NAIC Climate Risk Disclosure Survey

2023 Submission
August 31, 2023

First Financial Insurance Company
Alamance Insurance Company
Guilford Insurance Company
The Burlington Insurance Company

Identity of Survey Respondents

This Climate Risk Disclosure survey response is submitted on behalf of the following insurance companies (collectively, the "Companies"), each domiciled in Illinois and each a part of the same Illinois registered insurance holding company:

- First Financial Insurance Company (NAIC 11177)
- Alamance Insurance Company (NAIC 10957)
- Guilford Insurance Company (NAIC 10956)
- The Burlington Insurance Company (NAIC 23620)

Governance – Narrative

The Companies govern climate-related risks and opportunities as a component of their general Enterprise Risk Management program (the "ERM program").

The ERM program is coordinated by a management-level risk committee (the "Risk Committee"). The Risk Committee and ERM program operate at the group level, which is consistent with the Companies' overall management model. The Risk Committee is multi-disciplinary in composition. It is composed of the President, Chief Actuary, Chief Claims Officer, Chief Financial Officer, Chief Information Officer, Chief Underwriting Officer and Vice President – ERM, with regular invitations extended to subject matter experts. The Risk Committee governs risks and opportunities falling into three (3) major categories; financial, operational and strategic risk. The Risk Committee meets eleven (11) times per year to identify, analyze and discuss emerging risks and opportunities, including those that are climate related.

Governance – Close Ended Questions

Q: Does the insurer have publicly stated goals on climate-related risks and opportunities?
A: No

Q: Does your board have a member, members, a committee, or committees responsible for the oversight of managing the climate-related financial risk?
A: Yes. The President, who is a member of the respective board of each insurance company, is responsible for the oversight of managing climate-related financial risk.

Q: Does management have a role in assessing climate-related risks and opportunities?
A: Yes

Q: Does management have a role in managing climate-related risks and opportunities?
A: Yes

Strategy – Narrative

The actual and potential impacts of climate-related risks and opportunities to the Companies are low given their recent decision to exit Brokerage Property business, which was exposed primarily to climate-related catastrophe risk (remaining property exposures are managed as described below in the "Risk Management" and "Metrics and Targets" sections).

Because of this, the Companies do not currently view such risks and opportunities as being materially impactful to their business, strategy and financial planning in the short, medium or long-term. At the same time, the Companies remain watchful and engaged, monitoring and managing climate-related risks and opportunities as a part of their general ERM program. The Companies believe this approach will remain effective in the long term.

Strategy – Close Ended Questions

Q: Has the insurer taken steps to engage key constituencies on the topic of climate risk and resiliency?
A: No

Q: Does the insurer provide products or services to support the transition to a low carbon economy or help customers adapt to climate risk?
A: No, however, the Companies do insure certain businesses involved in supporting the transition to a low carbon economy.

Q: Does the insurer make investments to support the transition to a low carbon economy?
A: No

Q: Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations?
A: No, however, the Companies adopted, and plan to continue, a flexible work arrangement, which has reduced the Companies' overall carbon footprint.

Risk Management – Narrative

The Companies identify, assess and manage emerging risks, including climate-related risk, as a part of their general ERM program. In particular, property exposures are subject to the Companies' Catastrophe Risk Management framework, whereby aggregate risk limits, individual peril limits and effective catastrophe risk pricing are monitored. Individual accounts and aggregate portfolios are modeled quarterly for catastrophe risks relative to the established target limits.

Moreover, the Companies employ deterministic scenario-based catastrophe event modeling to further assess the risk (including the potential for adverse financial impacts) present within its property portfolio. Similarly, stochastic event scenarios are employed to help the Companies structure their reinsurance programs. Catastrophe models are employed based on risk factors that inform on expected value and tail exposures to ensure 1) appropriate pricing of risk, 2) the timely assessment of such risks to capital, and 3) prudent development of strategies to mitigate such risk.

The Companies have a limited catastrophe risk appetite and as such limit tail risk exposure. As mentioned above, the Companies recently exited Brokerage Property business.

The Companies do not manage climate related risks within their investment portfolios.

<u>Risk Management – Closed Ended Questions</u>

Q: Does the insurer have a process for identifying climate-related risks? If yes, are climate-related risks addressed through the insurer's general enterprise-risk management process?
A: Yes, and Yes

Q: Does the insurer have a process for assessing climate-related risks? If yes, does the process include an assessment of financial implications?
A: Yes, and Yes

Q: Does the insurer have a process for managing climate-related risks?
A: Yes

Q: Has the insurer considered the impact of climate-related risks on its underwriting portfolio?
A: Yes

Q: Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks?
A: No

Q: Has the insurer considered the impact of climate-related risks on its investment portfolio?
A: No

<u>Metrics and Targets – Narrative</u>

The Companies employ the following targets and metrics to assess and manage climate-related risks and opportunities:

- Property CAT Risk Limits – Probable Maximum Loss (PML)
    - 1-in-250 Return Period Aggregate All Peril Net Pre-Tax – lesser of 5% of surplus or $15M
        - Monitor trend statistics around TIV and AAL growth
        - Analyze PML contributions by state and county
        - Manage concentration metrics by geographical limits (i.e. gulf states, Tier I and II counties)
    - 1-in-250 Return Period Occurrence Gross Pre-tax Sub-limit
        - Hurricane – no more than 30% of Surplus
        - Earthquake – no more than 30% of Surplus
        - Tornado/Hailstorm – no more than 20% of Surplus

- Gross Single Policy Limit – up to $10M
    - Single Location Net Loss Limit – Less than 1 quarter pre-tax earnings

Metrics and Targets – Close Ended Questions

Q: Does IFG Companies use catastrophe modeling to manage your climate-related risks?
A: Yes

Q: Does IFG Companies use metrics to assess and monitor climate-related risks?
A: Yes

Q: Does IFG Companies have targets to manage climate-related risks and opportunities?
A: Yes

Q: Does IFG Companies have targets to manage climate-related performance?
A: Yes