TMHCC
NAIC Climate Risk Survey – August 2023

INTRODUCTION

This report represents Tokio Marine HCC. Tokio Marine HCC (TMHCC) is used to refer to the subsidiaries of HCC Insurance Holdings, Inc. (HCC), other than noted below, including its main Group Insurance Companies (GICs) of: Houston Casualty Company (HC), U.S. Specialty Insurance Company (USSIC), HCC Life Insurance Company (HCCL), Avemco Insurance Company (AIC), HCC International Insurance Company (HCCI), Tokio Marine Europe S.A. (TME), HCC Reinsurance Company Limited (Bermuda) (HCC Re), American Contractors Indemnity Company (ACIC), United States Surety Company (USSC), Producers Agriculture Insurance Company (PAIC), Tokio Marine HCC Mexico Compañia Afianzadora, S.A. de C.V. (TMHCC Mexico) and a Lloyd's Syndicate (4141).

Tokio Marine HCC (TMHCC) as used herein does not include the PURE Group (Privilege Underwriters, Inc. and its operating subsidiaries), acquired by the Tokio Marine Group as an acquisition of stock by HCC Insurance Holdings, Inc. Due to the unique nature of the PURE Group doing business through Privilege Underwriters Reciprocal Exchange (PURE), a Florida domiciled reciprocal insurer, they will be completing their survey independently of TMHCC.

Tokio Marine HCC is a subsidiary of Tokio Marine Holdings, Inc. (TMHD). TMHD is the Japanese ultimate holding company for all the Tokio Marine Group (the Group) domestic and international entities. The Tokio Marine Group is engaged in the domestic (Japan) non-life insurance business, domestic life insurance business, international insurance business (outside of Japan), and financial and general businesses.

SURVEY QUESTIONS

Governance

1. ***Disclose the insurer's governance around climate-related risks and opportunities*.**

Governance on climate-related risks and opportunities first begins at the level of our ultimate parent, Tokio Marine Holdings (TMHD). Various initiatives related to climate action are reported to the Board of Directors after the execution level discussion at the TMHD Sustainability Committee and Management Meeting. In TMHD's governance structure, each relevant execution body voluntarily promotes initiatives under the supervision of the Board of Directors. TMHD's key related bodies and their roles are as follows:

Board of Directors – The Board of Directors recognizes responding to climate change as a material management issue and assumes the role of supervising TMHD's entire sustainability promotion scheme. The Board deliberates the Group's sustainability policies encompassing climate action, as well as evaluates and determines mid-term and single-year plans. In monitoring the implementation status of sustainability initiatives, it receives reports from the Sustainability Committee every quarter in principle and provides instructions as necessary. In addition, the Board holds deliberation on corporate strategy on the themes of the management environment and management issues, including climate action, to fully utilize the knowledge of outside directors and outside Audit & Supervisory Board members.

Group Chief Sustainability Officer (CSUO) - TMHD established the position of CSUO in April 2021 to accelerate the promotion of sustainability strategy, including climate action, across the entire Group. The CSUO, a Director, oversees the promotion and permeation of the sustainability strategy, presents related policies to the Board of Directors and the Management Meeting for discussion and takes the role of reporting the progress to these bodies.

Sustainability Committee - TMHD established the Sustainability Committee in April 2021 to accelerate the sustainability strategy, including climate action, across the entire Group. Chaired by the CSUO and comprised of members including the CEO, chief officers, and management of overseas Group companies, the Sustainability Committee deliberates on details of the sustainability initiatives and policies on a global basis and monitors the progress of each initiative.

Sustainability Division, Corporate Planning Department - TMHD has a division dedicated to the promotion of the Group's sustainability including climate action, which identifies major challenges related to sustainability as well as formulates and implements related Group-wide strategies and conducts monitoring.

The TMHD governance structure is supplemented by the governance of the underlying group companies, such as Tokio Marine HCC (TMHCC). TMHCC has designated the Audit Committee of TMHCC's Board of Directors as the committee responsible for the oversight of TMHCC's management of climate-related risks and opportunities. This is another element of our overall Enterprise Risk Management (ERM) framework, a critical component of the operating philosophy at TMHCC. The SVP, ERM has been designated as the current individual to provide information to the TMHCC Board on the group's management of climate-related risks and opportunities. To facilitate reporting on ESG matters to the Board of Directors, the ESG Committee created a Dashboard of ESG Risks and Opportunities and provides other ad-hoc updates on a periodic basis.

