



# Climate Risk Disclosure Survey 2021



# TABLE OF CONTENTS

Overview.....	3
Governance.....	6
Strategy.....	8
Risk Management.....	10
Metrics.....	13
A Note on ESG.....	15



# Introduction

This report serves as the ICW Group’s inaugural report on the current position and outlook of the recommendations of the Task-Force on Climate-Related Financial Disclosures.

## About ICW Group

ICW Group Holdings, Inc. is the parent company of a group of insurance companies and insurance service providers. The insurance companies are Insurance Company of the West, Explorer Insurance Company, VerTerra Insurance Company, ICW National Insurance Company, ICW Premier Insurance Company and ICW Casualty Insurance Company. Several lines of insurance are written on West and Explorer including Assumed Reinsurance, Workers’ Compensation, and Difference in Conditions policies across the United States. Additionally, Explorer wrote runoff personal lines auto insurance in the state of California with the last policy ending 9/30/2021. VerTerra writes runoff surety bond business and is an eligible surplus lines carrier in multiple states. Used herein, “ICW Group” refers to ICW Group Holdings, Inc. and its subsidiaries, including the above insurance companies.

Incorporated in 1972, San Diego based ICW Group is the largest group of privately held insurance companies domiciled in California. Quoting more than \$3 billion annually, ICW Group is recognized nationally as an industry leader in helping policyholders achieve fewer and less costly claims and is committed to meeting the needs of its policyholders and elevating the trusted agents and brokers who advise them. We offer our products through an independent network of experienced and professional agents and brokers.



## Our Mission

*“To create the best insurance experience possible.”*  
*It’s our focus and our passion. We work every day to ensure our customers have a better today and a safer tomorrow.*

## Our Values

Changes to the Earth’s climate driven by increased emissions of heat-trapping greenhouse gases are already having widespread effects on the environment and the ever-increasing impact of weather-related catastrophes. Our ability to act as a positive participant in conscious acts to slow and stop the effects are embedded with our values.

FOCUS	
We focus on customers and sweat the details.	Protecting the environment and corresponding climate risks for our customers is a strategic ongoing focus.
HONOR	
We work hard to honor our environmental impact commitments, our communities and each other.	Honoring the natural environment and working to protect both it and the people who depend on it.
PASSION	
We pursue our passion, our purpose and inspire those around us	We will act with passion as we embed our sustainability initiatives in our purpose and seek to inspire others to the same.
INTEGRITY	
We strive to act with integrity, respect, care and trust.	This includes respect and care to our environment and integrity in our actions that affect it.

# Commitment

ICW Group is committed to support and actively engaging in our operational, strategic and financial outcomes to support transitioning to a low-carbon economy. Our socially-conscious culture and Chairman's philanthropic footprint have already paved the way to continue to make a positive influence and impact on our immediate communities and global environment.

We are committed to reducing the carbon footprint and decreasing emission contributions. We support creating a higher level of awareness, transparency and applicable actions to reduce emissions output. Progression to this commitment will first necessitate our ability to measure, report, adhere and monitor ever-changing conditions and uncertainty. As an insurer, we are already in the business of forecasting and managing risks to our policyholders and stakeholders. Now is the time to expand upon our leading risk expertise to address this crucial challenge.



# Governance

Climate-related risk undergoes our risk assessment and management processes consistent to our framework. ICW Group manages risk, including climate change, according to a comprehensive framework.

