United Fire & Casualty Company
Climate Risk Survey
August 21, 2023

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

1. United Fire & Casualty Company (UFCC) is a property and casualty insurer licensed in all 50 states plus the District of Columbia. Strong governance principles, coupled with a cross-functional approach to engagement and collaboration, help position the company to better integrate environmental, social, and governance (ESG) factors and climate-related risks and opportunities into its corporate strategy and planning.

   UFCC's recent and ongoing ESG initiatives include:

   i) Publishing of a Task Force on Climate-related Financial Disclosures (TCFD) Report (done in November 2022);
   ii) Responsible scaling of corporate real estate through sale and/or subleasing of unused or underused office space;
   iii) Launching of a UFG Green team to focus on environmental improvement in operations and sustainability;
   iv) Net-zero waste initiative at Cedar Rapids campus to divert tons of trash from landfills via composting, recycling, or trash-to-energy programs;

v) Decreasing plastic waste, especially reducing usage of plastic water bottles by providing water filling stations throughout office buildings;
vi) Pursuing WELL v2 Platinum building certification for the American Building on the Cedar Rapids campus;
vii) Continuing to promote portfolio diversification to reduce CAT exposure;
viii) Transitioning to e-billing to reduce paper consumption.
ix) Transitioning to electronic policy delivery to reduce paper consumption

A. UFCC, as a wholly owned subsidiary of United Fire Group, Inc. (UFG), is overseen by the Board of Directors of UFG. The 7-member Risk Management Committee of UFG's Board of Directors reviews and evaluates the Company's identification, assessment, and management of risks associated with ESG matters, including but not limited to climate change and ESG-related emerging risks.

The Chair as well as another member of the Risk Management Committee identified above are also members of the 7-member Audit Committee, which oversees financial risk exposures, internal controls and financial reporting. The Audit Committee reviews policies, processes, and internal controls for collecting ESG data to ensure that Company disclosures containing ESG data are accurate, reliable, and consistent.

The Nominating and Governance Committee oversees the Company's ESG policies and practices. Its members also review voluntary ESG disclosures, goals, and metrics provided. One member of the Risk Management Committee is also one of four members of the Nominating and Governance Committee.

B. In 2021, UFG established its ESG Committee, a cross-functional team of leaders who are dedicated to actively leading UFG's sustainability, corporate social responsibility, health and safety, and human capital efforts, as well as cultivating an ESG-focused culture. The ESG Committee meets regularly and provides routine updates to the Board's Nominating and Governance Committee. The following individuals at UFG are members of the ESG Committee:

- Vice President, Chief Legal Officer & Corporate Secretary – Committee Chair
- Vice President, Chief Underwriting Officer
- Vice President, Chief Marketing Officer
- Vice President, Chief Risk Officer
- Vice President, Chief Investment and Strategy Officer
- Vice President, Chief Technology Officer
- Vice President of Human Resources
- Vice President, Enterprise Risk Management
- Assistant Vice President, Assistant General Counsel
- Assistant Vice President, FP&A
- Assistant Vice President, Director of Investor Relations & Corporate Development
- Assistant Vice President, Director of Vendor Management Office
- Assistant Vice President, Director of Workplace Environment
- Human Resources Manager, Talent Management
- Corporate Counsel
- Director of UW Administration and Strategy

UFG has formally classified the impact of inattention to ESG initiatives as a material emerging risk to the Company's financial and reputational success. The Chief Risk Officer (CRO), supported by the Chief Legal Officer and Director of Facilities, is responsible for developing and deepening UFG's understanding of climate change as an enterprise-level risk and informing the Board, via reporting from Enterprise Risk Management (ERM), how the related risks are monitored and mitigated.

