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.

Answer: No publicly stated goals given that our two underwriting Companies are part of a mutual holding system that is not subject to many legally imposed disclosure obligations but goals are established in relation to climate-related risk and opportunities which are shared with the Boards of the Companies, employees and other stakeholders such as select appointed agents, when relevant to such agents. Such goals would include reviewing with employees how they may effectively work from remote environments, which thereby reduces carbon emissions in normal commuting processes, evaluating the carbon footprint of the Companies related to any improvements to the buildings/systems of the companies and using previously developed policies to address climate-related risk management in underwriting as will hereinafter be discussed.

Climate-related risk and opportunity is also addressed in investment management due to a change in the Companies' overall investment policy which change occurred after a discussion of the potential usage of environmental, social and governance (ESG) criterion for managing the Companies' investment portfolios. Such change included the integration of ESG into the investment policy which policy change was approved by the Companies' Boards of Directors.

• 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.

Answer: Climate-related disclosure, to the extent performed by our non-publicly traded Companies, is handled at a group level as there is a limited difference between the climate risk and/or opportunity at the individual company level other than minor distinctions as to lines of business written by the two insurer entities of the mutual insurance holding system, given that the employee base, agency base and physical locations are the same for both companies.

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.

Answer: Ultimately, oversight comes from the Board of Directors of Cumberland Mutual Fire Insurance Company and the ultimate controlling entity although with the addition of climate-related risk as a specifically identified risk in Cumberland's ERM program, the Audit & Risk Management Committee has become involved in overseeing risk management metrics as well as the decisions made by the executive management team involving pertinent risks such as climate-related risks. The Audit & Risk Management Committee ultimately reports to the Boards as to such risk.

Additionally, to the extent that ESG (and specifically climate-related risk) considerations have been integrated into investment decisions being made by the Companies, the Investment Committee receives reports and information from investment portfolio managers as to such topic to be able to make informed investment decisions based upon such information.

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

Answer: Climate-related risks and opportunities to which Cumberland's Companies are managed at various departmental levels including primarily those departments involved with underwriting. Risk/opportunities are reviewed and analyzed by the underwriting department in conjunction with executive management which manages reinsurance needs of the Companies.

Climate-related risks and opportunities presented as the Companies investment portfolios is managed by the finance department and executive management who work with outside portfolio managers who are charged with providing information to the Companies involving proposed or currently held investment assets. Management works with such advisors to help address risk and opportunity to be presented to the Investment Committee.

STRATEGY

2. Disclose the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy, and financial planning where such information is material.

In disclosing the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy and financial planning, insurers should consider including the following:

• Describe the steps the insurer has taken to engage key constituencies on the topic of climate risk and resiliency. *

Answer: Cumberland Companies, being part of a mutual holding system, believes that key constituencies that potentially might be engaged on climate risk could include policyholders, agents and employees. The Companies are considering pertinent engagement topics and methods and have taken initial steps to discuss with selected agents climate-related risks such as pricing and geographic concentrations of the Companies as it pertains to the select agents' books of business.

• Describe the insurer's plan to assess, reduce, or mitigate its greenhouse gas emissions in its operations or organizations. *

Answer: The Companies have moved towards the usage of electric vehicles for some of its Company owned vehicles and has taken steps to reduce its carbon footprint by continuing remote work for many employees for at least three days per week and in some cases on a full-time basis. Additionally, the Companies have retrofitted when possible, fixtures in its buildings to ensure limited fossil fuel consumption.

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.

Answer: Although the Companies use modeling of average annual loss in certain methods as hereinafter noted, the Companies do not have the available resources to properly, effectively and correctly identify climate related risks over the periods suggested in this question.

B. Describe the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning.

Answer: All of the operational actions/considerations as noted in subsequent answers to this survey are ultimately taken into consideration during strategic 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.

  Answer: At this juncture, the Companies do not have the resources or capabilities to dictate how policyholders should respond to climate-related risks and/or opportunities. The Companies are transitioning to a lower carbon footprint as identified in response to prior questions involving reduction of greenhouse gas emissions.

