by the Group Board.

Climate risk has been added as a routine agenda item for reporting to the LGA Board of Directors. Climate risk is also included in the annual Legal & General America ORSA Summary report.

## 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 to Strategy

L&G Group believes that addressing climate change is the right thing to do, not just for the sake of our business but for the many different stakeholder groups our business impacts. Our climate transition plan is clear that addressing climate change must be pursued in tandem with halting nature and biodiversity loss. During 2023, it was increasingly recognized globally the impacts and dependencies our economies have on nature. Group welcomed the release of the TFND recommendations during 2023 and have taken first steps in their adoption.

L&G Group's investment approach seeks to mitigate the risks from climate change through reducing the intensity of our financed emissions, while maximizing our impact by directing our investments toward the transition. We aim to take a similar approach to nature-based risks. L&G Group's investment strategy is constructed to manage short and long-term responsibilities to both our policyholders and our shareholders, in line with applicable regulations. As a long-dated investor, particularly in bond investments, our decarbonization approach involves transitioning to lower-carbon investments through our new business flows, and managing the phase-out of higher-carbon investments within our legacy holdings.

In the short to medium term, we prefer to focus our efforts on credible reductions to our carbon footprint across all sectors and encourage others to do the same. In addition, our commitments around deforestation are aimed at protecting existing carbon sinks. In the long-term we expect negative emissions, such as through nature based solutions, to play a critical role in balancing out residual emissions to achieving net zero.

Our short-term horizon looks at a three-year period. Our medium-term horizon looks forward up to 10 years. Our long-term horizon looks at the time horizon up to 2050. This strives to challenge and shape the very core of our business as well as the overall strategy.

While the risks from climate change and nature-loss are increasingly evident, the transition to net zero and the reallocation of capital to nature-positive outcomes also creates opportunities such as investing in the technology and infrastructure needed to transition away from carbon emissions, such as renewable energy sources, low-carbon properties, low-carbon heating, electrification of transport and nature-based solutions.

On the other hand, investments in sectors or companies which are adversely exposed to a transitioning economy could lose value or are downgraded, and investments prove ineffective resulting in loss.

Given the importance of bonds within our portfolio, we first consider the impacts of climate risks on the credit quality and sector breakdown of our portfolio. We are primarily a long-dated 'buy-and-hold' bond investor, managing our portfolio to match our short and long-term payments to retirement customers. Our balance sheet and cashflow matching is therefore more impacted by bond downgrades and defaults than movements in bond value.

We model four climate pathways.

- 1) In the Inaction scenario, global failure to act on climate change means emissions continue to grow at historical rates and approximate global warming by 2100 is 3 - 4 °C.
- 2) In the below 2°C scenario, immediate, ambitious policy and investment action to address climate change limits global warming to below 2°C, but warming most likely exceeds 1.5°C.
- 3) In the Net Zero 1.5°C scenario, immediate, highly ambitious action to address climate change leads to a reduction in emissions to net zero around 2050.
- 4) In the delayed Below 2°C scenario, Policy and investment action to limit warming to well below 2°C is delayed to 2030, resulting in much more disruptive change and warming will most likely exceed 1.5°C.

The Delayed Below 2°C scenario remains the most economically disruptive of our climate scenarios..

Legal & General America (LGA) aligns our climate risk strategy to that of our parent company. Climate risks, both physical and transition risks, are most relevant to LGA's investment strategy and a framework has been developed to identify and escalate these risks.

LGA's portfolio is primarily (97.5%) investment-grade (rated BBB and above). Of this, BBB-rated bonds, which carry the greatest credit transition risk, comprise 33.4% of the portfolio, and of those, the ones from the high carbon sectors (defined as energy, utilities, materials and industrials) only comprise 11.4% of the portfolio.

Banner Life Insurance Company (a subsidiary of Legal & General America, Inc.) has taken the following steps to engage key constituencies on the topic of climate change.

Our Underwriting department has successfully implemented a tele-commuting policy which allows our underwriters to work from home. Currently, 100% of underwriters participate in this initiative. There is an expected reduction in pollution and gas consumption as travel between home and office is not necessary. An added benefit is the ability to attract top talent throughout the country. Our AppAssist function has had a tele-commuting policy for many years and 100% of interview representatives work remotely. Following COVID, other areas within the Company have increased their remote workforce reducing the number of people physically coming into the office. Home Office employees are working in a hybrid, office-based approach which allows them to work on average two (2) days at home each week.

