

## 2023 NAIC Survey and Response

### 1) GOVERNANCE

**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.**

#### **Introduction**

Our response to this climate risk survey is provided on behalf of Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their various subsidiaries and affiliates, including the attorney-in-fact of the Exchanges and its subsidiaries (all entities are collectively referred to herein as "Farmers".)

In recent years, direct impacts such as increased frequency and severity of precipitation events, droughts and wildfires pose risks to a wide range of individuals, businesses, and the overall economy. At Farmers, we are committed to positively impacting our employees, customers, and the communities where we work and live. We believe in proactively managing risks and maximizing opportunities by considering material environmental factors in our day-to-day business decisions.

The Boards of Governors have the ultimate oversight responsibility of Farmers' risks. The Exchange Audit Committee, which reports to the Boards of Governors, is responsible for overseeing our Enterprise Risk Management ("ERM") practices and ensuring alignment of risk management to the strategy so that the organization can achieve its business and financial objectives. Climate-related risks are part of the overall Environmental, Social, and Governance ("ESG") concerns and are managed as part of Farmers ERM program. ERM is a process of coordinated risk management that encourages cooperation from all business units to manage the organization's full range of risks. The risks in the organization are treated in a consistent manner in terms of how they are identified, assessed, managed, monitored, and reported.

The Risk and Control Committee ("RCC") led by the Chief Risk Officer (CRO) reports risk management activities directly to the Exchange Audit Committee which then reports to the Boards of Governors. The RCC meets on a quarterly basis and discusses potential material risks to Farmers which are related, but are not limited to, the financial plan, risk appetite, underwriting, risk accumulation and concentration, catastrophe exposures, and reinsurance. The Audit Committee and the Boards of Governors meet at least four times a year.

The ESG Leadership Council is currently undergoing a refresh for renewed purpose of supporting Farmers climate-related disclosures and environmental, social, and governance general strategies. The council's composition is being updated to include diverse participation from various business and functional units.

## **2) STRATEGY**

**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**

A growing consensus among climate change experts suggests that changing weather patterns present risks of concern related to climate change. Farmers recognizes climate change can have a financial impact on our business and operations. In order to quantify our emissions and to comply with CA Senate Bill 253, the California Climate Corporate Data Accountability Act, Farmers intends to disclose Scope 1 and 2 emissions related to 2025 data and complete a limited assurance audit in 2026. In the following year for 2026 data, we intend to publicly disclose Scope 1,2 and 3 emissions in early 2027.

Direct impacts or physical risk such as increased frequency and severity of precipitation events, droughts and wildfire are among the multiplicity of conditions that could impact ultimate loss events for insureds. Some geographical areas in the US could be prone to more severe weather caused by climate change; however, the climate risk is not isolated in any one geographical location. For example, analyses by major reinsurance and

modeling companies are forecasting more flooding in the Midwest and the South, more severe convective storms in the Midwest, stronger hurricanes along the Gulf and the Atlantic zones, and more frequent wildfires in the West. The risk of these events and combinations of events could pose a financial strain on the industry.

As an insurance organization, estimating risk is fundamental to the way Farmers manages its business. The key risk areas are outlined below:

Short term (1 – 3 years): Risk based pricing, exposure management, and regulatory mandate on coverage

In the short term, insurers such as Farmers face transition risk from regulatory uncertainty. Regulatory actions that restrict a company from making needed changes to its pricing, hazard management, or prompt litigation could put a financial strain on the organization. In addition, as climate change has exacerbated the frequency and severity of catastrophes, balancing insurability and affordability of insurance products is becoming an issue for insurers as well as consumers.

Medium (3 – 5 years) and Long term (5 – 20 years): Changing regulatory mandate on variety of climate-related issues

As the US insurance market is state regulated, multi-state and nationally active insurers will likely be required to address potentially disparate and conflicting climate policies and rules and bear the associated costs. Unless the results of interplay are completely and accurately analyzed in the development of such policy, true economic cost of new legislation that results in a disproportionate allocation of costs of climate related risks could pose unintended negative consequences for the industry. These generally complex issues involving the interplay of new requirements within existing legal structures create unique risks - results of the same public policy will likely be different when applied in different jurisdictions. Additionally, competing requirements could mean that compliance in one jurisdiction may not satisfy other jurisdictions, thus creating duplicative or additive expenditures in the development of adaptive risk management solutions without demonstrable economic or social benefit.

As the insurance industry faces regulatory risk, they face legal risk as well. Climate-related legislation that is not well-crafted may create incentives for lawsuits in some jurisdictions. Even in the absence of new laws, there have already been and may continue to be attempts to use existing laws to bring more climate change-related litigation against sovereign entities and companies in particular sectors.

