SURVEY QUESTIONS

To provide clear direction for achieving a robust, insurance-sector specific TCFD report, narrative and closed ended questions follow, grouped into the TCFD's four topics: governance, strategy, risk management, and metrics and targets.

The statements listed next to numbers and letters are directly taken from the TCFD framework and should be fully addressed in the insurer's response. The disclosures identified in bullet points in this survey are intended to be supplemental, insurance-sector specific guidance. Insurers should consider including the bulleted items in their response to the TCFD statement above it. For additional guidance on sector specific content to consider including, refer to the Implementation Recommendation Report. Asterisks represent questions derived from the original Climate Risk Disclosure Survey.

Closed ended questions directly correspond to the narrative, allowing for explanation and qualification of the yes/no answers. Closed ended questions are voluntary for reporting year 2023 but have been requested by many participating states, including Michigan.

NAIC Number: 13986

Company Name: Frankenmuth Insurance Company

Line of Business: Property & Casualty

Group Filing: No

Group Number: 1309

Group Name: Frankenmuth Insurance

Governance – narrative

1. *Disclose the insurer's governance around climate-related risks and opportunities.*
   In disclosing the insurer's governance around climate-related risks and opportunities, insurers should consider including the following:
   - Identify and include any publicly stated goals on climate-related risks and opportunities.
   - Describe where climate-related disclosure is handled within the insurer's structure, e.g., at a group level, entity level, or a combination. If handled at the group level, describe what activities are undertaken at the company level.

   A. *Describe the board and/or committee responsible for the oversight of climate-related risks and opportunities.*
   In describing the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks, insurers should consider including the following:
      - Describe the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks.

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

Governance around climate-related risks and opportunities follows the broader governance around Enterprise Risk Management (ERM) which covers all risks faced by Frankenmuth Insurance (FI). The Board of Directors (BoD) is responsible for providing oversight, direction, and advice to the Chief Executive Officer (CEO) who has ultimate ownership and responsibility for implementing a comprehensive ERM framework, including the embedding of ERM into FI and its Strategic Plan. The CEO is supported by the Executive Committee and Chief Risk Officer (CRO). The CRO is responsible for the execution of FI's ERM practices, which include the identification, monitoring, and reporting of risks.

Committees of the BoD, such as the Risk Committee, discharge the BoD's responsibilities related to oversight of the ERM process. The Risk Committee meets at least quarterly to discuss and make decisions on ERM-related topics, which include climate-related risks and opportunities. FI has also developed a Strategic Issues List to monitor new and emerging risks from a variety of sources.

Risk reporting, as well as climate-related disclosure such as this Climate Risk Disclosure Survey, is handled by FI's lead company, Frankenmuth Insurance Company (FIC).

Governance – closed ended questions answered in addition to the narrative

- Does the insurer have publicly stated goals on climate-related risks and opportunities? NO
- Does your board have a member, members, a committee, or committees responsible for the oversight of managing the climate-related financial risk? YES
- Does management have a role in assessing climate-related risks and opportunities? YES
- Does management have a role in managing climate-related risks and opportunities? YES

Strategy – narrative

2. *Disclose the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy, and financial planning where such information is material.*
   In disclosing the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy and financial planning, insurers should consider including the following:
   - Describe the steps the insurer has taken to engage key constituencies on the topic of climate risk and resiliency.*
   - Describe the insurer's plan to assess, reduce, or mitigate its greenhouse gas emissions in its operations or organizations.*

   A. *Describe the climate-related risks and opportunities the insurer has identified over the short, medium, and long term.*
      In describing the climate-related risks and opportunities the insurer has identified over the short, medium, and longer term, insurers should consider including the following:
      - 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.*

Climate-related risks and opportunities are embedded in FI's business plans and strategy. The most relevant risks and opportunities are related to reinsurance, climate-conscious operational decisions, and product considerations. Since the founding of the company in 1868, FI has had exposure to climate-related risks such as natural catastrophes. This is an on-going risk that FI will continue to face in the long-term.