TMHCC considers climate-related risks and opportunities within its overall ESG Framework. There are committees that are in place to assist TMHCC management and the Board with their oversight of the climate-related areas such as:

<u>Environmental, Social, and Governance ("ESG") Committee:</u>

This committee is at the total TMHCC Group level. The purpose of the Environmental, Social and Governance Committee (the "ESG Committee") of Tokio Marine HCC (the "Company") is to support the Company's on-going commitment to environmental, health and safety, corporate social responsibility, corporate governance, sustainability, and other public policy matters relevant to the Company (collectively, "ESG Matters").

The ESG Committee is a cross-functional management committee of the Company that assists the CEO of the Company in (a) setting general strategy relating to ESG Matters, (b) developing, implementing, and monitoring initiatives and policies based on that strategy, (c) overseeing communications with employees and external stakeholders with respect to ESG Matters, and (d) monitoring and assessing developments relating to, and improving the Company's understanding of ESG Matters.

Sustainability and Climate Risk Committees:

These committees are at the TMHCC International level. They are responsible for setting and monitoring sustainability appetites, including climate risk and related appetites, objectives, and strategy for the TMHCC International group, aligned with TMHCC's overall appetite, objectives, and strategy as well as those of TMHD.

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.

At the Group level, TMHD provides support both in terms of mitigating and adapting to climate change and helping customers and investment and financing recipients solve their respective issues. Efforts include providing insurance products and services to support the transition to a decarbonized society, such as those promoting the more widespread use of renewable energy; providing insurance to cover damages caused by natural disasters; services that will lead to prevention or reduction of damages; and undertaking sustainable investment and financing. As a global company, TMHD also takes climate action through collaboration and cooperation with international and other organizations. The Group intends to contribute to the mitigation and adaptation to climate change and seeks growth together with their stakeholders. Social contribution activities are also key to climate action. As such activities, TMHD plants mangroves and engages in research and educational activities to increase society's resilience, thereby contributing to climate action as a good corporate citizen in local communities.

In a strategy, recognizing inherent risks is essential. TMHD identifies and evaluates the potential impact from climate-related risks on the business. Climate-related risks include physical risks and transition risks. Physical risks arise from an increase in the frequency and intensity of natural disasters caused by climate change, while transition risks result from the impacts of the transition to a decarbonized society on the corporate value of investee companies and assets held by TMHD. Initiatives to mitigate and adapt to climate change also provide business opportunities for the Tokio Marine Group. Some examples of risks and opportunities to the Group's business activities are:

1. Risk for the potential for growing frequency and scale of typhoons, floods, and other weather events (physical risk) – may have an impact on the calculation of claims payments;

2. Risk of a change in the demand for and supply of products and services (transition risk) – may result in a decline in revenue due to the inability to ascertain changes in customer needs;
3. Demand for products and services aligned with changes in energy sources and designed to increase resilience (opportunity) – may result in an increased need for insurance for renewable energy projects and/or an increase in investment and financing opportunities on the back of companies' increasing funding needs associated therewith.

TMHD's primary thoughts on climate change were originally published at the end of September 2020 in "Tokio Marine: our Climate Strategy", which was revised at the end of September 2021 and the end of September 2022. TMHD's basic policy on climate change is to support the decarbonization of customers and local communities through insurance products and services as well as investments and financing while basing their activities on constructive dialogue with stakeholders.

The Group has not provided new insurance underwriting capacities to coal-fired power generation projects since September 2020 or thermal coal mining projects since September 2021, regardless of whether they are newly constructed or not. However, the Group may grant exceptions for projects with innovative technologies and approaches, such as CCS/CCUS [note1] and mixed combustion, aiming to achieve the goals of the Paris Agreement, after careful consideration. Since September 2022, TMHD also strengthened its commitment by protecting the environment and supporting the transition to a decarbonized society by no longer providing new insurance underwriting capacities to oil and gas company extraction projects [note 2] in the Arctic Circle (all areas north of latitude 66°33, including the Arctic National Wildlife Refuge, ANWR) and oil sands mining.