### **Climate-Related Opportunities**

Short term (1 – 3 years): Consumer and employee education and incentives to improve resiliency

In certain states and Home products, Farmers currently offers customers a discount if they have Energy Star/EPA Certified Home, LEED Certified Home, Fortified Home, Automatic Gas Shutoff Valve or Whole House Water Leak Detection. We publish materials for agents and customers that provide information about tornado and hurricane safety, fire safety and disaster recovery to help the customers to manage their risk. We've teamed up with Smart Home America to offer training to our agents on FORTIFIED standards to rebuild homes and businesses that are more resilient to severe weather. We also make home inventory materials available, which customers may use to establish a record of their belongings. Whenever possible, Farmers endeavors to make these publications available in other languages to better serve our diverse communities. Our corporate grantmaking strategy supports causes that help to prepare communities for disaster and recovery in the aftermath. We funded the American Red Cross's Sound the Alarm initiative to promote fire safety awareness

and prevention. As a part of the campaign our employees volunteered their time by installing smoke detectors and providing safety information to at-risk communities.

For communities impacted by disaster, the Farmers Catastrophe Response (CAT) team provides industry-leading response and support. We follow a technology-first approach to streamline the claims process to get our affected customers the immediate help they need. Our CAT team also provides resources on disaster preparedness and safety information including wildfire, tornado, hurricane, and earthquake preparation.

We actively engage our employees on climate change and other environmental issues through our environmental strategy and engagement program, Go Green. The program empowers and educates employees on how to reduce their carbon footprint at the office and in their own home. This program provides various activities for employees to get involved in environmental initiatives, including informational webinars, an intranet website and social forum to share best practices and tips on how to be “greener”, and sustainability-related in-person and virtual volunteer opportunities.

Medium term (3 – 5 years): Engagement with industry trade groups to create resilience through innovation

We are also engaged with organizations that have interests that intersect, or overlap with, the interests of organizations that focus on climate change. Examples are the Institute for Business and Home Safety (IBHS), the Insurance Institute for Highway Safety and the Advocates for Highway and Auto Safety. For example, IBHS works to reduce the social and economic effects of natural disasters and other property losses by conducting research and advocating improved construction, maintenance, and preparation practices.

Farmers is active in multiple fire safety, prevention, and training boards. These include the California State Board of Fire Services, which provides a forum for addressing fire protection and prevention issues. We also participate in the Fire Safe Council, which provides resources for establishing and maintaining local Councils, and the Fire Safety Institute, which focuses on providing quality firefighter training and promoting firefighter safety.

We’ve provided funding to support SBP’s Recovery Acceleration Fund (RAF). The RAF is an impact investment fund that helps to speed up the process for low- and moderate- income families to rebuild and repair homes that have been damaged due to a disaster. SBP works to rebuild homes to be more resilient to future severe weather incidents and was awarded IBHS’s FORTIFIED Pioneer Award in 2020 in recognition of their efforts.

Long term (5 – 20 years): Innovation in product offering and create eco-system of long term sustainability

Climate change may bring opportunities for Farmers to offer products and services to our customers. We have a history of demonstrating our engagement with the community to plan and prepare for natural disasters, as well as to recover and rebuild homes after devastating natural disasters. With the advancement in technology, there is an opportunity to develop products and services to meet the challenge of our time. There is also an opportunity to create a resilient ecosystem that engages with the government on policymaking, risk sharing partners to diversify the risk, and InsurTechs to better use technology to quantify and analyze risks.

As an organization, Farmers recognizes that it is essential that we consider the impact we have on the environment and that we create and foster a culture where all individuals are aware of opportunities to conserve energy and natural resources. We have initiatives in process that reduce our carbon footprint. These include changes in the way we manage our facilities, our fleet, and our travel.

While Farmers cannot directly impact customer choices in selecting lower carbon products or adapt to climate risk, we can encourage and influence behaviors through education and incentives such as discounts on premiums or services for risk prevention and mitigation efforts. Premium discounts incentivize resilience measures, which can help prevent or mitigate property losses in the first place.

We are in the process of revising our emissions reduction plan as it relates to 2024 and beyond; it will include an emissions baseline reset and goal setting in line with comparable US insurance firms. In terms of Scope 1 and 2, Farmers has taken significant steps to reduce its real estate footprint from 183 locations in 2018 to 19 by the end 2024. Within these office hubs, Farmers takes steps to improve operational efficiency through LED replacement projects, HVAC/lighting schedule auditing and capital improvements that contribute towards reduced energy consumption.