Reinsurance is one of the most material components of FI's strategic approach to manage the potential adverse impacts of climate-related risks, as this mechanism allows FI to transfer a portion of such risks to other entities. FI has a Reinsurance Committee in place representing stakeholders and experts from across the company to provide input and guidance on the structure, terms, and strategy around reinsurance placements. In addition, input comes from FI's BoD members, reinsurance brokers, and other reinsurance experts. To better understand catastrophe risks and perils, exposure data is modeled in catastrophe models. These models help FI quantify the degree to which reinsurance protects the company's policyholders' surplus.

FI continues to minimize the impacts of climate-related risks, raise employee and policyholder awareness, and reduce the environmental impacts of its facilities, operations, and human resources. FI promotes "going green" through a formal recycling program throughout its facilities that encourages the recycling of printer toner, ink cartridges, computer/electronic equipment, packaging, metal, paper, and plastic. In addition, FI has continued to make significant impacts in its operations through reduced consumption efforts, promoting a paperless environment, establishing supplier relationships with those from local markets, and various other energy saving initiatives. Such initiatives include (but are not limited to):

- Regular purchase and use of eco-friendly products throughout facilities, including motion sensor smart light technology, exterior LED lighting, and green cleaning products.
- Regular maintenance of green landscape at the home office, following an integrated pest management program to minimize the use of insecticides and chemical sprays.
- Regular maintenance of HVAC equipment which reduces the number of pollutants, bacteria, and odor emissions and controls humidity/moisture levels.
- Utilization of energy management system to monitor and reduce mechanical heating and cooling requirements.
- Reduced paper usage through electronic policy delivery and paperless philosophy.
- Virtual desktop environment which allows for the replacement of older/larger end-user computers with smaller thin/zero client devices as the desktop.
- Server virtualization which allows for reduction of physical space, power, and cooling requirements for increased computer demand.
- Storage virtualization and flash storage which allow for reduction of traditional “spinning” disk data storage with storage virtualization and flash storage technologies.
- Telecommuting and work from anywhere options which reduce the number of employees in the office, power requirements, commuting, and heating/cooling emissions.

In addition, FI has implemented product features and underwriting guidelines that are climate conscious. These features and guidelines include (but are not limited to):

- Policy that would pay an additional 10% of the actual cash value or replacement cost when replacing a stolen or total loss vehicle with a hybrid or electric vehicle.
- Underwriting guidelines that restrict the ability to underwrite coal, oil, and/or gas producers.

Strategy - closed ended questions answered in addition to the narrative

- Has the insurer taken steps to engage key constituencies on the topic of climate risk and resiliency?* YES
- Does the insurer provide products or services to support the transition to a low carbon economy or help customers adapt to climate risk? YES
- Does the insurer make investments to support the transition to a low carbon economy? YES
- Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations?* YES

Risk Management – narrative

3. *Disclose how the insurer identifies, assesses, and manages climate-related risks.*
   In disclosing how the insurer identifies, assesses, and manages climate-related risks, insurers should consider including the following:
   - Describe how the insurer considers the impact of climate related risks on its underwriting portfolio, and how the company is managing its underwriting exposure with respect to physical, transition and liability risk.*
   - Describe any steps the insurer has taken to encourage policyholders to manage their potential physical and transition climate related risks, if applicable.*
   - Describe how the insurer has considered the impact of climate-related risks on its investment portfolio, including what investment classes have been considered.*

   A. *Describe the insurers' processes for identifying and assessing climate-related risks.*
      In describing the insurers' processes for identifying and assessing climate-related risks, insurers should consider including the following:
      - 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.

Effective identification, assessment, and management of climate-related risks is essential in order to maintain appropriate capital levels to support such risks and to price policies to generate appropriate risk-based returns. FI's ERM framework includes processes around the identification, assessment, and management of risks, which encompasses climate-related risks. This involves the annual update of FI's risk register which is an inventory of risks faced by FI both in the short- and long-term. The ERM framework also identifies individuals in each functional area called Risk Officers and Risk Owners who are responsible for assessing and managing risks in their area of responsibility. Risk Officers and Risk Owners are assigned to all identified risks that are included in FI's risk register, along with descriptions of risk, risk responses, mitigating controls, and impact descriptions. Climate-related risks have been identified by the Risk Committee and management and are included in FI's risk register.