ERM also communicates with the Board on natural catastrophe experience, exposure and modeling. Specifically, UFG has advised the Risk Management Committee on the following: (i) pockets of CAT risk concentration in UFG's direct book; (ii) direct book benchmarking data, intended to aid underwriting efforts; (iii) models of CAT exposure and loss summaries, reflecting overall declines driven by UFG's exit from the personal lines business and non-renewals of high-risk policies; (iv) the impact of climate change, including rising severe storm losses (also influenced by changes in demography and media coverage); (v) higher rates and the impact of inflation in the reinsurance markets; and (vi) UFG's 2023 goals to reduce rates and increase the aggregate limit in its ceded reinsurance program.

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

UFCC views climate-related risks as transversal, and it monitors risks extending across multiple categories and subcategories. Climate change is recognized as a risk in itself, and it also exacerbates and impacts other risks recognized by UFCC, such as natural catastrophe losses, non-insurance regulatory risks, risks related to corporate financial reporting, publicity and reputational risks, and corporate insurance risks.

A. Defined: short-term, medium-term, long-term

Time Horizon	**Climate-Related Risks (Physical, Transition, Liability)**

Short-term	
6-18 months	Increased number and duration of wildfires. Increased frequency and severity of heat waves. Risks to reinsurance from catastrophic events. Reputational risks.
Medium-term	
18 months-5 years (typical length of UFCC policies)	Climate change regulations in the insurance industry. Increased climate change regulations affecting UFCC's policyholders' industries. More severe hurricanes and convective storms.
Long-term	
>5 years	Rising sea levels. Business interruption claims. Liability risks related to expanded insurance coverage in wake of natural disasters.

Climate-Related Opportunities:

i) Consider green repair options for insureds. (Short-term+ opportunity)
ii) Continue to evaluate the ESG performance of investments. (Short-term+ opportunity)
iii) Higher mandated deductibles for hurricanes, winds, and hail. (Short-term+ opportunity)
iv) Evaluate and measure the impact of salvage from claims being diverted from landfills through re-use or recycling. (Medium-term+ opportunity)
v) Use materials with a low environmental impact (such as architectural wall systems instead of drywall), enabling reconfiguring and reuse rather than disposal. (Medium-term+ opportunity)
vi) Pursue WELL building certification for its largest office building in Cedar Rapids. (Short-term opportunity)
vii) Continue net-zero waste program, equipping employees with recycling and waste-to-energy receptacles to divert 20 tons of landfill-bound trash generated annually from its Cedar Rapids campus. (Short-term+ opportunity)
viii) Scrutinize portfolio companies' ESG performance before and during the execution of buy-and-hold investment strategy. (Medium-term+ opportunity)

B. The risks arising from a global transition to a lower-carbon economy could impact long-term returns for UFG and the industries of certain insureds and customers.

Regulatory risks to the insurance industry: Federal- and state-level insurance regulations could shape UFCC's climate-related risk management strategy by mandating alternative management plans for insured risks. While the shape of these regulatory risks and their likelihood to transpire is uncertain, UFCC envisions that regulations may cause the company to reorient its planned exposure to climate-related risk-prone areas or constrain its ability to unwind its exposure to catastrophe-prone regions.

Regulatory risks to insureds' industries: Environmental regulations that constrain the capability of UFCC's insureds to do business represent a risk to UFCC if this results in business spending on safety and loss prevention being rolled back.

Decarbonization of the economy: UFCC does not expect significant impacts to its business model as part of a low-carbon transition since it does not directly write insurance policies for high greenhouse gas-emitting (GHG) sectors of the economy. However, UFCC may have indirect exposure to these risks as some of its insured contractors may conduct business activities that support the oil and gas industry.

Liability risks to UFCC and its insureds: UFCC also considers liability risks to encompass potential legal risks to the company and its insureds, associated with the defense of claims seeking climate-related damages for which UFCC's policies do not currently afford coverage. Following catastrophes, legislative or administrative bodies or the courts may seek to expand insurance coverage for claims beyond the original intent of the policies, issue moratoriums on new insurance policies, prohibit cancellation or limit increases, or prevent the application of deductibles. UFCC's ability to manage catastrophic exposure may be limited by public policy considerations, the political environment, changes in the general economic climate, and/or social responsibilities.

