

## Governance – narrative

*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.

Climate change is considered as an emerging risk within the company's Enterprise Risk Management committee's identified risks. This team, comprised of senior executives within the company, identifies, quantifies, and correlates major risks affecting Chesapeake Employers' Insurance Company and oversees their mitigation while utilizing them as catalysts for ongoing strategic planning.

- 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.

See Above

*A. Describe the board and/or committee responsible for the oversight of climate-related risks and opportunities.*

ERM matters are reported to the full Board annually.

*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.

See Above

*B. Describe management's role in assessing and managing climate-related risks and opportunities.*

Climate change is considered as an emerging risk within the company's Enterprise Risk Management committee's identified risks. This team, comprised of senior executives within the company, identifies, quantifies, and correlates major risks affecting Chesapeake Employers' Insurance Company and oversees their mitigation while utilizing them as catalysts for ongoing strategic planning.

## Governance – closed ended questions answered in addition to the narrative

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

- Does your board have a member, members, a committee, or committees responsible for the oversight of managing the climate-related financial risk? (Y/**N**)
- Does management have a role in assessing climate-related risks and opportunities? (**Y**/N)
- *Does management have a role in managing climate-related risks and opportunities?* (**Y**/N)

## Strategy – narrative

*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.

Chesapeake Employers' Insurance Company has engaged its policyholders and network of independent agents on the topic of climate change risks via its Safety Services department which actively promotes workplace safety and has focused several of its "Safety Tip Sheets", which are available to policyholders and the public as part of its "Safety University" web site, on various Summer and Winter safety topics including general safety issues as well as specifics on preventing heat stress, slips, trips, and falls on snow and ice, as well as inclement weather-related traffic accidents.

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

Chesapeake Employers' Insurance Company does not at this time have a specific plan to assess and reduce or mitigate emissions in our operations or organizations. However, as capital improvements are made to our facility energy efficient solutions are considered. The company has converted 75% of its overhead lights to energy efficient T8 LED's; and installed 3M™ Sun Control Window film on its glass enclosed headquarters building to save energy tied to cooling. While Chesapeake Employers did entertain proposals for roof top solar panels, it did not pursue that project due to the cost and extended payback period. Two hybrid cars have been procured as a trial for the company's automobile fleet; and in addition, the company utilizes document imaging to significantly reduce paper utilization and participates in paper recycling efforts. From an IT perspective the company has undertaken a server virtualization program to reduce the number of physical servers in its data center thereby reducing electrical and cooling costs.

*A. Describe the climate-related risks and opportunities the insurer has identified over the short, medium, and long term.*

Chesapeake Employers' Insurance Company's ERM process identified the highest risk to the company in terms of climate change to be a potential increase in the frequency of extreme hot and cold weather-related injuries on workers compensation claims costs. These may be related to heat exhaustion or frost bite; but could also be related to slips, trips, and falls on snow and ice as well as weather-related traffic accidents. While these are significant risks, they do not have the financial impact to make the company's Top 10 Risks. As a casualty only carrier, climate change does not present the same risks as a property insurer where geographic considerations can greatly increase the probability and impact of climate change risks. Chesapeake considers this a short-term risk which will continue to grow in terms frequency and severity in the medium and long term as global warming/severe climate events increase.

*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 1-5years as short term, 5-10 years as medium term, and 10-30years as long term.

While the above short/medium/long-term breakdown does not match the company's Enterprise Risk Management unmitigated/mitigated frequency breakdown, the above time points and their expected effects on climate related frequency are included in its full climate change model.

*A. Describe the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning.*

Chesapeake Employers' Insurance Company is managing the risk climate change poses to its business by tracking the frequency and severity of extreme hot and cold weather-related accidents and performing stress testing which models the effect of significant increases in the frequency of such accidents over time on claim costs. As part of economic capital modeling for its 2020 ORSA, the company's highest 5-year climate related incurred claims costs were \$244,882. For its worst-case scenario, a 10x increase was modeled resulting in a \$2.5M unmitigated risk, while the mitigated risk was \$1.2M for a 5-fold increase.