With respect to investment and financing, the Group will not provide new financing for coal-fired power generation projects or thermal coal mining projects. However, as with their insurance underwriting policy, exceptions may be granted for projects with innovative technologies and approaches, such as CCS/CCUS and mixed combustion, aiming to achieve the goals of the Paris Agreement, after careful consideration. The Group also no longer provides new financing for oil and gas extraction projects in the Arctic Circle and oil sands mining, in alignment with their insurance underwriting policy.

[note 1] : Carbon dioxide capture and storage, Carbon dioxide capture, utilization and storage
[note 2] : Exemptions for projects with decarbonization plans that are aligned with the Paris Agreement.

Tokio Marine HCC is, and desires to remain, a leading specialty insurer, and we believe that as we manage the risks related to climate we also see opportunities to continue to look for ways to provide existing and innovative products to meet the needs of our insurance partners. Our Climate Risk Appetite Statement below sets the tone for our risk management efforts and is aligned with our strategy.

Climate Risk Appetite – The Company desires to remain a specialty insurer well into the future and believes that integrating climate risk into our overall risk management framework will allow us to continue to make informed decisions related to threats and opportunities that may impact our business strategy. We will continue to look for ways to expand our knowledge on potential long-term challenges, while at the same time looking for ways to continue to provide existing and innovative products to meet the needs of our insurance partners and allow them to reduce their risks and maintain financial stability.

On the opportunity side in our underwriting, we see our acquisition of GCube in 2020 as an example of our strategy as a specialty lines insurer to expand our presence in key renewable markets worldwide. GCube has established a reputation for working closely with its insured clients and the wider market across on-and offshore wind, solar, hydro, wave, tidal, and energy storage. Assisting the market with insurance options for a diversified group of energy suppliers will assist in reducing carbon footprints, and GCube is now a key resource for the TMHD Group in supporting their expansion into renewable energy. We plan to continue to look for these niche opportunities.

At the same time, TMHCC has long been recognised as one of the leading insurance providers to the international energy industry and we offer tailor made insurance products to the traditional oil and gas industry in addition to the above renewable energy products. Oil and gas companies are known for being at the forefront of technology, with significant energy experience and knowledge about how to build and scale energy systems. It is extremely important that the oil and gas industry be fully involved in any meaningful energy transition, and we believe that we play an essential role in providing insurance necessary to enable that transition to occur.

On the investment side, climate is considered broadly in individual investment decisions. Our investment managers have incorporated third party ESG ratings into the investment research process to augment their existing quantitative and qualitative research. The manager's reporting allows TMHCC to regularly monitor the ESG rating of the issuers in our portfolio and specifically review those investments that comprise the "severe" category of our rating matrix. We look to continue to support ESG themes with investment opportunities in housing, economic development, renewables, and "green" bonds / sustainable finance.

In our operations, we have been working with an outside firm to collect and calculate our Scope 1 and 2 emissions and finished our first phase. We continue to look for ways to reduce and/or mitigate our greenhouse gas emissions, including:

- Expanding the use of cloud computing, which can cut down the rate of carbon emissions by minimizing energy requirements and consumption;
- Promoting recycling efforts in our offices, including printer cartridges, paper, plastic, and encouraging employees to utilize reuseable bottles for beverages;
- Encouraging Teams meetings vs face-to-face meetings, when Teams meetings will suffice;
- Supporting a more "paperless" work environment;
- Changing lighting in buildings we own to LED lighting and using automatic lighting

controls;

- Participating in employee Earth Day activities;
- Sponsoring employee environmental volunteer events, in addition to our social cause volunteer activities;
- Donating to charitable organizations focused on the protection, preservation and restoration of the natural environment;
- Considering the ongoing establishment of goals for consideration of offsetting certain GHG emissions in the future

Details on our key identified risks are below in the Risk Management Section.

Risk Management

3. Disclose how the insurer identifies, assesses, and manages climate-related risks.

Financial Risks and Opportunities:

Underwriting – At this time, we view our most significant climate-related risk comes from underwriting our property natural catastrophe-exposed business. The incidence, frequency and severity of catastrophes are inherently unpredictable. Some scientists believe that in recent years, changing climate conditions have added to the unpredictability and frequency of natural disasters. Changes in the frequency and/or severity of losses suffered by insureds and insurers may affect the cycles of the insurance and reinsurance business significantly.