Our comprehensive framework is based on:

**A robust governance approach** that defines clear responsibilities and accountability for risk taking including:

- Documented policies, guidelines, monitoring and reporting procedures
- A culture of disciplined and consistent risk-taking

**Qualitative risk management:**

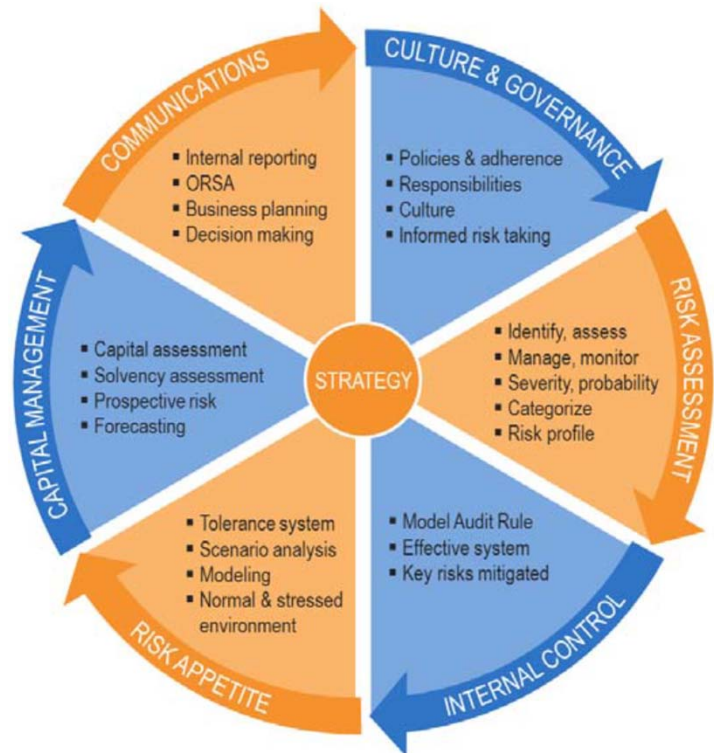
- Systematic identification, assessment, and timely mitigation of risks across the Company
- Inclusion of enterprise risk management in the business planning and decision-making processes

**Quantitative risk management:**

- Effective risk measurement methodologies and tools including catastrophe modeling
- Tolerances and limits for taking risk and escalation procedures for exceptions

**Fostering risk transparency by:**

- Raising awareness and understanding of risk throughout the Company
- Reporting risk internally
- Appropriately communicating risks to relevant external stakeholders





# Governance

The immediacy of effects from climate change means our governance models must incorporate and adapt. ICW Group has a governance structure that ensures the necessary communication and escalation channels to properly align, support and react.



## Board of Directors:

- Establishes guidelines for overall business policies, including risk policies
- Ratifies the Risk Appetite Statement, including considerations and exclusions on environmental impact

## Audit Committee:

- Oversees the Company's enterprise-wide risk governance framework including incorporation and expansion for sustainability efforts
- Reviews and proposes to the Board the Company's Risk Appetite Statement, including considerations and exclusions on environmental impact

## Enterprise Risk Management Committee:

- Systematic identification, assessment, and timely mitigation of environmental risks across the Company
- Inclusion of climate change factors in the business planning and decision-making processes

## Environmental, Social and Governance (ESG) Committee

- Formed in 2022 as a sub-committee of the Enterprise Risk Management Committee.
- Comprised of acting Chief Risk Officer, Chief Operations Officer, Vice President Catastrophe, Head of Corporate Services & Facilities, Head of Human Resources and General Counsel.
- The sub-committee is tasked with implementing guidance, programs, investments and tracking outcomes in order to support our contribution to a net-zero commitment by 2050, in addition to governance and social efforts.

## Executive Leadership Team

- Manages the Company's strategic direction and day-to-day business through powers and authority delegated through Board of Directors within the Bylaws.

# Strategy

ICW Group currently directly underwrites workers compensation insurance. This current business profile in and of itself limits our climate change underwriting exposure and influence. As we launch our commercial package line, we are evaluating and making climate-conscious considerations in our appetite, risk profile and approach to ensure we are acting as a catalyst to responsible and environmentally aware trading partners and stewardship.

Below describes our overall company strategy including:

- current underwriting strategy in terms of our current workers compensation exposure to act on the right exposures and mitigate risk.
- operational risk and opportunity identification
- Investment portfolio evolution as regards to environmental, social and governance (ESG) focus

ICW utilizes data to inform our underwriting decision-making as well as catastrophe modeling from a variety of internal and external resources to evaluate exposure across its portfolio. This ensures our strategy to appropriately diversify aligns with key risk considerations, including effects of climate change like weather frequency and intensity.

