NAIC Climate Risk Disclosure Survey 2023
WCF National Insurance Company, NAIC # 40517

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 a 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.

Governance Response:

In 2023, the WCF Insurance Group (WCF or the Company) consisted of two Utah domiciled property and casualty (P&C) insurance companies, WCF Mutual Insurance Company (WCF Mutual) and WCF National Insurance Company (WCF National), and one California domiciled P&C insurance company, WCF Select Insurance Company (WCF Select). WCF Mutual owns 100% of WCF National's outstanding stock which, in turn, owns 100% of WCF Select's outstanding stock. WCF National and WCF Select are licensed in all 50 states as well as the District of Columbia. WCF National wrote $70.6 million of assumed reinsurance in 2023.

Overall, the Company considers climate risk as part of our underwriting, pricing, reinsurance, and investment decisions. We monitor, evaluate, and respond to the risks and challenges posed by climate change. Although WCF does not have publicly stated goals on climate-related risks and opportunities, we recognize that climate change presents significant challenges to the insurance industry. The Company actively works to assess and manage these risks at the board and the management level.

WCF's management works to identify and analyze climate-related risks to our business operations and investments. The Company's underwriting guidelines, risk models, and reinsurance practices consider climate related risks. Our enterprise risk management (ERM) framework uses multiple processes to identify, report, and track both new and emerging risks. The Internal Risk Committee (IRC) is a business-level risk committee that meets multiple times a year with senior management to discuss potential risks to WCF, including those related to the environment, changing climate, and catastrophe exposure. In conjunction with the IRC, the Company's ERM team conducts employee risk surveys, senior manager risk surveys, risk learning exercises, annual department strategic risk assessments, quarterly risk awareness activities, and pre-project/pre-initiative risk assessments. Risks are also reported through the IRC and online reporting tools. Employees are encouraged to use an ethics hotline phone number to report any risks they are uncomfortable reporting through other processes.

There are two board of directors' committees – the Investment Committee (IC) and the Risk Oversight and Compliance Committee (ROCC) – that address and oversee climate and catastrophe related financial risks. WCF's board of directors and the ROCC consider climate change and other catastrophe exposures as part of overseeing the Company's business and operations. The board of directors helps guide our ERM practices and strategies, including the Company's evaluation of potential risks related to changing climate conditions.

The ROCC is responsible for oversight of the strategies, processes, and controls related to risks in the Company's business operations, including insurance underwriting and claims, reinsurance, catastrophe exposure, and the impact of climate change. The ROCC helps identify and review risks that could have a material impact on the Company. Climate-related risk is a stand-alone risk in WCF's risk register. The risk is assigned to the Chief Risk Officer (CRO) to own and monitor. The ROCC is chaired by Daniel Seitz, an insurance professional with more than four decades' experience working on public policy issues and with regulatory agencies, with a focus on insurance and health policy. The CRO plans the agenda for ROCC meetings and communicates risk information to the committee through meetings held three times per year and through ad-hoc updates. The CRO reports to the CFO. Identified risks are added to WCF's risk register where they are scored according to their probability and severity based on mitigations that are in place. The estimated total financial impact and risk adjusted financial impact are assigned. At a minimum, the risk register is reviewed and updated monthly by the CRO or CRO designee, quarterly by the internal risk committee, and annually by the senior management team. It is shared with the board of directors at least three times per year.

WCF's board of directors and the IC evaluate the Company's investment policies while considering climate change and other catastrophe related financial risks. The Company recognizes that new regulations and societal pressures concerning environmental, social, and governance (ESG) factors along with other public policy matters could affect our returns or cause us to change our investment strategies. The IC is chaired by Ray Pickup. Mr. Pickup joined WCF in 1993 as CFO, became COO in 2006, and president and CEO in 2008. He retired and joined the board as a director in 2022. The Chief Financial Officer (CFO) and the Chief Investment Officer (CIO) create the agenda for IC meetings, which includes discussions of investment risk and any climate change or catastrophe risks or opportunities that may affect the investment portfolio.

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 a 2 degree Celsius or lower scenario.*

Strategy Response:

WCF’s main exposure to climate risk stems from its P&C insurance and assumed reinsurance operations. The Company’s predominant line of business is workers' compensation insurance; however, the Company has continued its efforts to diversify our geographic exposure and expand our product offerings to continue to serve the changing insurance needs of our policyholders. WCF has a strong presence in six core states, and we have expanded our pool of talent and expertise to meet the desired growth in premium and policyholders.

The Company monitors and assesses the potential frequency and severity of natural catastrophic risks as well as those related to climate change. The impacts from climate change are expected to affect each line of insurance differently. The Company monitors the impact of climate-related risks on its various lines of business and evaluates potential effects on pricing, underwriting, and risk selection. The Company’s portfolio will continue to evolve to diversify underwriting risk geographically and by product. WCF’s products team, actuaries, and underwriters may adjust the Company’s underwriting approach to account for the potential frequency and severity of natural catastrophes, including climate change.

The impact of climate-related risks and opportunities on the Company’s business, strategy, and financial planning will continue to be considered when planning strategy and future growth initiatives. Short-term (1-5 years) risks include extreme weather events and workplace climate exposures like temperature extremes, ice/snow, and fire that can result in a higher incidence of workplace injuries or illnesses. In addition, short-term risks that include more frequent and severe weather events that could result in a higher frequency of insurance claims for property damage, business interruption, and liability claims due to extreme weather will be of concern as we move forward to increase our commercial offerings. Short-term risks may also pose a risk to business continuity and operational resilience. Mid (5-10 years) and long-term (10-30 years) risks include the same short-term risk as well as increased risk assessment challenges and the potential for higher reinsurance premiums.