Increased frequency or severity of catastrophe events may not be contemplated in the modeling software we use, and therefore our assumptions around expected catastrophe exposures and reinsurance purchases related thereto may prove to be incorrect. To mitigate this risk, the Company has Catastrophe Risk Appetite and Tolerance statements that are reviewed on an annual basis. Actual written exposures are monitored and reviewed on a quarterly basis, and reinsurance is purchased to limit net loss exposure from a natural catastrophe loss. To the extent that climate change was impacting the Company's policyholders for insured coverages, that impact would be considered in the normal pricing and underwriting process along with other loss trends, where these policies are typically written on an annual basis, allowing for regular adjustments of pricing and risk appetite. Therefore, we believe that climate change is implicitly addressed within our normal underwriting risk management process. To the extent that our catastrophe modeling vendor(s) considers climate change in their modeling software, our use of those modeling tools will provide us with current generally accepted considerations.

We have also conducted some analysis of possible climate change impacts on our catastrophe exposed business utilizing (1) the Prudential Regulatory Authority (PRA) scenarios for stress testing the impact of climate change. The scenarios are defined as Early Action, Late Action and No Action with regards to the transition to a net zero emissions economy and are supplemented with additional factors following investigation by our Catastrophe Exposure Management team; and (2) replication of a scenario published by S&P Global Ratings. The purpose of these stress scenarios is to facilitate dialogue about the company's management of climate risk. We plan to continue to conduct and improve upon these analyses.

Our Catastrophe Exposure Management team continues meeting with broker analytics teams, model vendors and market peers to understand how the market is approaching the physical effects of Climate Change.

With respect to longer tailed lines of business, such as directors and officers liability, there is the potential for increased D&O claims due to insureds' failure to disclose climate risks or misrepresentations in exposure or efforts related to climate risks. However, our underwriters are continuing to assess these risks in the underwriting process. As with all longer tailed lines of business, the full extent of liability under these policies may not be known for many years and our financial position and results could be materially adversely impacted, similar to other risks.

Investments – ESG factors continue to rise in importance causing future cash flows, valuations of companies, and overall business models to come under scrutiny by the markets when evaluating viable investments. As the world transitions to a low carbon economy, supply and demand factors will be altered which could negatively affect certain high carbon footprint business models. As part of our risk mitigation efforts, in 2022 our investment advisers completed a stress test for climate change vulnerability including market value and credit impact on the portfolio, in line with the Bank of England 2021 methodology. We will continue with these evaluations.

<u>Metrics and Targets</u>

4. Disclose the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material.

<u>At the TMHD Group Level:</u>

Reduction of GHG emissions

TMHD is aiming to reduce GHG (CO2) emissions from the Group to net zero by fiscal 2050 for their own operations.

CO2 Operational Emission Reduction Data (Energy Conservation and Reduction in Buildings, Facilities, etc.)

TMHD and Major Subsidiaries

CO2 Operational Emission Reduction Targets

- Long-term target (fiscal 2030): -60% (compared with fiscal 2015 level)

CO2 Operational Emissions (Fiscal 2021 Results)

For Fiscal YE 2021, CO2 emissions by TMHD and its major subsidiaries (Scope 1 (direct emissions) + Scope 2 (indirect emissions) + Scope 3 (other indirect emissions)) were 83,483 tons).

The Group continues to work on reducing the environmental impact of the overall Group and become more carbon neutral by (1) conserving energy and using energy more efficiently, (2) planting mangroves to absorb and fix CO2, (3) using natural energy (such as by procuring green electricity) and (4) amortizing carbon credits.

At the TMHCC level:

Last year we engaged with an outside firm to assist us in a more formal approach to measuring and validating our emissions (excluding Investments, which will be aligned with the TMHD group basis). Based on their initial work, using 2021 data, our estimate of Scope 1 and 2 emissions was 13,434 mt of CO_2 equivalent. We believe that Scope 3 will require more time and buy-in from procurement parties globally before a meaningful measurement with any real actionable items may be made.

We continue to consider expansion of our own goals for emissions reductions.

As mentioned above in the Risk Management section, we have not set specific goals or targets related to climate risks, as such, in our underwriting or investment strategies at this time. We do have specific targets (appetites and tolerances) related to our natural catastrophe property exposures generally, and as and when our catastrophe modeling vendor(s) update their models for climate-related considerations, our use of those modeling tools will provide us with current generally accepted considerations. On investments, we will look to continue to support ESG themes with investment opportunities in housing, economic development, renewables, and "green" bonds / sustainable finance.