## Underwriting Appetite

In the encouragement of energy-efficient practices, as well as protecting our risk profile, ICW Group excludes certain types of risks in our direct workers compensation underwriting appetite, including:

- Drilling for oil or natural gas, refining of petroleum, or construction or operation of any pipeline for transmission of oil or gas
- Operation of a public utility other than a municipal water system
- Repair, cleaning or demolition of any vessel or barge used as a petroleum tanker

Further, direct policies are generally on 12 month policy basis, allowing for pricing reassessment and exits of risks that may pose unforeseen risk.



## Coal Policy

ICW Group has formally implemented a policy to not make new debt or equity investments in companies that generate more than 30% of revenues from energy production from coal or thermal coal mining. ICW Group does not directly write workers compensation for coal-fire plants or companies in which 30% comes from thermal coal mining or energy production from coal. Since we do not currently engage in this appetite, no phase out strategy was necessary. As we launch our new commercial package line, we will embed this policy within the appetite accordingly.

## Technology Operations

We have begun execution of our cloud/SaaS roadmap. Migrating from on-premise data centers allows us to utilize a more energy-efficient footprint in the cloud. Utilization and demand for workload shows no slowdown and leveraging economies of scale across major cloud/SaaS providers will aid in positive outcomes. Furthermore, automating processes and standardizing data will aid in our ability for increased transparency in our ESG reporting.

## Philanthropy

Philanthropy has long been a part of our company's culture. Since 2017, we offer a volunteer program for employees to have paid time off to give back to the community through a variety of pre-approved charitable organizations, including those centered around environmental causes.

# Risk Management

The rapid escalation of climate change impact and severity is the most notable escalating industry risk. Looking to the future, we see no scenario in which this does not remain and stay as a near-term heightened focus for proactive risk management and mitigation.



## Catastrophe Modeling

ICW Group regularly uses catastrophe modeling from a variety of internal and external resources to evaluate exposure across its portfolio. This analysis is coupled with our capital modeling to ensure we can meet policyholder expectations and provide an optimal risk profile. Models are used for risk-specific pricing, accumulation management and risk transfer strategies via reinsurance. These analyses position the organization to assess the capital adequacy needed to meet the requirements of regulators and rating agencies, as well as the financial obligation to our policyholders. For direct writings of the peril of earthquake, ICW uses a blend of three third-party stochastic models. ICW continuously reviews expected loss, in the form of average annual loss, as well as the distribution of Probable Maximum Loss (PML) at various return periods along an exceedance probability curve. Additionally, ICW Group utilizes a separate model that analyzes our company-wide portfolio to look explicitly at correlation effects and aggregations across different lines of business to ensure that our total exposure rests within our risk appetite. ICW's flood program combines of a third-party stochastic model with two internally developed deterministic models. The deterministic models are based on historic losses, which we trend forward to consider forward-looking, climate related changes. Due to the sensitivity of flood disasters from climate change and the uncertainty involved in this forecasting, ICW closely manages the total exposed limits within specific geographic zones designated by Hydrological Unit Codes.



# Risk Management

## Oversight & Governance

The CRO and CEO provide regular readouts to the audit committee and board about the outcomes of our catastrophe models and its measurement against our risk tolerances. Mitigation plans, including but not limited to the use of reinsurance and appetite refinement, are documented and overseen by the Enterprise Risk Management committee

## Underwriting

Management of underwriting risk tolerances and early warning thresholds supports adherence to the Company's established risk appetite. It also helps control concentration and aggregation of risk. Individual risks from all lines of business are exposed to the same perils across different geographic regions and product offerings. Caps are established for the most significant perils faced: earthquake, wind, flood and terrorism.

