

NAIC Climate Risk Disclosure Survey for reporting year 2022 - Banner Life Insurance Company

NAIC Number 94250

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 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.

Response to Governance

Banner Life Insurance Company underwrites and issues insurance policies and retirement products under the Legal & General America (LGA) umbrella. Our parent company, Legal & General Group Plc ("Group"), is headquartered in London and provides protection and retirement solutions as well as offers investment management services. L&G Group have a mature policy, strategy and framework for governance related to the financial risks posed by climate change.

Addressing climate change is one of Legal & General's strategic growth drivers. The three pillars of the climate strategy are: Invest, Influence, and Operate; driving positive change throughout the entire global organization.

Invest – through reducing the intensity of our financed emissions and through investing in the transition.

Influence – through the products that we offer to our clients and through our engagement with the real economy.

Operate – through our operations and the businesses we control.

The 2022 L&G Group Climate Report is in line with the recommendations made by the Task Force on Climate-related Financial Disclosure (TCFD).

The L&G group Board ('the Board') is ultimately accountable for the long-term stewardship of the group. Responding to climate change and the risks and opportunities associated with it are of significant importance to the Board. The Board received regular updates on the group's strategic approach and progress on climate matters, highlighting areas of opportunity and challenge.

The Group Risk Committee (GRC) oversees the risks associated with climate change to ensure exposures are controlled in line with the group's risk appetite, and ensures that management actions are also aligned. Alongside regular updates on the risks associated with climate change, the committee receives regular climate-specific management information.

During 2021, L&G Group appointed a Group Climate Change Director, a new position with responsibility for coordinating the group's response to climate change. The role has the senior manager responsibility of ensuring that an appropriate strategy is in place to understand, identify, measure, monitor, control and report risks from climate change in line with the risk strategy and risk appetite parameters set by the Board. The Board, through the GRC and Executive Risk Committee, has delegated oversight of the management of the risks associated with climate change to the Group Environment Committee (GEC).

The GEC is chaired by the Group Climate Change Director and includes senior level members of the Group's management team. This Committee is responsible for providing strategic direction to the management of environmental impact on the group, with a particular focus on the delivery of our strategic response to climate change. The Group Environment Committee is supported by subcommittees to review and challenge performance against tolerances and targets, one for climate risk and one for other environmental risks and opportunities.

Locally, Legal & General America implemented a Climate Risk Committee in July 2021. Initially this Committee was designated as a management steering committee but was reclassified to a Committee of the LGA Board in May 2023. The primary role of the LGA Climate Risk Committee is to ensure that adequate governance and oversight is in place for the assessment and management of the financial risks associated with climate change. The LGA Climate Risk Committee includes LGA Executive sponsorship and representatives from both the Protection and Pension Risk Transfer businesses. A Non-Executive Director of the LGA Board and the Head of L&G Group Climate Risk serve on this Committee in an advisory capacity.

The primary responsibilities of the LGA Climate Risk Committee include:

- Integrate Group Climate Policy principles into LGA's governance frameworks, risk management processes, and business strategies.
- Steer the development of a LGA written risk policy and set risk tolerance and risk limits for financial risks associated with climate change.
- Monitor regulatory guidance and develop additional actions based on regulatory requirements as they become available and are applicable to LGA.
- Oversee the creation of a mechanism for disclosing climate risks to appropriate regulatory authorities.
- Monitor appropriate climate risk related reporting on behalf of the LGA Board and provide periodic updates to the LGA Board as needed.
- Ensure that an appropriate strategy is in place to understand, identify, measure, monitor, control and report risks and opportunities from climate change in line with the risk strategy and risk appetite parameters set by the Group Board.
- Measure and monitor LGA's overall carbon footprint and identify, reinforce and implement opportunities for improvement.

Beginning in July 2023, formal reporting on climate risk has been added as a routine agenda item for reporting to the LGA Board of Directors. Climate risk is also included in the annual Legal & General America ORSA Summary report.

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 2 degree Celsius or lower scenario.