LGA transitioned to a digital application journey, in states where approved, which significantly reduces the use of paper in the process. Our agent commission statements are delivered electronically rather than by mail and we encourage electronic delivery of our newly issued policies. We continue to add functionality to our customer website and agent portal to service customers in an electronic (paperless) fashion. The Operations team is exploring additional ways to reduce the use of paper as part of the life insurance process.

Banner Life Insurance has a recycling program. Employees are required to recycle paper which is shredded (for privacy) and then recycled by NAID certified vendors.

## 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 to Risk Management

LGA's risk management of climate risks is aligned with our parent company. As an enterprise, L&G Group have integrated climate risk management into the existing risk and governance framework and have carried out a detailed assessment of how we could expect climate risk to emerge across our business model. Climate change risks will emerge through our current risk exposures and the relevant Group policies set out our approaches to identifying, assessing and managing these risks. The purpose of the L&G Group Environment Risk Policy is to set out the principles for managing our business so as to align with the mitigation of environmental risks and to be resilient to the risk of different climate outcomes.

The risks arising from climate change that we are exposed to fall into three broad categories:

- 1) Transition risks – impacts on asset valuation and the economy from the process of transitioning towards a low-carbon economy
- 2) Physical risks – Impacts on asset holdings or changes to insurance liabilities as a result of more frequent and severe weather events and longer term shifts in climate
- 3) Corporate risks – Impacts on the Group from exposure to regulatory censure, climate related litigation risks or adverse customer perception of the Group. This may be through loss of franchise value, directly through fines or costs due to adverse investor sentiment resulting from poor alignment with ESG rating expectations.

As much of our balance sheet is based on assumptions and expectations of future experience, risks can materialize through both actual change in experienced profits or losses, as well as changes in those future expectations.

As a life insurance company, we are most concerned about the effects of climate change on mortality and longevity. Climate change could lead to changes in how long people are expected to live. Changes to these expectations will emerge gradually as the effects are experienced or through increased certainty around future climate pathways and the associated health impacts. As a result, impacts on mortality and longevity assumptions may materialize over time.

Climate change may impact credit risk both through movements in credit spreads and through credit rating transitions, as a result of changes in either actual or anticipated default rates. It may also impact asset values due to a (potentially sudden) repricing to reflect transition risks to a low or carbon-neutral economy, or due to more frequent and severe weather events and longer-term shifts in climate impacting asset values. These may be through actual experience or a change in anticipated future experience. Climate change may also present enhanced asset returns, such as increased equity valuation for a firm enabling the transition to a low-carbon economy. Climate change may impact other market risk exposures through movements in macroeconomic factors such as interest, inflation and foreign exchange rates.

Our commitments assume that governments will implement required policy changes; the firms we invest in will deliver their targets; and, there will be societal change on an unprecedented scale over the next decade. These external events may impact our ability to deliver against our climate commitments.

The markets in which we operate are highly regulated. The regulatory approach to climate will continue to evolve. New or evolving interpretations of compliance expectations require changes to our products or business processes. A breach of legislative or regulatory requirements may expose us to financial penalties, remediation costs or damage to our reputation.

When assessing materiality, we consider both how the group is affected by climate change, as well as the group's own impact on the climate.

The effect of future uncertainty over climate change pathways is that the evaluation of climate-related risks and impacts has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the group's financial statements as a whole, and possibly many times that amount.

Our scenario modelling enables us to assess how the impacts from climate change may emerge under a range of climate scenarios and time horizons. Given our business model, we assess the most material financial risks from the potential impact of climate change on the value and credit rating of our assets.

Climate transition risks are primarily measured in relation to our carbon exposures. We are committed to reducing the carbon footprint of both our operations (scope 1 and 2) and of our group balance sheet portfolio's GHG emissions intensity to align with the 'Paris' 1.5°C objective. We measure the contribution of our



investments to CO<sub>2</sub>e emissions, calculating portfolio economic carbon emission intensities at both group and divisional level.

As discussed in the Strategy section, we model four climate pathways.

