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.

<u>Response for Governance:</u>

Brethren Mutual Insurance does not have an official publicly stated climate change policy with respect to climate related risks and opportunities. Being a mutual insurance company, we are not subject to many legally imposed disclosure obligations.

The Company does address weather related events and investment portfolio risk within the Enterprise Risk Management framework. ERM is covered quarterly with the Audit and Risk Committee, which is comprised of five Board Members and two members of Executive Management. Committee meeting minutes are circulated with the full board and approved.

Executive Management plays an active role in assessing and managing climate-related risks and opportunities. Company exposure analysis and claim experience are monitored quarterly to assess potential changes in underwriting appetite, pricing, or coverage.

Governance – closed ended questions answered in addition to the narrative

- Does the insurer have publicly stated goals on climate-related risks and opportunities? (Y/N) N
- Does your board have a member, members, a committee, or committees responsible for the oversight of managing the climate-related financial risk? (Y/N) Y
- Does management have a role in assessing climate-related risks and opportunities? (Y/N) Y
- *Does management have a role in managing climate-related risks and opportunities? (Y/N)* Y

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.

Response for Strategy:

A Response:

Brethren Mutual has always made it a priority to engage with key constituencies on climate risk and resiliency. These key constituencies are policyholders, regulators, agents, and employees. The company offers transparent communication through annual reports and other dedicated risk disclosures.

Brethren Mutual continues to take steps to reduce its carbon footprint operationally where financially viable. This includes implementing energy efficiency measures in offices and facilities and encouraging sustainable practices.

Over the short, medium, and long term, climate-related risks and opportunities fall into the following categories.

Short-Term (0-2 years):

- Risks: Consider immediate risks, such as the increased frequency of extreme weather events, which could lead to higher claims. Look at regulatory changes affecting business operations or shifts in consumer preferences for different insurance coverages.
- Opportunities: Explore opportunities such as developing new insurance products tailored to emerging risks and enhancing reputational awareness in resiliency efforts.

Medium-Term (3-5 years):

- Risks: Assess risks, including potential changes in asset valuations due to socioeconomic factors, disruptions in supply chains, or increased regulatory compliance costs such as these climate disclosures.
- Opportunities: Identify opportunities like expanding market share by offering innovative insurance solutions, leveraging technology to improve risk assessment and management, or entering new risks that favor resiliency.

Long-Term (6-10 years and beyond):

- Risks: Evaluate long-term risks, such as gradual shifts in climate patterns impacting catastrophe modelling. Continue to try to understand other systemic risks to the financial system.
- Opportunities: Look at long-term opportunities such as aligning with market trends and following industry efforts on climate change adaptation and mitigation.

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.

B Response:

Brethren Mutual defines time horizons for assessing climate-related risks and opportunities as follows:

- Short Term: 1-5 years. Focus on immediate regulatory compliance, operational adjustments, and short-term product innovations.
- Medium Term: 5-10 years. Work on strategic planning cycles and allow the business to anticipate and adapt to evolving market conditions and regulatory frameworks.
- Long Term: 10-30 years. Plan for significant shifts in climate patterns, investment strategies, and potential systemic risks to the financial system.

Brethren Mutual is making ongoing progress to reduce its carbon emissions. The corporate headquarters has energy efficient windows throughout and energy efficient lighting has been installed. An energy audit was performed by the local electric utility and recommendations were provided. More services are being transitioned to the Cloud with hardware eliminations on site, reducing cooling requirements of the IT Hub.

The Company has embraced a hybrid work arrangement with all Hagerstown based employees reducing energy consumption through less commuting. We continue to encourage policyholders to adopt electronic delivery of correspondence and documents, where permitted by law.

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

C Response:

It would be best to focus on a resilience strategy. This would include scenario analysis using cat risk models that look at a lower climate scenario than 2 degrees Celsius. Cat models consider the current climate and any near-term trend that that climate has presented. The strategy should also assess regulatory changes and shifts in market demand.

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? (Y/N) Y
- Does the insurer provide products or services to support the transition to a low carbon economy or help customers adapt to climate risk? (Y/N) N
- Does the insurer make investments to support the transition to a low carbon economy? (Y/N) Y
- Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations? (Y/N) N

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. *

Response for Risk Management:

A Response:

Brethren Mutual utilizes an Enterprise Risk Management (ERM) program to identify and manage its most significant risks to an acceptable outcome within its reinsurance guidelines. These guidelines are regional.

Over Brethren Mutual's nearly 130 years of business, there has been a constant monitoring and identification process of anticipated changes in perils it underwrites across the Mid-Atlantic states. Catastrophe risk models have been used for the last three decades to help insurance companies manage risk.

Current weather catastrophe modelling has not accurately predicted the impact of some climate-related perils. No one within the insurance industry can predict how property catastrophe experience will change over time. However, assessing risk and losses and addressing capital adequacy via internal measures, using catastrophe models that understand the current climate extremes, and following advice from other regulated entities annually allow for open flexibility to evaluate climate-related risks.

B. Describe the insurer's processes for managing climate-related risks.

B Response:

Brethren Mutual follows the guidance from the newest 2021 IPCC Sixth Assessment Report, which addresses the most up-to-date physical understanding of the climate system and climate change. The conclusions of the IPCC (Chapter 11) indicate that the on-climate time scales, the frequency or intensity of extreme weather and climate events for the primary perils of tropical cyclones, winter storms, thunderstorms, tornadoes, hail, lightning, or extreme winds have not changed. The IPCC has concluded that changes in heat waves, heavy precipitation, drought, and fire weather have changed in specific areas of the globe.