*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.*

Chesapeake Employers' Insurance Company's ERM process identified the highest risk to the company in terms of climate change to be a potential increase in the frequency of extreme hot and cold weather-related injuries on Workers Compensation claims costs. Chesapeake Employers' Safety Services department actively promotes workplace safety

and has focused several of its “Safety Tip Sheets”, which are available to policyholders and the public as part of its “Safety University” web site, on various Summer and Winter safety topics including general safety issues as well as specifics on preventing heat stress, slips, trips, and falls on snow and ice, as well as inclement weather-related traffic accidents.

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

Assuming this question concerns investments of the company, as opposed to invested assets of the Company’s stock portfolio, no such significant investments occur at this time.

*B. Describe the resilience of the insurer’s strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario.*

See Above

#### **Strategy - closed ended questions answered in addition to the narrative**

- Has the insurer taken steps to engage key constituencies on the topic of climate risk and resiliency? (Y/N)
- 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)
- Does the insurer make investments to support the transition to a low carbon economy? (Y/N)
- Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations? (Y/N)

#### **Risk Management – narrative**

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.*

Chesapeake Employers’ Insurance Company considers the impact of is climate related risks in its underwriting portfolio by tracking the frequency and severity of extreme hot and cold weather-related accidents and performing stress testing which models the effect of significant increases in the frequency of such accidents over time on claim costs. It should be noted that we are the market of last resort and therefore must quote all business.

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

Chesapeake Employers' Safety Services department actively promotes workplace safety and has focused several of its "Safety Tip Sheets", which are available to policyholders and the public as part of its "Safety University" web site, on various Summer and Winter safety topics including general safety issues as well as specifics on preventing heat stress, slips, trips, and falls on snow and ice, as well as inclement weather-related traffic accidents.

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

Chesapeake Employers' Insurance Company takes impact of potential climate change and climate related risks into consideration when managing and evaluating its investment portfolio. As the Company invests based on a long-term horizon, it focusses primarily on long-term impact on invested securities from several risk factors including climate risk in its investment holdings.

The investment industry believes climate risk drivers can be grouped into two categories: Physical risks, which arise from the changes in weather and climate that impact the economy; and Transition risks, which arise from the transition to a low-carbon economy.

The Company makes its best efforts in defining, evaluating, and managing climate related investment risks. However, the Company also realizes that measuring climate risk in investments is an area subject to elevated level of ambiguity and subjectivity. An appropriate framework around this risk is one that is flexible and requires ongoing improvements.

Chesapeake Employers underweights fossil fuel production companies in its investments and factors potential risks from climate change into investment decision. It also incorporates favorable impact of green energy technologies and applications into its investment allocation and decisions. Effective 2021, in its internally managed bond portfolio (about 1/3 of total invested assets), Chesapeake Employers' Insurance Company no longer consider corporate bonds that have more than 50% of their power generated by coal-fired plants. Starting 2022, all new purchases in the internally managed portfolio are evaluated if they are issued under Sustainability, Social, or Green Bond categories. Based on conversations with external investment managers whom the Company outsources a portion of its invested assets (including bonds, stocks, and alternative investments), these managers have also taken climate change as part of the overall investment risk consideration. The Company has also been researching and evaluating means to establish its ESG framework from an investment management perspective.

The Company also made its best effort attempt to quantify exposure to climate risk and stress test the exposure across all asset classes. The Company's current \$1+ billion surplus well exceeds the potential investment losses generated under these hypothetical stressed scenarios.

- 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.

Chesapeake Employers' Insurance Company is managing the risk climate change poses to its business by tracking the frequency and severity of extreme hot and cold weather-related accidents and performing stress testing which models the effect of significant increases in the frequency of such accidents over time on claim costs annually. As part of economic capital modeling for its 2020 ORSA, the company's highest 5-year climate related incurred claims costs were \$244,882. For its worst-case scenario, a 10x increase was modeled resulting in a \$2.5M unmitigated risk, while the mitigated risk was \$1.2M for a 5-fold increase.