Climate-related risks are assessed as part of the annual review and update of the risk register. This includes an evaluation of the risk responses and mitigating controls in place and the potential impacts to FI. A detailed discussion of FI's assessment of climate-related risks is included in its Own Risk & Solvency Assessment (ORSA) Summary Report. The largest climate-related risk faced by FI is exposure to losses due to natural catastrophes.

Natural catastrophe risk is assessed in a number of ways. First, catastrophe models are used to understand loss potential by peril for FI's insured exposures. Multiple models are run and results are analyzed. Second, exposure accumulation analysis is completed to understand the geographic areas with large exposure to weather or other natural events.

FI has a robust framework for the management of natural catastrophe risk. The primary means to mitigate exposure to natural catastrophes is through reinsurance. FI has multiple property reinsurance treaties in place with financially sound reinsurers. The structures of these reinsurance treaties are guided by catastrophe modeling results, reinsurance brokers, and FI's Reinsurance Committee. In addition to reinsurance, underwriting guidelines around coastal risk acceptability and earthquake, for example, also contribute to the mitigation of risk to natural catastrophes. Additional management of this risk includes participation in industry organizations that promote improved building codes and resiliency (e.g., Insurance Institute for Business & Home Safety (IBHS)) and further diversification of FI's book of business, both at the geographic and line of business level.

From an investment perspective, FI works with external investment advisors that incorporate Environmental, Social, and Governance (ESG) factors in their proprietary research processes. ESG investing is a form of investing that considers environmental, social, and governance factors to assess a company's or investment's financial returns and sustainability over time. These investment advisors assign scores to investments and provide a synopsis of their rationale.

Risk Management – closed ended questions answered in addition to the narrative

- Does the insurer have a process for identifying climate-related risks? YES
    - If yes, are climate-related risks addressed through the insurer's general enterprise-risk management process? YES
- Does the insurer have a process for assessing climate-related risks? YES
    - If yes, does the process include an assessment of financial implications? YES
- Does the insurer have a process for managing climate-related risks? YES
- Has the insurer considered the impact of climate-related risks on its underwriting portfolio?* YES
- Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks?* YES
- Has the insurer considered the impact of climate-related risks on its investment portfolio?* YES
- Has the insurer utilized climate scenarios to analyze their underwriting risk? YES
- Has the insurer utilized climate scenarios to analyze their investment risk? YES

Metrics and Targets – narrative

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

   A. *Disclose the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process.*
   In disclosing the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process, insurers should consider including the following:
      - 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.*
      - Scope 1 emissions are direct greenhouse (GHG) emissions that occur from sources that are controlled or owned by an organization (e.g., emissions associated with fuel combustion in boilers, furnaces, vehicles). Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling.

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

FI uses catastrophe models to manage risks from hurricane, severe convective storms, hail, and earthquake. Metrics and key performance indicators are derived from catastrophe model results, which include:

- Comparisons of actual catastrophe loss to modeled catastrophe loss on a direct (prior to reinsurance) basis.
- Comparisons of the modeled 1-in-250-year probable maximum loss (PML) on a net (after reinsurance) per-occurrence, pre-tax basis to policyholders' surplus. An ERM tolerance statement has been established around this metric and it is monitored quarterly.
- Evaluations of the return period (or PML) at the top end of the reinsurance program utilizing multiple catastrophe models to ensure adequate protection by the program.

Metrics and Targets – closed ended questions answered in addition to the narrative

- Does the insurer use catastrophe modeling to manage your climate-related risks? YES
- Does the insurer use metrics to assess and monitor climate-related risks? YES
- Does the insurer have targets to manage climate-related risks and opportunities? YES
- Does the insurer have targets to manage climate-related performance? YES