Of the perils showing positive changes in frequency or severity, Brethren Mutual actively monitors exposures for these perils, particularly wildfires. The IPCC assessments, however, show that wildfires do not change in severity or frequency in the Mid-Atlantic states.

The perils that the IPCC suggests are changing worldwide include temperatures, sea-level rises, and precipitation events. Brethren Mutual has set restrictive underwriting guidelines, such as distance to the coast, to help control exposure to sea-level rise. Brethren Mutual continues to make changes to guidelines as warranted.

Brethren Mutual has addressed precipitation events by excluding losses due to flooding as a covered peril, which is standard practice in the insurance industry.

Brethren Mutual has instituted specific underwriting guidelines and criteria to mitigate risk. They also employ a robust reinsurance program and routinely review actual claims. The reinsurance program addresses and mitigates the risk of material climate change(s) impacting business. Brethren Mutual can evaluate current climate-related risks by working with industry partners, such as reinsurance intermediaries, who use catastrophe risk models. This, along with an ongoing review of Brethren Mutual's current and historical claims data, allows for a complete view of risk over time.

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.

C Response:

Brethren Mutual does not anticipate climate change will affect its current business in the near-term future and feels that, if any trends do develop in the above primary perils, there are many financial tools, such as reinsurance or rate changes, and mitigation and adaptation programs that can be utilized to address any potential risks from these primary perils in the future. Brethren Mutual also constantly corresponds with its reinsurance brokers as they, too, are assessing how climate change may affect Brethren Mutual's business by continually reviewing, monitoring, and evaluating catastrophe model literature, papers, and publications for potential effects on the Brethren Mutual portfolio and operating territories.

The Company has a formal, written investment policy statement that guides the near- and long-term overall investment allocation and risk management strategy. Overall market and economic conditions and the impact on the portfolio are monitored and measured and reported to the Executive Committee at least monthly. Overall portfolio investment risk (volatility) is measured on a quarterly basis.

Semi-annually, the Company conducts an investment portfolio risk analysis stress test which attempts to measure the risks to the overall investment portfolio in the event of various financial crisis events. The company has found these stress tests important in attempting to gauge the degree of potential volatility and investment losses the company may have to bear. However, the impact of climate change as an isolated risk as it pertains to the investment portfolio is not measured in the semi-annual stress tests.

The Company has engaged the custody and investment advisory consulting services of Wells Fargo Advisors. With an eye on the written investment policy statement guidelines, Wells Fargo Advisors assists the Company in creating an overall portfolio diversification strategy. Independent money management companies are then engaged by the Company to manage the asset class sleeves. The independent money managers are hired after a thorough review of investment process and style and investment risk management strategies. The Company delegates the individual security selection to these independent money managers, and as such delegates the analysis for evaluating the risk characteristics (including Climate Change considerations) of that security investment to the money manager.

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

- Does the insurer have a process for identifying climate-related risks? (Y/N) Y
    - If yes, are climate-related risks addressed through the insurer's general enterprise-risk management process? (Y/N) Y
- Does the insurer have a process for assessing climate-related risks? (Y/N) Y
    - If yes, does the process include an assessment of financial implications? (Y/N) Y
- Does the insurer have a process for managing climate-related risks? (Y/N) Y
- Has the insurer considered the impact of climate-related risks on its underwriting portfolio? (Y/N/Not Applicable) Y
- Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks? (Y/N) Y
- Has the insurer considered the impact of climate-related risks on its investment portfolio? (Y/N) Y
- Has the insurer utilized climate scenarios to analyze their underwriting risk? (Y/N) Y
- Has the insurer utilized climate scenarios to analyze their investment risk? (Y/N) Y

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 for Metrics and Targets:

Brethren Mutual is utilizing catastrophe modeling and strict underwriting discipline to help manage the risk posed by climate change. However, in this process, there is considerable uncertainty in climate projections and the evolving maturing of risk analytics to understand climate change within the catastrophe models. Climate change trends are implicitly built into catastrophe models, given the heavy use of recent historical data for developing and calibrating the 100,000-year catalogs. Along with the Brethren Mutual approach to risk tolerance and risk appetite, as outlined within our Enterprise Risk Management program, catastrophe risk models are an integral part of the organization in understanding natural catastrophe risk and the changing climate. These models help Brethren Mutual understand that liquidity and capital adequacy are sufficient to withstand highly improbable loss years. These models are also used to assist in developing mitigation strategies, risk transfer mechanisms, and exposure and aggregate management.

Brethren Mutual has implemented best practices around climate change strategy and risk management.

Be Aware – Understand trends, your exposures and vulnerabilities, and ways to assess your risk.

Risk identification – Not just of the property; it extends beyond the insured property. Potential concerns can be neighboring properties and public infrastructure.

Prepare for disasters – Most disasters are preventable, and easy steps can minimize loss even from the most catastrophic events.

Implement longer-term measures to reduce losses.

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

- Does the insurer use catastrophe modeling to manage your climate-related risks? (Y/N) Y
- Does the insurer use metrics to assess and monitor climate-related risks? (Y/N) N
- Does the insurer have targets to manage climate-related risks and opportunities? (Y/N) N
- Does the insurer have targets to manage climate-related performance? Y/N) N

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