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

  Answer: Cumberland invests in an infrastructure debt program with leading global alternative asset manager. The infrastructure debt program targets financing opportunities in five key infrastructure sectors—transport, renewable power, utilities, midstream, and data. This investment supports the transition to a low carbon economy with allocations to renewable power sources and alternative forms of energy delivery. As part of a long-term focus on sustainability, the infrastructure debt program places significant focus on ensuring the assets are well positioned in the transition to a net-zero carbon economy. The asset manager has launched various initiatives to better understand climate change risks and incorporate these considerations into risk management activities. Additionally, Cumberland invests in in green bonds where appropriate with our fixed income manager.

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

Answer: Due to the size of our Companies, we do not have the present resources/capabilities to analyze potential different climate-related scenarios such as suggested in this question.

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. *

  Answer: Climate-related risk and opportunity impacts the Companies' business operations and such risk is therefore analyzed extensively by departments such as underwriting wherein underwriting risk for all insured locations is continually reviewed given the increased severity and frequency of weather events causing losses for our insureds. Climate related risk is overseen and managed by reviewing models showing both short term and long term average annual loss and using regulator approved rates to ensure policies are priced taking into account potential changes in reinsurance related to climate-risk. The Companies also use policy provisions to ensure that more frequent and severe storms that may cause flooding are appropriately written so that the risk the Companies wish to insure are considered in light of models showing increased severity and frequency. Additionally, management considers throughout the course of each year, any changes, or potential changes due to increase in new business from particular agencies that affect geographic concentrations of policies that might significantly increase modeled average annual loss. The Companies also consider climate-risk and potential future systemic changes of weather patterns for areas wherein the Companies may have a significant concentration of insured locations both from a loss perspective as well as how such markets may be best served by the Companies.

• Describe any steps the insurer has taken to encourage policyholders to manage their potential physical and transition climate related risks, if applicable. *

Answer: At this juncture, the Companies do not have the resources or capabilities to dictate how policyholders should to manage what the policyholders may feel are potential physical and transition climate related risks.

• Describe how the insurer has considered the impact of climate-related risks on its investment portfolio, including what investment classes have been considered. *

Answer: Cumberland considers climate-related risks on its investment portfolio in partnership with our investment managers. Investment classes such as infrastructure debt and green bonds have been considered. Cumberland's asset managers NEAM (Fixed Income) and Conning (Equity) incorporate ESG factors into the investment process, which includes climate (environment) related risks:

Fixed Income (NEAM): The analysis of ESG related issues is a growing area of focus in the investment management business. NEAM is committed to continuing to make improvements to our ESG Policy over time to reflect changes in business practices, technology, business structures and the law. NEAM remains dedicated to considering ESG factors in its investment decisions including investing in green bonds where appropriate. ESG factors are being utilized to complement NEAM's current investment process and practices for the corporate sector. The asset manager utilizes a set of industry standard climate modeling scenarios with a 6.7% portfolio loss (30 years) as the worst case scenario.

Equity (Conning): Conning has been integrating ESG scores into their fundamental credit analysis for the last several years, and by association, that translates through to the High Dividend Equity (HDE) process. Conning, along with their subsidiary Global Evolution, received a five-star (out of five) rating for the four relevant categories in their latest PRI Assessment Report (2021) from the Principles for Responsible Investment (PRI).* Their operations received a five-star rating for their Investment & Stewardship Policy as well as three fixed income categories -- including Corporates and Securitized Products – in the PRI report, which offers an overarching approach to responsible and transparent investments. Conning has been a signatory to the UN Principles since 2012 and underscored our commitment to incorporating ESG factors into credit ratings and analysis in a systematic and transparent way by signing the PRI's ESG in credit risk and ratings statement in 2019.

*PRI's module scoring system shifted from alphabetical grading in 2020 to a numerical grading system ranging from 1 to 5 stars in 2021.

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. *

Answer: Climate related risk are continually considered in the underwriting process as described previously in prior answers. Decision making is done in conjunction with executive management and occurs throughout normal business operations planning as well as in strategic and financial planning.

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

See prior answers.

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.

Answer: As described previously, climate related risks are addressed through defined underwriting and investment management in well-defined operational manners. In addition to addressing the risk operationally, the Companies enterprise risk management program, done at the ultimate controlling entity level, identifies climate-related risk as a major risk to be considered and which has resulted in the ERM program using various metrics to help to analyze the risk and set limits for acceptance and/or transfer of certain amounts of climate-related risks.