### **Investments**

Our commitment to sustainable value creation in our investment portfolios, which supports the promises we make to our insured customers, underpins Farmers investment strategy and decision-making. As a long-term investor focused on managing assets to liabilities, we believe that investors taking both financial and non-financial considerations into account when making investment decisions will be the most successful in the long term. Issues such as corporate governance, climate change, use of natural resources, health and safety, labor relations and human rights can be important drivers of investment risk and reward.

We believe that integration of relevant ESG factors into the investment process alongside traditional financial metrics and state-of-the-art risk management practices could support our investment result. However, integration of such factors requires diligence, expertise, and focus. We do not believe that simply dedicating specific investment portfolios to the latest “climate” branded product of the asset management industry creates sustainable value for our stakeholders and the environment.

Our investments are primarily managed by third-party asset managers, and it is at this level that individual security selection decisions are made. These asset managers operate within agreed portfolio guidelines set by Farmers and take all aspects into account, both financial and non-financial, when managing Farmers individual portfolios to ensure maximum value creation.

As our core competency is selecting the right asset managers and evaluating them based on their superior investment processes, we have taken the following actions:

- 1) For the procurement of new asset managers, we include questions related to the inclusion of ESG factors in the investment process into our request for proposal (RFP) where relevant.
- 2) We have implemented the capability to monitor ESG ratings provided by MSCI and carbon emission data by Trucost (S&P Global) in our investment systems. This allows us to enter into a proactive dialogue with our asset managers about risk exposures to environmental factors.

Farmers climate change response strategies are routinely reviewed and adjusted based on current or emerging threats and is not structured or segmented by specific degree Celsius scenarios.

### **3) RISK MANAGEMENT**

**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.

To achieve our mission and goals, Farmers manages risks in our business and operating environment under our comprehensive ERM framework. The operational goal of using this framework is to enable analysis of all risks and their dependencies in a holistic and consistent way so the organization can minimize the variability of losses and maximize its value. One of the main tools within our ERM framework is the Total Risk Profile (TRP), which is a risk scoping exercise to identify and assess top risks that would have an impact on the organization in the next one to three years. The process is performed annually and is a bottom-up and top-down exercise that involves all parts of the organization. Risk Management conducts risk workshops to elicit the bottom-up view from all parts of the organization, usually organized by business unit, including but not limited to claims, distribution, finance, legal, and technology. The risks are identified, rated, and mitigating actions are

developed as needed. The top-down involves the CEO and his direct reports focusing on the top enterprise risks which include significant risks identified in the bottom-up risk workshops. The top-down exercise is a “Total Risk Profile” (TRP) where risk scenarios are assessed based on the likelihood (frequency) and impact (severity). Severity is categorized based on impact to surplus, which is an aggregation measure of all financial activities. On an inherent level, catastrophe and exposure management are among the top concerns facing the organization. These risks are also impacted by the risk of climate change and have financial implications.

In our current environment, our largest climate-related risk relates to exposure to catastrophes and their impact on our portfolio of insured risks. In general, to the extent possible, Farmers manages its climate-related catastrophe risks through actuarially sound pricing, prudent risk eligibility guidelines, judicious use of reinsurance, and statistical modeling of enterprise capital under various stress scenarios. We use both internal and external catastrophe models to make our best assessment of prospective catastrophe risk for pricing, risk selection, risk concentration, capital optimization, and reinsurance purposes. We adjust the models based on our own experience, research, and historical model performance. Our capital modeling and solvency assessment work generates outputs on a deterministic and probabilistic basis which we use to manage our enterprise view of risk. The external models for the hurricane peril are mature, and we have reasonable confidence that they provide a good foundation for estimating the hazard risk in the near-term scenarios. Models for wildfire and non-hurricane weather perils are less mature and we therefore adjust the model results based on internal company data and informed judgment. While the modeling data and outputs continue to improve over time, there is still uncertainty around the outputs.

Managing regulatory and legal risks will also be an important task as the various state regulators are not consistent about which models and model adjustments they will allow for use in pricing. Farmers views this uncertainty as a reason to be cautious and conservative in our selection and pricing of risk and our overall tolerance of catastrophe exposure. Additionally, as climate change further impacts the frequency and severity of catastrophes, affordability and insurability in the medium term will become a large issue for all stakeholders, including consumers, insurers/reinsurers, and regulators. To offer on-going protection to consumers, regulators and the insurance industry will have to work together to enable resilience on a larger scale. Continuous engagement with the regulators on climate-related issues will be key. Also, working through industry trade groups to educate and bring awareness of the climate-related concerns will be necessary to bring practical solutions to all stakeholders.