C. UFCC's strategy for responding to climate risks is resilient due to consistent monitoring and evaluation, with a commitment to evolution of the company's response plan when needed. The company recognizes that a rise in global temperatures is predicted, which may lead to more frequent and severe storms, floods, wildfires, and heatwaves, as well as rising sea levels.

In response to the company's previous experiences with natural disasters and extreme weather events – such as hurricanes and coastal storms that experts predict will become more frequent, extreme, and unpredictable due to climate change – UFCC shifted its property insurance exposure away from coastal areas that are predisposed to climate-related disasters. For example, Hurricane Katrina's impact on the company's business and enterprise value resulted in this kind of strategic pivot.

Moreover, UFCC has taken steps to advance a more proactive climate-related risk management strategy. The company's property/catastrophe exposure modeling and management is completed in-house, and UFCC incorporates forward-looking climate projections into this analysis. This helps to better connect the effects of climate change and climate-related risks to how UFCC writes insurance policies, and our risk appetite for the risks we underwrite. Moreover, the company has placed a particular emphasis on addressing its exposure to severe convective storms when preparing its property CAT reinsurance profile, thereby linking business needs (appropriately structuring a reinsurance program) to exposure to extreme weather events. Furthermore, UFCC now includes wind and hail deductibles for insureds in coastal zones and regions exposed to severe convective storms. This encourages policyholders to make use of stronger building codes while reducing UFCC's exposure to climate-related risks in these geographies.

UFCC has developed a robust business continuity plan that can be rolled out in response to extreme weather events that directly impact one or more of its offices. The business continuity plan was developed in the wake of the company's experience with the 2008 flood in Cedar Rapids. Following the 2008 disaster, UFCC prepared contingencies that allow UFCC staff to transition from office to remote working modalities rapidly following an extreme weather event. The company's business continuity plan is tested annually, including failover of all systems to its disaster recovery data center. Additional plans that support continuance of operations after a regional weather event are being developed.

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

UFCC’s ERM process consists of six components:

i) Identify risks;
ii) Assess exposure;
iii) Measure individual exposures;
iv) Monitor measurement changes over time;

v) Control risks, if possible; and
vi) Mitigate risks through enterprise-wide decision framework.

The rest of the ERM process includes monitoring individual exposures and how they change over time. The risks are controlled and mitigated through an enterprise-wide decision framework.

A. UFCC recently implemented AuditBoard's Risk Oversight management software to assist with our identification, assessment, mitigation, and monitoring of corporate risks.

Risk Oversight software identifies risks, inclusive of climate-related risks, which could have material adverse consequences to UFCC's business. Each identified risk is assigned an owner and an evaluation team tasked with assessing the likelihood of the risk occurrence and the financial impact upon potential occurrence.

The Company's CRO works with risk owners and evaluation team members to ensure that all risks are identified. The CRO reports to the Board Risk Management Committee and the ERM every quarter on specific risks identified as critical. Risk owners assist the CRO in ensuring that the description and mitigation strategy of each individual risk is accurate. Additionally, a risk owner is tasked with recommending appropriate staff for the evaluation team. Members of the evaluation team are expected to assess the risks assigned to them each month as well as make themselves available to the CRO or risk owner to discuss a specific risk when necessary.

UFCC's identified risks are assessed for likelihood and impact using the Risk Management software. Then, after including the CRO's assessments, the risks are ranked based on the residual risk score, mitigation adequacy, and velocity. Scoring and rankings enable UFCC to report the expected cost of risk (eCOR), computed as the probability of occurrence implied by the likelihood score multiplied by the magnitude of potential financial loss implied by the impact score.

B. UFCC maintains catastrophe exposure modeling and in-house management to incorporate its view of natural peril risk into forward-looking climate-based projections. The Company's reinsurance program, focused on property catastrophe, is designed to accommodate a changing risk profile. The core focus, currently, is on exposure to severe convective storms. Additionally, UFCC's catastrophe underwriting process requires wind and hail deductibles in coastal and severe convective storm areas to minimize the Company's exposure and encourage policyholders to adopt robust building codes. To manage climate-related risks effectively, UFCC seeks to comply with a growing number of SEC, FASB and state regulations pertaining to climate disclosures, frameworks and questionnaires.