• 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.

Answer: Scenarios are driven by well-developed modeling entities AIR and RMS which have both short term and long term models that account for different timeframes. The models use various risk factors which are deemed proprietary to each entity but when disclosed to insurance users of the product include many scenarios and timeframes.

• 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.

Answer: Cumberland's fixed income manager utilizes the Climate Biennial Exploratory Scenario (CBES) from the Bank of England to evaluate climate risk. An overview of CBES is included below.

"The CBES uses three scenarios to explore the two key risks from climate change: the risks that arise as the economy moves from a carbon-intensive one to net zero emissions – transition risks; and risks associated with the higher global temperatures likely to result from taking no further policy action – physical risks. All three scenarios explore both transition and physical risks, to a different degree.

The CBES scenarios are not forecasts of the most likely future outcomes. Instead, the scenarios are plausible representations of what might happen based on different future paths of governments' climate policies (policies aimed at limiting the rise in global temperature). Each scenario is assumed to take place over the period 2021–50. The exercise considers two routes to net zero greenhouse gas emissions: an Early Action scenario and a Late Action scenario. These scenarios primarily explore transition risks from climate change:

Early Action: the transition to a net-zero economy starts in 2021 so carbon taxes and other policies intensify relatively gradually over the scenario horizon. Global carbon dioxide emissions are reduced to net-zero by around 2050. Global warming is limited to 1.8°C by the end of the scenario (2050) relative to pre-industrial levels. Some sectors are more adversely affected by the transition than others, but the overall impact on GDP growth is muted, particularly in the latter half of the scenario once a significant portion of the required transition has occurred and the productivity benefits of green technology investments begin to be realized.

Late Action: The implementation of policy to drive the transition is delayed until 2031 and is then more sudden and disorderly. Global warming is limited to 1.8°C by the end of the scenario (2050) relative to pre-industrial levels. The more compressed nature of the reduction in emissions results in material short-term macroeconomic disruption. This affects the whole economy but is particularly concentrated in carbon-intensive sectors. Output contracts sharply in the UK and international economies. The rapid sectoral adjustment associated with the sharp fall in GDP reduces employment and leads to some businesses and households not being able to make full use of their assets, with knock-on consequences for demand and spending. Risk premia rise across multiple financial markets.

The No Additional Action scenario primarily explores physical risks from climate change. Here, there are no new climate policies introduced beyond those already implemented. The absence of transition policies leads to a growing concentration of greenhouse gas emissions in the atmosphere and, as a result, global temperature levels continue to increase, reaching 3.3°C relative to pre-industrial levels by the end of the scenario. This leads to chronic changes in precipitation, ecosystems and sea-level. There is also a rise in the frequency and severity of extreme weather events such as heatwaves, droughts, wildfires, tropical cyclones and flooding. There are permanent impacts on living and working conditions, buildings and infrastructure. UK and global GDP growth is permanently lower and macroeconomic uncertainty increases. Changes in physical hazards are unevenly distributed with tropical and subtropical regions affected more severely. Many of the impacts from physical risks are expected to become more severe later in the 21st century and some will become irreversible. So the headwinds facing the economy would be expected to increase further into the future.

The CBES scenario specification builds upon a subset of the Network for Greening the Financial System (NGFS) climate scenarios. NGFS climate scenarios aim to provide central banks and supervisors with a common starting point for analyzing climate risks under different future pathways. They are produced in partnership with leading climate scientists, leveraging climate-economy models that have been widely used to inform

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.

Answer: The Companies use CAT modeling for certain climate-related risks including hurricane/tropical storms as well as severe convective storms (SVS).

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.

Answer: See information as to use of modeling to help make informed underwriting decisions as noted above.

B. Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Answer: The Companies do not presently have the resources to model for such climate related risks.

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

Answer: The Companies believe that accepting and managing climate-related risks and the opportunities that may be presented to provide policyholders insurance coverage for such changing risks are one of many types of risks/opportunities that must be considered together. Setting targets based solely upon one risk or attempting to de-aggregate such risk or opportunity from all risks considered by the Companies is not presently something for which the Companies presently have the resources or ability to perform.

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