Task Force on Climate-Related Financial Disclosure

2023 State Climate Risk Disclosure Survey

Central Mutual Insurance

1) Governance

i) Narrative – 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:

(1) Identify and include any publicly stated goals on climate-related risks and opportunities.

(2) 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.

(3) 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 describe the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks.

(4) Describe management's role in assessing and managing climate-related risks and opportunities.

ii) Closed ended questions

(1) Does the insurer have publicly stated goals on climate-related risks and opportunities? (Y/N) N

(2) Does your board have a member, members, a committee, or committees responsible for the oversight of managing the climate-related financial risk? (Y/N) Y

(3) Does management have a role in assessing climate-related risks and opportunities? (Y/N) Y

(4) Does management have a role in managing climate-related risks and opportunities? (Y/N) Y

Response - Governance

Central's Risk Committee, chaired by the Vice President of Risk and Capital Management, reports on climate-related risk issues to Central's Executive Committee, who then provides regular updates to Central's Board of Directors. Climate risk-related strategy is included in a number of annual corporate initiatives, including budgeting and forecasting, reinsurance planning, and capital modeling, all of which contemplate output from climate-related catastrophe scenario modeling.

The Board of Directors also has oversight in reserve adequacy, including reserves on losses from climate-related perils, and provides guidance on risks impacting the performance of the portfolio.

Senior management from multiple functional areas, including Underwriting and Capital and Risk Management, monitors impacts on underwriting and operating performance resulting from climate-related perils and acts accordingly to ensure underwriting guidelines and appetite guides are updated to reflect management's view of these risks.

2) Strategy

i) Narrative – 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:

(1) Describe the steps the insurer has taken to engage key constituencies on the topic of climate risk and resiliency.

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

(3) 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 definitions of 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.

(4) 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:

(a) 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.

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

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

ii) Closed ended questions

(1) Has the insurer taken steps to engage key constituencies on the topic of climate risk and resiliency? (Y/N) Y

(2) Does the insurer provide products or services to support the transition to a low carbon economy or help customers adapt to climate risk? (Y/N) Y

(3) Does the insurer make investments to support the transition to a low carbon economy? (Y/N) Y

(4) Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations? (Y/N) Y

Response – Strategy

Central models catastrophic climate peril event scenarios using AIR on an annual basis, and those scenarios contribute to annual reinsurance strategic planning. Weather events and exposure data are monitored regularly and attendant updates to underwriting guidelines are completed as needed. Central's financial performance reflects management's attention to pro-active monitoring and management of climate-related perils across the entire underwriting portfolio.

Optimal growth strategies are informed through monitoring and modeling of climate-related risks. Artificial intelligence technologies that assist in climate-related risk assessment have also been employed. Central continues to diligently monitor potential impacts of climate-related perils as part of underwriting strategy, planning, and risk management activities, and is quick to act to address challenges that may arise from writing business in geographies exposed to climate-related perils.

Central monitors return period probabilities for climate-related perils and performs annual climate peril stress testing to ensure adherence to stated internal risk tolerances. In addition, Central, along with its partnering reinsurers, reviews potential impacts from climate-related perils over multiple horizons: short-term (zero to approximately five years), medium-term (approximately five to thirty-five years), and long-term (greater than approximately thirty-five years). This additional scenario modeling and analysis helps to inform management on the potential impacts that a changing climate may have on the company's exposure to material climate-related perils over a multitude of horizons.

Central offers a green upgrade coverage in its homeowners product, which provides incentives for use of eco-friendly materials by customers. Central also offers paperless options to its customers and, in addition, supports green initiatives in its corporate offices, such as automatic window blinds, automatic lighting, and water bottle refilling stations.

3) Risk Management

i) Narrative – 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:

(1) 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.

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

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

(4) 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 a discussion as to whether the process includes an assessment of financial implications and how frequently the process is completed.

(5) Describe the insurer's processes for managing climate-related risks.

(6) 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:

(a) 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.

(b) 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.

(c) 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.

ii) Closed ended questions

(1) Does the insurer have a process for identifying climate-related risks? (Y/N) Y If yes, are climate-related risks addressed through the insurer's general enterprise-risk management process? (Y/N) Y

(2) Does the insurer have a process for assessing climate-related risks? (Y/N) Y If yes, does the process include an assessment of financial implications? (Y/N) Y

(3) Does the insurer have a process for managing climate-related risks? (Y/N) Y

(4) Has the insurer considered the impact of climate-related risks on its underwriting portfolio? (Y/N/Not Applicable) Y

(5) Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks? (Y/N) N

(6) Has the insurer considered the impact of climate-related risks on its investment portfolio? (Y/N) N

(7) Has the insurer utilized climate scenarios to analyze their underwriting risk? (Y/N) Y

(8) Has the insurer utilized climate scenarios to analyze their investment risk? (Y/N) N

Response - Risk Management

The Risk and Capital Management department conducts internal risk surveys annually, which include questions on inherent, residual, and emerging climate-related risks; the management team assesses these risks and provides recommendations for mitigating actions. The surveys also incorporate feedback from Central's Internal Audit team, who review and report on the progress and efficacy of current mitigating actions.

The Risk Committee reviews and assesses climate-related risks based on modeled frequency and severity of each peril. Aggregate geographic exposure is managed through periodic assessment of risk accumulation across geographies relative to stated risk tolerances, particularly in areas subject to elevated risks by climate-related perils. Risk tolerances are also updated annually.

Additionally, Central encourages its policyholders to mitigate their risks to climate-related perils.

4) Metrics and Targets

i) Narrative – 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:

(1) 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.

(2) 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 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.

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

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

ii) Close ended questions

(1) Does the insurer use catastrophe modeling to manage your climate-related risks? (Y/N)
Y

(2) Does the insurer use metrics to assess and monitor climate-related risks? (Y/N) Y

(3) Does the insurer have targets to manage climate-related risks and opportunities? (Y/N)
Y

(4) Does the insurer have targets to manage climate-related performance? (Y/N) Y

Response – Metrics and Targets

Central's Risk and Capital Management Team regularly conducts stress testing and scenario analyses to assess capital adequacy, quantify AEP (aggregate expected probability), TVaR (tail value at risk), and exposure aggregation trends by peril and geography across the underwriting portfolio and hone risk tolerance goals and measurements. These activities and metrics not only assist Central management in daily management of the potential impacts of climate-related risks, but also in the strategic planning process.

Insurance companies generally do not emit significant amounts of greenhouse emissions. Central recognizes that insureds may produce varying amounts of emissions; accordingly, it will continue to monitor developments and best practices throughout the insurance industry concerning the qualification and quantification of any such indirect emissions.