### **Climate-Related Risks in Enterprise Risk Management (ERM)**

Climate change interacts with many risks in the organization. To adequately understand this interaction and dependencies, a framework such as ERM is a very useful tool. Within the ERM framework, we have a defined risk appetite and set tolerance objectives. We employ our TRP to identify and assess the risks in our business and operating environment on an annual basis. Participants review emerging risks as inputs to the TRP such as the World Economic Forum Global Risks report and the Insurance Banana Skins report. Both reports feature climate change among the top risks.

### **Climate Scenarios in Underwriting**

We have also developed supplemental measurements to avoid an over-reliance on a single view of risk. We do this with deterministic loss scenarios, like Lloyds Realistic Disaster Scenarios, which focus on our peak catastrophe exposure. For our hurricane exposures, we select suites of events from the Verisk catalogue that have the strongest category of a storm that we believe is realistic in each geographical area of interest. For

wildfire exposure, we have created a deterministic stress test for California wildfire risk that represents the average of 366 events selected from the Verisk TouchStone v6/v7 catalogue. These areas are part of our catastrophe exposure mitigations.

### **Climate Scenario in Investments**

The current focus is on identifying and understanding the carbon footprint of the investment portfolio where Trucost carbon data is available and simulating various portfolio rebalancing scenarios to understand the levels of carbon reduction (footprint and intensity) achievable and the related impact on financial (e.g., net investment income) and risk (e.g., DV10) metrics. While the simulations are focused on portfolio rebalancing activities, the carbon reduction initiatives of the companies we invest in will create real benefits. We believe asset disposition is not the only way to reduce the carbon footprint of the investment portfolio and our asset managers' engagement with the companies we invest in is a more effective way to reduce carbon and plays a key role in managing climate risk.

Occasionally, some of our asset managers run climate scenarios using proprietary or regulatory scenarios. Examples include:

- **BlackRock Carbon Tax Scenario (transition risk)**  
BlackRock created two scenarios: 1) a phased carbon tax and 2) an accelerated carbon tax. Both scenarios use Carbon Beta and different levels of carbon pricing to arrive at direct impacts on equity and corporate credit, with the scenario analysis extended to other asset classes. The results of this scenario estimate the mark-to-market price impact as a percentage of invested assets in scope: equity and corporate credits for Energy, Materials, Information Technology and Utilities.
- **Bank of England (BoE) Prudential Regulation Authority (PRA) stress test (transition risk)**  
The scenario assumes a long-term orderly transition that is broadly in line with the Paris Agreement: Temperatures remain below 2°C, with the economy transitioning in the next three decades to achieve carbon neutrality by 2050 and greenhouse-gas neutrality in the decades after. Details about the test can be found here: <https://www.bankofengland.co.uk/stress-testing>.

## **4) METRICS & TARGETS**

**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.**

Conditional Tail Expectancy (CTE) measures the potential effect of high loss catastrophe events that may impact our surplus should they occur. Enterprise CTE is the average of all CAT modeled losses for the enterprise above the 2% or the 50-year return period loss, CTE is then allocated to state, Business Unit and policy. Usage of CTE makes it possible to identify regions, BUs and even policies that disproportionately contribute to the enterprise tail risk and take actions.

TIV (Total Insured Value) and AAL (Average Annual Losses) are other important metrics that are monitored, but they do not give a complete picture of large loss potential. PML (Probable Maximum Loss) is another metric that addresses the large loss potential but due to its non-additive properties, unlike CTE, it is not possible to allocate PML's to policies and take targeted actions using PML.

Scope 1, 2 and 3 emissions are internally tracked within an industry leading sustainability platform, Sphera. We use various metrics to measure and track our GHG emissions. Across Scopes 1, 2 and 3, we analyze the emissions from our facilities and operations including electricity and onsite heating; fleet emissions; business travel including air, rail, and rental car emissions; paper emissions including internal and external print; and employee commute. We do not publicly share our emissions data but are actively working to reduce Farmers' impact on the environment.

With 2025 approaching, Farmers is aligning with a 3rd party auditor to prepare for 2025 Scope 1 and 2 public disclosures as it relates to California Senate Bill 253 and its requirements to complete a limited assurance audit. We will continue with disclosures of 2026 Scope 1,2 and 3 emissions in early 2027.

Farmers participates in the Board.org forum that brings together Sustainability and Environmental professionals that are largely within the Fortune 1000 category. The purpose of this forum is to facilitate peer discussion, clarify upcoming domestic requirements and provide tools for its members as is relates to ESG guidelines and future requirements.

For our catastrophe exposure, the target is to stay below a stated tail risk tolerance. To reduce our GHG emissions, we have various initiatives in flight including conducting energy audits and optimizing our real estate footprint, utilizing a hybrid or electric fleet, establishing a hybrid work environment, reducing overall paper printing, etc.