Response to Strategy

Legal & General America (LGA) aligns our climate risk strategy to that of our parent company. Climate risks, both physical and transition risks, are most relevant to LGA's investment strategy and a framework has been developed to identify and escalate these risks.

L&G Group's investment strategy is constructed to manage short and long-term responsibilities to both our policyholders and our shareholders, in line with applicable regulations. As a long-dated investor, particularly in bond investments, our decarbonization approach requires a transitional shift to lower-carbon investments through our new business flows, while also managing the phase-out of higher-carbon investments within our legacy holdings.

It is important to note that in the short to medium term, we will focus our efforts on credible reductions to our carbon footprint and encourage others to do the same. However, in the long-term we expect negative emissions to play a critical role in balancing out residual emissions in achieving net zero portfolios.

Our short-term horizon looks at a three-year period. Our medium-term horizon looks forward up to 10 years. Our long-term horizon looks at the time horizon up to 2050. This strives to challenge and shape the very nature of our business as well as the overall strategy.

While there are obvious risks from climate change, the transition to net zero also creates opportunities, such as investing in the technology and infrastructure needed to transition away from carbon emissions, like renewable energy sources, low-carbon properties, low-carbon heating, electrification of transport and nature-based solutions. We can also protect our long-term returns by investing in real assets with high levels of climate resilience.

On the other hand, investments in sectors or companies which are adversely exposed to a transitioning economy could lose value or be downgraded. Also, increased frequency or severity of extreme weather events may impact the value of physical assets or the value of companies with high exposures to these risks.

Given the importance of bonds within our portfolio, we first consider the impacts of climate risks on the credit quality and sector breakdown of our portfolio. We are primarily a long-dated 'buy-and-hold' bond investor, managing our portfolio to match our short and long-term payments to retirement customers. Our balance sheet and cashflow matching is therefore more impacted by bond downgrades and defaults than movements in bond value.

We model four climate pathways. In the Inaction scenario, global failure to act on climate change means emissions continue to grow at historical rates and global warming is 3 - 4 °C. In the below 2°C scenario, immediate, ambitious policy and investment action to address climate change limits global warming to below 2°C, but warming most likely exceeds 1.5°C. In the Net Zero 1.5°C scenario, immediate, highly ambitious action to address climate change leads to a reduction in CO₂ emissions to net zero around 2050. In the delayed Below 2°C scenario, Policy and investment action to limit warming to well below 2°C is delayed to 2030, resulting in much more disruptive change and warming will most likely exceed 1.5°C.

The Net Zero 1.5°C scenario has the greatest amount of downgrades to sub-investment grade (assuming no active trading) until 2030 and 2040, while the Delayed Below 2°C scenario has the highest such downgrades by 2050.

LGA's portfolio is primarily (97%) investment-grade (rated BBB and above). Of this, BBB-rated bonds, which carry the greatest credit transition risk, comprise 33% of the portfolio, and of those, the ones from the high carbon sectors (defined as energy, utilities, materials and industrials) only comprise 12% of the portfolio.

Banner Life Insurance Company (a subsidiary of Legal & General America, Inc.) has taken the following steps to engage key constituencies on the topic of climate change.

Our Underwriting department has successfully implemented a tele-commuting policy which allows our underwriters to work from home. Currently, 100% of underwriters participate in this initiative. There is an expected reduction in pollution and gas consumption as travel between home and office is not necessary. An added benefit is the ability to attract top talent throughout the country. Our AppAssist function has had a tele-commuting policy for many years and 100% of interview representatives work remotely.

Home Office employees are working in a hybrid, office-based approach which allows them to work on average three (3) days at home each week.

LGA is transitioning to a digital application journey, in states where approved, which will significantly reduce the use of paper in the process. Our agent commission statements are delivered electronically rather than by mail and we encourage electronic delivery of our newly issued policies. We continue to add functionality to our customer website and agent portal to service customers in an electronic (paperless) fashion.

Banner Life Insurance has a recycling program. Employees are required to recycle paper which is shredded (for privacy) and then recycled by NAID certified vendors.

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.