C. UFCC's approach to incorporating environmental climate-related risks into the management of firm-level risk and capital adequacy includes maintaining an economic capital model that evaluates the relative magnitude of various balance sheet risks, including natural catastrophes as well as investment risk, reserve risk and non-CAT pricing risk. With this model, the Company monitors the probability of statutory surplus being reduced to various levels of financial distress and makes capital decisions (e.g., reinsurance program design) with a view on these probabilities. UFCC's corporate risk appetite statement identifies target capitalization that is necessary for its rating and to provide acceptable financial security to its policyholders and shareholders. The effect of environmental climate-related risks is reflected in UFCC's corporate risk appetite statement via the modeling which is produced to estimate probable maximum loss (PML) each month.

UFCC controls its direct insurance exposures in regions that are prone to naturally-occurring catastrophic events through a combination of geographic diversification, restrictions on the amount and location of new business production in such regions, and reinsurance. The Company regularly assesses its concentration of risk exposures in natural catastrophe exposed areas. In addition, UFCC has strategies and underwriting standards to manage these exposures through individual risk selection, subject to regulatory constraints, and through the purchase of catastrophe reinsurance coverage.

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

Insurer UFCC is a part of the financial services industry. Its primary direct environmental impacts relate to its buildings and its employees. Reducing wasteful consumption of goods and natural resources is a Company goal.

A net-zero waste initiative was launched across UFCC's Cedar Rapids campus in July 2022, with a goal of reducing landfill-bound trash by 20 tons annually, by July 2024. Bins are placed throughout the office buildings for recycling, composting, and waste-to-energy disposal. Each employee's workstation has containers to promote this process.

UFCC continues to move toward a paperless office. Staff are encouraged to work with digitalized documents whenever possible. New initiatives continue as well, such as the change in June 2023 to digital-only provision of agency copies of policyholder documents.

A. The Company has been tracking annual consumption for various environmental metrics since 2019, with results shown in the table below.

Source	2022	2021	2020	2019
Total natural gas consumed (ccf)	210,670	195,308	239,919	217,617
Year-over-year change in natural gas consumption (%)	8%	-19%	10%	-
Total electricity purchased (kWh)	3,948,177	3,971,149	4,189,919	4,039,717
Year-over-year change in electricity purchased (%)	-0.6%	-5%	4%	-
Percentage of electricity from renewable resources (%)	N/A	N/A	N/A	N/A
Water usage (gallons)	1,190,898	2,127,460	2,699,719	3,657,256
Waste generated (tons)	23	21	55	51
Paper recycled (tons)	6.61	8	11.4	33.8
Percentage recycled	53%	28%	17%	40%
Mixed use recycling (tons)	11.78	-	-	-
Metal recycling (tons)	5	-	-	-
Compost (tons)	1.92	-	-	-

B. Scope 1 – direct emissions: Most emissions which directly relate to UFCC are emissions from stationary combustion of natural gas and electricity used across the Company's six offices within the United States. Additional Scope 1 direct emissions are from the Company's fleet of vehicles.

Scope 2 – indirect emissions, owned: UFCC purchases its offices' electricity from local utility companies. Its year-to-year reduction in purchased electricity results in a reduction in emissions. UFCC does not currently purchase electricity from renewable resources.

Scope 3 – indirect emissions, not owned: At this time, UFCC has not established processes and targets for monitoring of Scope 3. The Company plans to develop a digital library of the vendors within its supply chain to be able to keep track of its Scope 3 footprint.

C. UFCC has established the following environmental priorities for 2023 and into 2024:

i) Develop a comprehensive enterprise-level environmental policy;
ii) Develop an actionable climate change strategy;
iii) Quantify greenhouse gas emissions;
iv) Disclose low carbon investments;
v) Scale corporate real estate further.