- 1) In the Inaction scenario, global failure to act on climate change means emissions continue to grow at historical rates and global warming is 3 - 4 °C.
- 2) In the below 2°C scenario, immediate, ambitious policy and investment action to address climate change limits global warming to below 2°C, but warming most likely exceeds 1.5°C.
- 3) In the Net Zero 1.5°C scenario, immediate, highly ambitious action to address climate change leads to a reduction in CO<sub>2</sub> emissions to net zero around 2050.
- 4) In the delayed Below 2°C scenario, Policy and investment action to limit warming to well below 2°C is delayed to 2030, resulting in much more disruptive change and warming will most likely exceed 1.5°C.

We deploy a range of management actions to meet our risk management objectives. We established a framework for climate commitments, which accounts for all GHGs, and covers scope 1,2, and material scope 3 emissions. Our progress and long-term goals are supported by annual and interim targets to enable regular monitoring of progress towards the commitment. Progress is reviewed and reported on at least annually and overseen by the GEC. Our commitments are consistent with the latest science, and are credible and achievable.

Our risk management approach recognizes the importance of engagement with investee companies. Our Investment Management Agreements (IMAs) with asset managers, have climate-specific exclusions that focus on key areas of transition risk: CIP exclusions, coal and oil sand activity and deforestation. We also take account of the broader energy system within our portfolio management approach – through our high carbon escalation process on an individual basis.

LGA also measures the impact of climate risk on real assets, e.g. commercial mortgage loans. For this analysis, we utilize a vendor based tool that currently has the ability of analyzing the potential impact of hurricane/storm surge, flood and wildfire perils. The tool employs the use of proprietary data and algorithms that create risk ratings derived from value at risk calculations that are native to the tool. These risk ratings enable LGA to evaluate the impact of climate risk on our back book real assets and consequently manage concentration risk in climate risk prone areas. Additionally, we use the tool to evaluate real asset investment opportunities to ensure new investments in real assets fall within our climate risk appetite.

## 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.*

### **Response to Metrics and Targets**

Across L&G Group, we monitor and assess our climate-related risks and opportunities using three key metrics: 1) operational carbon footprint, 2) GHG emissions intensity of our investments, and 3) implied portfolio temperature alignment.

The operational carbon footprint covers the operations we directly control, such as the energy from our core occupied offices, landlord activities and our housebuilding, as well as the construction of new homes. Our target is to be net zero by 2050 with our occupied offices and business travel operating with net zero emissions from 2030.

GHG emissions intensity of our investments. Our financed emissions, generated within our investment portfolios and classified as scope 3 creates the largest contribution to our carbon footprint. We have implemented targets that support our commitment to align with a 1.5 C “Paris objective. The primary metric is the GHG economic emissions intensity of the portfolio of Group proprietary assets. This is the total of all the GHG produced by their share of the companies and corporations that they invest in, per unit of investment, and is reported using carbon dioxide equivalent (CO<sub>2</sub>e) emission data.

There are three components to this metric: 1) the GHG emissions for each entity in which they are invested, 2) EVIC (enterprise value including cash) to normalize the emissions by the underlying size of the entity, and 3) the size of their holding in the entity. While Group remains ahead of their year-end 2023 target reduction from 2019, we may still see further volatility from changes in the global economy. Changes in the emissions coming from our investments and our investment activity are key to decarbonizing our portfolios in the medium and longer term. However, in the short term, factors outside of our control, such as carbon outcomes of the entity, market movements and the lag in the reporting of the underlying emissions data have the potential to create significant volatility in the calculated metrics.

The Implied portfolio temperature alignment metric is used to measure and manage investment impact.. The metric describes the climate transition pathway (temperature scenario) each company is expected to align to, based on both historical decarbonization trends and targets the company has set. It reflects the direct link between global carbon emissions and the likely severity of global warming and allows investors to measure their impact on climate change and evaluate their performance relative to SBTs.

Targets have been established at L&G Group level, with Legal & General America supplying relevant information for Group to measure and manage its overall performance with respect to these metrics. Because the metrics are currently aggregated at a Group level, metrics are not available for LGA standalone at this time. As part of the group we also comply with existing policies around restrictions on investments in coal and certain other types of carbon intensive energy projects, which help us overall manage carbon intensity of our balance sheet and transition risk inherent in these assets.

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