Response to Risk Management

LGA's risk management of climate risks is aligned with our parent company. As an enterprise, L&G Group have integrated climate risk management into the existing risk and governance framework and have carried out a detailed assessment of how we could expect climate risk to emerge across our business model. Climate change risks will emerge through our current risk exposures and the relevant Group policies set out our approaches to identifying, assessing and managing these risks. The purpose of the L&G Group Climate Change Risk Policy is to set out the principles for managing our business so as to align with the mitigation of climate change and to be resilient to the risk of different climate outcomes.

As much of our balance sheet is based on assumptions and expectations of future experience, risks can materialize through both actual change in experienced profits or losses, as well as changes in those future expectations.

As a life insurance company, we are most concerned about the effects of climate change on mortality and longevity. Climate change could lead to changes in how long people are expected to live. Changes to these expectations will emerge gradually as the effects are experienced or through increased certainty around future climate pathways and the associated health impacts. As a result, impacts on mortality and longevity assumptions may materialize over time.

Climate change may impact credit risk both through movements in credit spreads and through credit rating transitions, as a result of changes in either actual or anticipated default rates. It may also impact asset values due to a (potentially sudden) repricing to reflect transition risks to a low or carbon-neutral economy, or due to more frequent and severe weather events and longer-term shifts in climate impacting asset values. These may be through actual experience or a change in anticipated future experience. Climate change may also present enhanced asset returns, such as increased equity valuation for a firm enabling the transition to a low-carbon economy. Climate change may impact other market risk exposures through movements in macroeconomic factors such as interest, inflation and foreign exchange rates.

Our commitments assume that governments will implement required policy changes; the firms we invest in will deliver their targets; and, there will be societal change on an unprecedented scale over the next decade. These external events may impact our ability to deliver against our climate commitments.

The markets in which we operate are highly regulated. The regulatory approach to climate will continue to evolve. New or evolving interpretations of compliance expectations require changes to our products or business processes. A breach of legislative or regulatory requirements may expose us to financial penalties, remediation costs or damage to our reputation.

When assessing materiality, we consider both how the group is affected by climate change, as well as the group's own impact on the climate.

The effect of future uncertainty over climate change pathways is that the evaluation of climate-related risks and impacts has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the group's financial statements as a whole, and possibly many times that amount.

Our scenario modelling enables us to assess how the impacts from climate change may emerge under a range of climate scenarios and time horizons. Given our business model, we assess the most material financial risks from the potential impact of climate change on the value and credit rating of our assets.

Climate transition risks are primarily measured in relation to our carbon exposures. We are committed to reducing the carbon footprint of both our operations (scope 1 and 2) and of our group balance sheet portfolio's GHG emissions intensity to align with the 'Paris' 1.5°C objective. We measure the contribution of our investments to CO₂e emissions, calculating portfolio economic carbon emission intensities at both group and divisional level.

As discussed in the Strategy section, we model four climate pathways. In the Inaction scenario, global failure to act on climate change means emissions continue to grow at historical rates and global warming is 3 - 4 °C. In the below 2°C scenario, immediate, ambitious policy and investment action to address climate change limits global warming to below 2°C, but warming most likely exceeds 1.5°C. In the Net Zero 1.5°C scenario, immediate, highly ambitious action to address climate change leads to a reduction in CO₂ emissions to net zero around 2050. In the delayed Below 2°C scenario, Policy and investment action to limit warming to well below 2°C is delayed to 2030, resulting in much more disruptive change and warming will most likely exceed 1.5°C.

We deploy a range of management actions to meet our risk management objectives. We established a framework for climate commitments, which accounts for all GHGs, and covers scope 1,2, and material scope 3 emissions. Our progress and long-term goals are supported by annual and interim targets to enable regular monitoring of progress

towards the commitment. Progress is reviewed and reported on at least annually and overseen by the GEC. Our commitments are consistent with the latest science, and are credible and achievable.

Our risk management approach recognizes the importance of engagement with investee companies. Our Investment Management Agreements (IMAs) with asset managers, have climate-specific exclusions that focus on key areas of transition risk: CIP exclusions, coal and oil sand activity and deforestation. We also take account of the broader energy system within our portfolio management approach – through our high carbon escalation process on an individual basis.