WCF provides services to help policyholders adapt to climate-related risks. The Company encourages policyholders to reduce their losses caused by climate change by providing guidance and education. These steps include providing safety and health consultative services focused on climate-related exposures such as ice and snow safety for prevention of slips and falls, prevention of heat-related and temperature extreme illnesses, and fire prevention and safety. Also, our underwriters have discretion to apply schedule credits/debits for a policyholder’s risk characteristics that correlate to climate change to promote mitigation efforts. The company has business continuity and disaster preparedness plans that are annually evaluated and tested. In addition, the Company has developed loss control resources to provide to policyholders on commercial property, commercial liability, and commercial auto risks to encourage policyholders to reduce losses related to climate change in these areas.

WCF supports and participates in local green initiatives in the states where we do business. The Company has developed a plan to reduce its environmental footprint. To achieve this goal, WCF has invested in and implemented several “green” initiatives, including:

- LEED Gold certified Utah corporate offices for WCF Mutual. This includes energy conserving building design, water and energy conservation through automatic flushing sensors, automatic motion-controlled faucets, localized energy efficient hot water heating, motion sensor LED lighting, energy efficient appliances in the kitchen areas, and nine free electric vehicle charging stations in the corporate office parking structure.
- As leases expire for WCF National’s California field offices, our environmental footprint and goal for energy efficiency will be considered in the evaluation and leasing process.
- Encouraging carpooling, working from home, and using public transportation. Participation in this initiative is encouraged by all employees regardless of geographic location, including California.
- The company reimburses employees for use of public transportation and offers a Lyft program for employees to use from train stations to offices.

- Think before you print initiative has reduced paper usage. Printers are set up to automatically print on both sides of paper, and paperless processes in claims, underwriting, safety, premium audit, IT systems are required.
- Personal computer systems automatically turn off screens/sleep/hibernate after a certain time-period. Printers and other electronic devices are placed in energy saving mode by default.
- Remote work is available for 95% of the employee base.

As it grows, the Company will continue to explore ways to reduce its environmental footprint.

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 for Risk Management:

Climate change-related risks are identified as they emerge and evolve with other insurance risks through WCF's ERM framework. As previously noted, our ERM framework uses multiple processes for identifying, reporting, and tracking new and known risks.

Identified risks are also added to WCF's risk register where they are scored according to their probability and severity based on mitigations that are in place. The estimated total financial impact and risk adjusted financial impact are assigned. The risk register is reviewed and updated at least monthly by the CRO or assigned CRO designee, at least quarterly by the IRC, at least annually by the senior management team, and it is shared with the Board at least three times per year. The senior management team assigns risks to a risk owner who is responsible for risk mitigation. Depending on the level of risk, a formal risk mitigation plan may be developed to address the risk and ensure success of strategic goals that may be impacted by the risk.

As a commercial lines insurer with our predominant line of business in workers' compensation, WCF's exposure to climate change-related risks has been limited. Therefore, climate scenarios have not been used in the assessment and analysis of climate-related risks. The Company will continue to watch for emerging climate change-related risks.

WCF has considered the impact of climate risks on our investment portfolio. Each company within the insurance group has an investment policy. WCF National's investment portfolio is comprised of bonds, U.S. Treasury money market mutual funds, and bank operating account deposits. We have not altered our investment strategy related to climate risk as it has always been incorporated in the decision-making process. However, as more information and improved climate modeling has become available, WCF will incorporate this information in its decision-making process.

To incorporate climate change considerations, WCF' National's bond portfolio is segmented into two strategies as follows: government (U.S. Treasuries, agencies, and agency mortgage-backed-securities) and municipal issues; and investment grade corporate credit.

For the government and municipal bond strategy, climate risk is addressed as follows:

The portfolio management includes climate risk as part of the purchase and ongoing hold decisions for bond investments. The U.S. Treasuries and agency debentures are considered to have low climate related risk. For the municipal bond portfolio, climate related risks are a significant qualitative factor in the investment decision process. Areas prone to and at significant risk of climate related disasters are avoided. Power generation related bonds that provide a reduction in pollution are given strong consideration for investment.

For the investment grade corporate bond strategy, climate risk is addressed as follows:

The portfolio is not an ESG-dedicated strategy. However, the portfolio manager incorporates material ESG factors into the investment research process to better assess issuer risks as part of the ESG integration process, which encompasses all company assets under management. As such, potential purchases are analyzed for various ESG factors, including climate risk and the likelihood that climate change will affect the borrower over the lifetime of a bond.

For the portfolio manager, ESG Integration is defined as the systematic integration of material ESG factors into investment research to enhance the client's risk-adjusted returns. WCF believes incorporating these non-financial factors should be part of a robust investment process. WCF recognizes that ESG factors are increasingly material inputs to its understanding of global economies, markets, industries, and business models. Thus, climate change is an important consideration when evaluating long-term investment opportunities.

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 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.

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.

Metrics and Targets Response:

WCF is a commercial lines insurer with our predominant line of business in workers' compensation. The Company has not used catastrophe modeling for climate-related risks. Catastrophe modeling is mostly used for earthquake (AIR Exceedance Probability Method – GC Analytics) and terrorism (Deterministic Loss Method – GC Analytics). We will continue to evaluate appropriate metrics and targets in the future.