For both natural catastrophe and terrorism exposures, the lines of business must:

- Record insurance exposures on a per location basis
- Identify potential events that meet the definition of natural and man-made catastrophes
- Model potential losses and analyze aggregations
- Set policy limits in accordance with the stated peril caps on a gross and net basis
- Establish and use a procedure to control accumulation, and/or purchase reinsurance

## Investment Management

The amount of risk the Company will accept in its investments varies inversely with underwriting commitments. In periods when the Company is fully utilizing its capital for underwriting activities, it will adjust the portfolio to minimize credit risk and reduce interest rate and market risk. The general principle is to maintain the majority of the fixed-income investment portfolio in obligations of the U.S. Government or its agencies to minimize credit risk and to ensure liquidity. Fixed income maturities are to be adjusted to provide for expected future claim payment balanced with equity investments will be selected to provide a balance of current income and capital appreciation. Our fixed income has an average portfolio duration of approximately 5 years. Due to the Company's exposure to earthquakes through its lines of business, there are limitations in aggregation of investment in Municipal Bonds in regions where there is overlapping CAT exposure.

# Risk Management

## Policyholder Risk Management

Our Risk Management professionals work with policyholders to identify and quantify exposures to climate affecting chemicals as part of our worker safety efforts. We provide monitoring and quantification of exposures, assistance with controls including ventilation, collection approaches, and replacement with less volatile and climate harming chemicals. An example may be working with a furniture plant to replace solvent based lacquers with water based.

In addition, ICW has formalized our Weather Warnings to policyholders. High heat, fire, winter storms, hurricanes and other inclement weather events are identified including affected policyholders. Alerts are sent out providing information on the risk and controls used to mitigate it. Whether that be providing information to Heat Illness training and support to our Agriculture accounts or providing information on safety cleaning up after a hurricane to our coastal policyholders.

## Reinsurance

We hedge against catastrophes, including climate change risk, through the strategic use of reinsurance. It is important to manage the credit and concentration risks associated with the Company's reinsurance assets in order to properly identify deteriorated counterparties, and to develop appropriate actions to avoid or reduce potential credit losses. External reinsurance placements are only allowed with companies on a vetted and approved list. These companies represent good credit quality counterparties that fit into the Company's assessment of quality trading partners.

Additionally, we also assume reinsurance globally including hurricane, wind and flood.

## Regulatory

We work with regulators to address concerns with climate risk and to respond to regulatory directives related thereto. In 2021, we initiated a state-of-the art regulatory change management process, which has allowed us to better monitor climate change related regulatory activity impacting insurers in all states where we operate in order to proactively mitigate any risk and to address regulator inquiries. We will continue to have ongoing dialogue with regulators about this important topic.



# Metrics & Targets

## Real Estate & Facilities

Our office facilities are in twelve locations nationwide, with two being our home offices in San Diego. All our office facilities are leased, except for one home office location. We continuously engage in footprint analysis to optimize our leased office needs and reduce wasteful facility energy consumption.



Across all our locations, we have reduced our electricity usage by an average of 28% per year from 2020-2022, through LED lighting, occupancy sensors for lighting and set points for HVAC. We have also reduced paper consumption by 45% in the last year through technology-based solutions and on-line business platforms.

Our home office locations employ a robust at-desk and kitchen area recycling program. Employees are encouraged to bring their own re-usable cups, utensils and containers as dish washing facilities are available.

Our owned property provides electric vehicle charging stations. Further, we continue to operate in a post-covid hybrid work program where our employees may work remotely thereby avoiding a commute.

The company owns a fleet comprised of 120 vehicles assigned to specific employees in the field. We refresh our fleet every 2 years to deploy more efficient vehicles. Nearly 80% of the fleet are 2020 model or later. We follow sustainable maintenance programs with our fleet partner Enterprise including water conservation during cleanings and oil recycling programs.\* More than half of our fleet is in California where we are committed to the discontinuation of gas-powered vehicles in our fleet as the refresh cycle aligns with 2035 targets.

