

# NAIC CLIMATE RISK DISCLOSURE SURVEY

## TCFD-ALIGNED QUESTIONS

### UPDATED 2023

#### 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.*

**\*Constellation Insurance Company is the parent company of AuguStar Life Insurance Company and AuguStar Life Assurance Corporation.**

The Audit and Governance Committee of the Board of Directors is responsible for oversight of climate-related financial risks and opportunities. The Chief Risk Officer is ultimately responsible for oversight of managing the risk. Since the climate change risk impacts various areas within the organization, there are several areas of the company that are responsible for managing the risk. The primary responsibility belongs to Corporate Services department. Other areas, such as Investments and IT (Business Continuity), are involved as well. The areas follow the developed risk management framework and report on the climate related risks using the dashboard, where specific risks are identified and key risk or performance indicators are used to monitor these risks. Risk management and oversight discussions occur during quarterly Enterprise Risk Oversight Committee (EROC) meetings.

Constellation Insurance comments on the governance and management of climate-related risks and opportunities in ORSA at a company's level and it includes all entities of the organization.

#### 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.*

We recognize potential impacts from climate-related risks on Constellation Insurance Company, such as operations, investments, products and services that we offer. As short-term risks, we have identified regulatory, compliance and reputation risks, and also financial risk impacting investment portfolio as a result of reducing the value of investments, such as commercial real estate loans, from adverse climate events on the properties. The regulatory and compliance risk would result from the increased reporting requirements from potential new regulations. Climate risk poses potential threat to our business resiliency in the form of severe weather and natural disasters in the areas where the operations are located.

As far as medium- and long-term risks, reputation and physical risks exist from unpredictable adverse climate/weather events. There is also a potential increase in claims resulting from catastrophic events, such as hurricanes, tornadoes, and other severe weather events.

We have a strategy to minimize climate-related footprints as a result of our business activities.

## **Energy Savings**

- Constellation Insurance's printer fleet is Energy Star qualified and operates with PaperCut, a print management software, to help associates identify the times when printing would be a waste of company resources.
- Constellation Insurance operates each of its buildings through a building automation system that ensures better control of its energy consumption by controlling the operating schedules of the mechanical equipment. This system provides the metrics necessary to monitor peaks and valleys in the energy usage. The Company in turn can adjust the equipment run schedules thereby smoothing the energy usage curve. By adjusting the startup and shut down times of all equipment, the Company reduces its overall power demand and utility cost at each of these locations.

- In an effort to reduce electric demand and outdoor lighting output saturation in the surrounding area, Constellation Insurance replaced the outside campus lighting at the Home Office with new energy efficient LED light fixtures and we continue to maintain all parking garage areas with energy efficient LED lighting, controlled by occupancy sensors and building automation controls.
- Constellation Insurance will continue its efforts in moving the Home Office as well as 10260 Alliance Rd. toward Energy Star rating.
- Constellation Insurance achieved another one of its many goals in moving toward a greener footprint, across its portfolio of buildings. This was the reaffirmation of our Energy Star rating for our two office buildings.

## Efficiency

- Constellation Insurance removed and replaced two toner-based production printers with a single water based ink production printer. In doing so, the Company was able to reduce power consumption by 50% and reduce consumable waste by over 25%.
- Constellation Insurance removed and replaced two central plant cooling towers with modern, more efficient cooling towers that are controlled by the building automation system.
- Constellation Insurance removed and replaced two central plant boilers with a more modern application that is also controlled by the building automation system.

## Electronic Communication

- Constellation Insurance has employees participate in electronic training/education sessions.
- Constellation Insurance provides a vehicle for policyholders and its agents to receive electronic account statements and other required mailings.
- Constellation Insurance is using electronic communications to its employees, agents, and policyholders.
- Constellation Insurance uses video conferencing equipment within its Home Office and satellite locations to reduce the need for significant travel for home office and field personnel, as well as certain service providers.

## Environmental

- Constellation Insurance has a bottle, can and trash recycling program in corporate locations, as well as a paper shredding and recycling program.
- Constellation Insurance maintains multiple car charging stations in an effort to promote the use of electric cars by our employees. Additionally, we continue to promote the use of bicycles as a means of transportation for our employees and our tenants.

The investment portfolio of Constellation Insurance primarily includes fixed income assets, with a percentage of Green Bonds. We consider climate risk when making investments, including ESG factors and possible risks, such as carbon-reliant sectors, stranded assets risk that leads to potential impairments or downgrades, pollution & waste management, product safety, human capital & social opportunities, corporate governance & ethics.

Constellation Insurance does not use scenarios to specifically separate and quantify climate change risk, but we always look at various types of risks when making commercial mortgage loans and our underwriting is how we compensate for these risks. We require borrowers to carry requisite insurance on all our properties (make sure we are out of the higher risk flood zones, etc.) We are cognizant if we lend in coastal cities and coastal areas (just like properties in tornado risk areas or high fire areas). Amortization plays an important role in assessing risk as well. We don't intentionally lend in areas of high risk. All properties carry risks. We attempt to have a balanced portfolio geographically as well. Some states have hurricane, earthquake and fire risks, flooding risk occurs in many areas of the country as do tornadoes.

## 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.

At Constellation Insurance we consider the impact of climate change risk on investment portfolios, for example, we have been investing in Green bonds as an investment class. Please see the previous section for more information on Investment Portfolio strategy.

Climate-related risks are addressed through Constellation Insurance Enterprise Risk management process. Climate risk has been included into Risk Management framework and is addressed in the Corporate Services ESG dashboard that goes into details about climate risk reduction strategies and achievements. Risk dashboards are discussed during quarterly Enterprise Risk Oversight Committee meetings and presented to the BOD.

Constellation Insurance considers climate risk as a sub-factor in climate scenarios, such as excess mortality stress testing and investment risk (liquidity and credit).

## 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.*

The financial impact of climate change risk is not deemed material to Constellation Insurance Company, but we do analyze stress scenarios that could have been caused and resulted by natural catastrophic events which include severe weather. We also have metrics for the impact of our business on the environment, such as "Trash and Recycling programs", "Energy usage", etc. We are in the process of collecting and tracking key performance indicators to establish future targets to measure against.

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