NAIC CLIMATE RISK DISCLOSURE SURVEY- 2023

Company: Wisconsin Mutual Insurance Company
NAIC #: 2702

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>Company Response:</u>

With oversight by the full Board of Directors, the Company's management personnel has integrated the assessment of climate-related risks and opportunities into the Company's risk management discussions as part of the Enterprise Risk Management (ERM) program to ensure the largest risks are identified and appropriate addressed. The Company has not issued a public statement on its climate policy, however, remains actively engaged in climate-related discussions with business partners. Executive management is heavily involved in day-to-day operations and therefore is responsible for monitoring operational risk management strategies, so they are in alignment with the Company's overall risk strategy.

All departments are represented and involved in reviewing risks on a regular basis within the organization. At a minimum, executive management will review annually, but more frequently as changes occur that could require a reassessment of our philosophy.

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.

Company Response:

As a property & casualty insurer, focused in the upper Midwest, climate-related risks and opportunities have a direct impact on the Company's strategy and financial results. Considering our concentration of property exposures is in Wisconsin and Minnesota, the frequency and severity of property losses over the short, medium, and longer term from severe convective storms (SCS) will continue to drive future results and shape management decision making. Executive management continually assesses and manages the performance, including but not limited to, operating performance by line of business and territory. If climate changes impact the frequency and/or severity over time as we have seen in recent years, this experience will be incorporated into risk management and underwriting strategies.

The financial results are reviewed monthly by management and both financial and operational updates are reviewed with the Board of Directors on a quarterly basis.

The Company's ERM program has identified key risks linked to climate change. First, severe weather or another property catastrophe event (i.e. fire) could directly affect the home office building and operations. Second, a single or multiple severe weather events could cause significant damage to properties we insure and could result in retained losses greater than anticipated. To address these risks, the Company currently purchases property catastrophe reinsurance around the 1-in-250 year single event, as well as reinsurance on a per-risk basis. The overall objective of purchasing reinsurance is to manage the short-term impact, and possibly long-term, on the Company including a reduction in surplus. Our risk management strategy includes discussion of liquidity, capital adequacy and how that could be impacted by property catastrophe exposure.

There is no formal plan surrounding the Company's strategy for consideration of climate-related scenarios related to a 2 degree Celsius or lower scenario. On a more granular level in an effort to reduce our carbon footprint we flex remote work to avoid long commutes, paperless billing and mailing when regulation allows, remote claims offices across the state to promote less travel time from home offices, and use of technology to eliminate paper files. Further, we have incorporated other components into our business model including an overall analysis with our investment portfolio and the impact of ESG. In conjunction with oversight by our investment manager, the Company's portfolio has trended on the lower side for an ESG score and was assigned a Medium risk score.

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.

Company Response:

As discussed above, Company management has developed an ERM program to ensure our largest risks are identified and managed. We recognize that climate-related risks are critical to our overall risk management strategy. Our approach integrates these risks into our ERM framework, ensuring that they are assessed and managed alongside other key risks.

Climate-related change is a component of those considerations during periodic meetings as we assess risk to the Company, the significance of results, and how it could impact operating profitability. The Company continually reviews underwriting guidelines to mitigate these risks and improve financial performance. Management and Underwriting personnel meet monthly to discuss product or program restrictions as well as product features, including wind/hail deductibles to address current market and environmental concerns. We employ both short-term (1-5 years) and long-term (10-30 years) scenarios to assess potential impacts on property values and claims frequency. These scenarios are developed using data from reputable climate models and include worst-case and best-case outcomes to provide a comprehensive view of potential risks.

On an annual basis, management discusses the impact of climate change during the catastrophe modeling process with our reinsurance broker. The modeling allows us to quantify the financial impact of potential catastrophic events. The Company uses a blend of the Verisk and RMS models for reviewing property exposures. This modeling builds in anticipated increases to storm frequency and severity, which may be impacted by climate change. In addition, the modeling provides stress testing scenarios which factors in an increase in storm activity and losses to determine to assess the impact on the Company's surplus.

The Company utilizes Asset Allocation Management (AAM) as our investment manager. Our investment policy, which is approved by the Board of Directors, is shared with AAM as we rely on them to balance investment risks across a variety of risk factors (asset allocation, credit quality, duration), to diversify the portfolio, optimize results and investment returns within the guidelines of the policy. We do not have a separate dedicated climate change policy within our investment portfolio. Market-related risk is stressed and capped at 10% of surplus under a 1-in-200 market event scenario. AAM incorporates ESG issues into their decision-making, but our portfolio is concentrated in the medium and low risk categories and falls below the Bloomberg Int. Corp. risk score. 0% of holdings are classified as “Severe” and under 10% are classified as “High”. The top 10 fixed income holdings with the highest ESG risk score represent less than 10% of total fixed income investments.

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.

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

Company Response:

Wisconsin Mutual currently targets purchasing property catastrophe reinsurance at the 1-in-250 year single event. The objective of our property catastrophe program is to remain below the retention level for any individual weather-related event, and avoid the frequency of claims submitted to reinsurers. We historically have targeted a 10 yr return period, however, that has been challenged lately due to both the severity of the weather event and the increasing loss costs which have been driven higher by inflation. See “Risk Management” section above for additional details on catastrophe modeling.

The Company does not measure or assess carbon emissions and greenhouse gas emissions or the impact on certain lines of business or territories. As discussed above, our most significant risk related to climate change are the property exposures and the related concentration of those risks and how our reinsurance program properly mitigates a material financial impact.