*B. Describe the insurer's processes for managing climate-related risks.*

Chesapeake Employers' Insurance Company is managing the risk climate change poses to its business by tracking the frequency and severity of extreme hot and cold weather-related accidents and performing stress testing which models the effect of significant increases in the frequency of such accidents over time on claim costs.

*C. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management.*

Chesapeake Employers' Insurance Company utilizes its Enterprise Risk Management framework to identify climate change related risks and assess the degree that they could affect the business, including financial implications. Chesapeake Employers' ERM team has a documented process to identify, quantify, and correlate major risks affecting Chesapeake Employers' Insurance Company and oversee their mitigation while utilizing them as catalysts for ongoing strategic planning. After identifying all potential risks, their probability and impact to the organization are determined and then plotted on a "Risk Heat Map" to determine the company's top risks. This process also involves the company's Economic Capital Modeling group which quantifies potential increases in the frequency of extreme hot and cold weather-related injuries on Work Comp claims costs.

*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.

Chesapeake Employers' Insurance Company utilizes its Enterprise Risk Management framework to identify climate change related risks and assess the degree that they could affect the business, including financial implications. Chesapeake Employers' ERM team

has a documented process to identify, quantify, and correlate major risks affecting Chesapeake Employers' Insurance Company and oversee their mitigation while utilizing them as catalysts for ongoing strategic planning. After identifying all potential risks, their probability and impact to the organization are determined and then plotted on a "Risk Heat Map" to determine the company's top risks. This process also involves the company's Economic Capital Modeling group which quantifies potential increases in the frequency of extreme hot and cold weather-related injuries on Work Comp claims costs.

- 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.

As single line Workers' Compensation carrier, the company believes its climate change risk to be mostly tied to an increase in frequency for extreme hot and cold weather-related injuries.

- 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.

The company uses hypothetical stressed scenarios to analyze risks on its investment. The following assumptions were applied to its entire invested assets (including bonds, stocks, and alternatives). The measuring timeframe is one year.

**Climate Risk Loss % by Stressed Assumption**

Climate Risk	Moderate Impact Event	Standard Impact Event	High Impact Event
1	0%	2%	5%
2	2%	4%	8%
3	5%	8%	15%
4	10%	15%	25%
5	15%	25%	40%

#### **Risk Management – closed ended questions answered in addition to the narrative**

- Does the insurer have a process for identifying climate-related risks? (Y/N)
- If yes, are climate-related risks addressed through the insurer's general enterprise-risk management process? (Y/N)
- Does the insurer have a process for assessing climate-related risks? (Y/N)
- If yes, does the process include an assessment of financial implications? (Y/N)

- Does the insurer have a process for managing climate-related risks? (Y/N)
- Has the insurer considered the impact of climate-related risks on its underwriting portfolio? (Y/N/Not Applicable)
- Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks? (Y/N)
- Has the insurer considered the impact of climate-related risks on its investment portfolio? (Y/N)
- Has the insurer utilized climate scenarios to analyze their underwriting risk? (Y/N)
- Has the insurer utilized climate scenarios to analyze their investment risk? (Y/N)

## Metrics and Targets – narrative

*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.

The company uses catastrophe modeling for Earthquake and Terrorism risk. Earthquake risk exposure is minimal as Maryland has an extremely low probability of a large earthquake event.

*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)



The Company has decided to engage a consultant to assist in the formulation of such metrics.

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

The Company has decided to engage a consultant to assist in the formulation of such metrics.

*C. Describe the targets used by the insurer to manage climate-related risks and opportunities and performance against targets.*

See Above

**Metrics and Targets – closed ended questions answered in addition to the narrative**

- Does the insurer use catastrophe modeling to manage your climate-related risks? (Y/**N**)
- Does the insurer use metrics to assess and monitor climate-related risks? (**Y**/N)
- Does the insurer have targets to manage climate-related risks and opportunities? (Y/**N**)
- Does the insurer have targets to manage climate-related performance? (Y/**N**)