\*Enterprise Holdings, Sustainability: Decisions for the Long Haul, <https://www.enterpriseholdings.com/our-impact/sustainability.html#accordion-78473955cc-item-4340f1936d>

# Metrics & Targets

## Investments

In partnership with our banking partners, we conduct MSCI index and S&P Global Trucost carbon intensity footprint metrics across our portfolio, in order to assess risk to get ahead in transition to a low carbon future. Per S&P Global, the carbon footprint approach *“normalizes the index’s absolute owned greenhouse gas emissions by the total value invested in the index. This metric is a carbon responsibility metric in that it describes the associated greenhouse gas impact per USD 1 million invested in the index, allowing for comparisons across investments of different sizes, time periods, and indices. It is calculated by dividing the sum of all owned constituent greenhouse gas emissions by the total value invested in the index in millions of U.S. dollars”\**

Our TruCost corporate carbon intensity on our bond portfolio on all sectors dropped over 40% to a metric of 88 total CO2 emissions per \$1 million invested as of year-end 2021. The additional MSCI metric was comparably favorable on our bond portfolio, dropping over 70% to a metric of 88 total CO2 emissions per \$1 million invested as of year-end 2021. Our MSCI corporate carbon intensity on our equity has remained at a consistent MSCI average ESG score on comparable to industry peers with an average score of 5.2.

## Volunteerism

We track our volunteer paid time off program hours and our philanthropic donations, including our matching efforts for approved charity. While on-site volunteerism was disrupted by covid, the program participation rate has increased since its inaugural year.

## Greenhouse Gas Reduction

As part of the goal-setting process for our greenhouse gas emission, ICW Group will begin the research and development of establishing a baseline and setting a emissions reduction goal with disclosure in 2023. This will align with our overall long term goal to reduce our emissions by at least 30% by 2035. This will allow us to further refine our strategy, risk management and metric evolution in order to commit to the net zero economy by 2050.

\*SP Index Carbon Metrics Explained: <https://www.spglobal.com/spdji/en/documents/additional-material/spdji-esg-carbon-metrics.pdf>



# A Note on Environmental , Social & Governance (ESG)

For 50 years, ICW has managed risk for our policyholders and claimants. We continue to evolve upon ESG and how we consciously and purposefully manage risks & opportunities that drive sustainability, and most importantly, hold ourselves transparent and accountable.

## Environmental

Our investment philosophy and risk policy has remained consistent, and a strong balance sheet ensures fulfillment of policyholder obligations. Our bond and equity portfolio is benchmarked by against the MSCI and TruCost Corporate Carbon Intensity, as well against our top 16 competitors on a 5-year lookback. Our bond portfolio corporate carbon intensity output has fallen every year in the last 5 years and our equity portfolio is comparable to industry average and peers. As mentioned, our Assumed and Catastrophe product lines are actively monitored and modeled for the effects of frequency and severity of natural catastrophes. We utilize reinsurance to actively manage risk in our Catastrophe line as well as acting as a key risk transfer partner in our Assumed line to ensure our balance sheet can withstand extreme events attributable to climate change.

## Social

Since 2014, ICW Group family's charitable commitment has exceeded \$560 million, the majority going to furthering the well-being of our youth and children. Founder and Chairman Ernest Rady's 2018 donation of \$50 million to the Salvation Army and his 2019 donation of \$200 million to Rady Children's Hospital-San Diego further exemplifies our dedication to strengthening our communities. ICW Group embarks on an annual giving campaign. This year, ICW Group partnered with our corporate charity, Promises2Kids, to help support diverse needs of the 3,000 foster children living in San Diego county. As mentioned, ICW offers employee matches and provides our employees with annual volunteer hours to utilize in order to give back to local community needs.

## Governance

By and part due to the insurance industry regulation already in place as well as embedded in our ERM practices across company risk policies, we consider our governance framework in place to incorporate ESG just as we have done with ERM.

## Important Disclaimers

Except where noted, this report covers highlights of initiatives as of fiscal year 2021.

This report contains links to other sites. Such links are not endorsement to such sites.