LGA also measures the impact of climate risk on real assets, e.g. commercial mortgage loans. For this analysis, we utilize a vendor based tool that currently has the ability of analyzing the potential impact of hurricane/storm surge, flood and wildfire perils. The tool employs the use of proprietary data and algorithms that create risk ratings derived from value at risk calculations that are native to the tool. These risk ratings enable LGA to evaluate the impact of climate risk on our back book real assets and consequently manage concentration risk in climate risk prone areas. Additionally, we use the tool to evaluate real asset investment opportunities to ensure new investments in real assets fall within our climate risk appetite.

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 amount 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

Response to Metrics and Targets

Across L&G Group, we monitor and assess our climate-related risks and opportunities using three key metrics: operational carbon footprint, investment portfolio economic carbon intensity, and implied portfolio temperature alignment. As part of setting targets and plans, L&G Group received independent validation from the Science Based Targets Initiative (SBTi).

The operational carbon footprint covers direct GHG emissions (scope 1) and indirect GHG emissions from consumption of purchased electricity, heat, or steam (scope 2). Our target is to be net zero by 2050, with our offices and business travel operating with net zero emissions from 2030. As of 2022, scope 1 and 2 emissions were 30,062 tCO₂e. Group applies the operational control approach, that is to say they include all operations which they directly control, such as the energy from our core occupied offices (applies to occupied offices where we actively control the management of utilities), landlord activities, as well as the construction of new homes within our housing businesses and joint ventures.

The investment portfolio economic carbon intensity is made up of L&G Group's ownership share of the emissions related to the assets they invest in. Group's target is an 18.5% reduction by 2025, 50% reduction by 2030, and a net zero asset portfolio by 2050. As of 2022, the carbon intensity of L&G Group's portfolio was 73 tCO₂e/£m. Their primary metric is the GHG economic emissions intensity of the portfolio of group proprietary assets. This is the total of all the GHG produced by their share of the companies and corporations that they invest in, per unit of investment, and is reported using carbon dioxide equivalent (CO₂e) emission data. There are three components to this metric: the GHG emissions for each entity in which they are invested, EVIC (enterprise value including cash) to normalize the emissions by the underlying size of the entity, and the size of their holding in the entity. There are large segments of our portfolio where Group has to rely on estimated rather than actual emissions data, or where there is no data at all. They are also reliant on third party data. Changes in the emissions coming from their investments and their investment activity are key to decarbonizing their portfolios in the medium and longer term. However, in the short-term, factors outside of our control, such as the carbon outcomes of the entity, market movements, and the lag in the reporting of the underlying emission data, have the potential to create significant volatility in the calculated metrics. L&G Group tries to identify the underlying trends through techniques such as holding the company size constant over the reporting year.

Implied portfolio temperature alignment measures the implied warming potential of the group investment portfolio aggregated from its individual components. As of 2022, L&G Group's total portfolio implied temperature alignment was 2.7°C. This metric measures and provides a score for the implied warming potential of a company (or aggregate portfolio). It describes the climate transition pathway (temperature scenario) each company is expected to align to, based on both historical decarbonization trends and targets the company has set. It reflects the direct link between global carbon emissions and the likely severity of global warming and allows investors to measure their impact on climate change and evaluate their performance relative to SBTs. Given the current trajectory of the world, it is probably impossible to align a well-diversified portfolio with a net zero emissions ambition, or even a 1.5°C outcome. The implied temperature alignment measure helps investors close the net zero gap between portfolio companies' current trajectories and net zero ambition.

Targets have been established at L&G Group level, with Legal & General America supplying relevant information for Group to measure and manage its overall performance with respect to these metrics. Because the metrics are currently aggregated at a Group level, metrics are not available for LGA standalone at this time. As part of the group we also comply with existing policies around restrictions on investments in coal and certain other types of carbon intensive energy projects, which help us overall manage carbon intensity of our balance sheet and transition risk inherent in these assets.