

# NAIC CLIMATE RISK DISCLOSURE SURVEY

## TCFD-ALIGNED QUESTIONS

### UPDATED 2022

#### 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.*

The oversight and management of climate risks at Axcelus Financial Life Insurance Company (the Company) is delegated to the Compliance and Risk Committee (CARC) of the Board of Directors. The CARC members have a working knowledge of climate related risks based on their prior industry and board experience. The US Chief Risk Officer attends all CARC meetings. Additional climate risk training will be made available on a periodic basis as needed.

Specific consideration and assessment of climate related risk resides in the Company's Enterprise Risk Management Frameworks.

The Company has not publically stated any goals on climate related risks and opportunities. Oversight of climate related risks occurs in the Risk and Information Security Committee ("RISC") and the RISC's charter has been updated to reflect such responsibility. The senior management function responsible for climate risk for the Company is the US Chief Risk Officer.

#### 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.*

The Company provides life insurance and wealth management solutions through the sale of both private placement variable life insurance and variable annuity contracts that contain no secondary guarantees. The Company does not provide investment advice or asset management services to its policyholders and cedes a majority of its mortality risk under life insurance policies it issues to highly-rated third-party reinsurers, resulting in a fee-for-service business model. The managers of the underlying investment funds are selected by the policyholders and make all investment decisions for the underlying policy assets. As a result, policyholders have the flexibility to select investment managers whose investment strategy allows them to proactively integrate their ESG (climate) priorities into the investment options linked to their policy.

The Company has not reached out to key constituents on climate risk and resiliency since it would be inconsistent with our open-architecture business model and in not providing investment advice to our policyholders. The Company's general account assets consist primarily of policy loans, US Treasuries, high-quality corporate debt and cash and cash equivalents.

As a result of our life and annuity focused business model and our general account investment strategy, the Company's initial conclusions suggest climate's impact to our business, strategy and financial planning over the short term and long term to be low/immaterial. Our evaluation of short-, medium- and long-term risks is consistent with our business strategy and financial planning cycles, with short-term being less than three years and long-term being considered five years or more.

Climate risk could have an impact on our physical offices and operations due to the increased occurrence of extreme weather events. To address this risk, the Company has developed a business continuity plan addressing operational protocol if our offices are not accessible. Remote working has become common place for the Company's employees and this has worked effectively both during and post-COVID ensuring continuity of operations and services.

To respond to climate risk as well as the evolving workforce preferences, the Company has taken the following actions to mitigate its greenhouse gas emissions in its operations:

- Its principal office is located in One Liberty Place in Philadelphia which has received a LEED Gold designation;
- Digitally enabled onboarding and signature tools have a positive impact on the Company's environmental footprint by reducing CO2 emissions, wood consumption, water consumption and eliminating waste;
- Since the start of the pandemic, the Company has transitioned most of our work force to a hybrid work schedule. This flexibility has helped our climate change efforts by reducing carbon emissions resulting from commuter vehicles;
- The Company prioritizes the use of technology and video conferencing solutions in order to reduce our carbon footprint linked to business travel.

The most likely impact to the Company under various climate scenarios in the short- and medium-term are related to an economic downturn (market and interest rate risk) resulting from one or a series of climate events adversely impacting the Company's AUA balance. Under all of these scenarios, the Company was able to demonstrate it had sufficient capital to stay within capital risk tolerance levels.

## 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.

The Company integrates climate risk into its enterprise risk management process by utilizing a risk assessment matrix, that includes emerging and climate-related risks, to determine risk ratings for each enterprise risk as high, medium and low based on severity and probability metrics.

The Company defines substantive financial, strategic and operational impacts as anything that would correspond to a high risk ranking using its enterprise risk assessment matrix. The risk ranking matrix considers both quantitative and qualitative factors and classifies risks across three impact levels (High, Moderate, Low) and five Probability levels (High, Moderate, Low) to determine the risk ratings (High, Medium, Low)

As part of the assessment process, the Company conducts ongoing and annual risk assessments, taking both a top-down and bottom-up approach. The risk identification process requires that risk management and risk owners evaluate risks and identify potential emerging risks (including climate) on a continual basis. Additionally, annual risk interviews are conducted at various levels across the Company to proactively identify any emerging risks (including emerging climate risks) with the potential to substantively impact the Company achieving its strategic objectives and financial goals. In addition, a quarterly emerging risk report is produced by a third party law firm tracking legislative and regulatory matters, including climate, on the federal and state level that could have a potential impact on the Company. Emerging risks are viewed from both an internal and external perspective (e.g., macro-economic, geopolitical, internal level) and from internal interviews and discussion with business leaders. This process ensures that the perspective of all business units are considered on a Company-wide level when identifying risks. After risks have been identified, risk management performs an assessment process using the Company's risk matrix

to determine the most substantive risks. Risks are then assessed to consider whether the identified risks have already been mitigated and the residual impact and likelihood to determine the residual rating (after considering management actions) for each risk identified, including climate risks.

The most likely impact to the Company under various climate scenarios in the short- and medium-term are related to an economic downturn (market and interest rate risk) resulting from one or a series of climate events adversely impacting the Company's AUA balance. Under all of these scenarios, the Company was able to demonstrate it had sufficient capital to stay within capital risk tolerance levels.

## 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.*

To date, the Company has not assessed any climate-related risks as material based on a qualitative assessment. In the event that the Company identifies a climate-related risk as material, it will conduct more extensive assessment including quantitative assessment.

\* Asterisks represent questions derived from the original Climate Risk Disclosure Survey.