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.

Company Response to Question #1.

The Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each survey question, as applicable. The Company is fully Compliant with the NYS DFS Climate Change Risk Guidance requirements needed as of 8/26/24. Please note that the responses to this Question 1 are based on the TCFD guidance and the Appendix to New York's memorandum dated July 7, 2022. As to publicly stated goals on climate-related risks and opportunities, a summary of the response to the Climate Survey is posted on our public facing website.

The disclosure is being made by Utica Mutual Insurance Company (a member company of the Utica National Insurance Group) the level at which (1) the Group's risk appetite is determined; (2) the Group's earnings, capital, liquidity, operations and reputation are overseen collectively and at which the supervision of these factors is coordinated and exercised; and (3) legal responsibility for general corporate governance duties, including climate change risk, is placed. All climate related activities are undertaken by Utica Mutual (all employees of the Group are either Utica Mutual or Founders Insurance Company employees) on behalf of all group companies.

Company Response to 1A and 1B:

1. **<u>Senior management and Board Committee responsible for the insurer's management of climate risks:</u> The Company has a multipronged approach regarding the Board's oversight of Climate Related Risk and Opportunities. The Enterprise Risk Oversight Committee (EROC) of the Board of Directors has been designated responsible for the Company's management of climate risk. The Chief Risk Officer has been designated as member of Senior Management responsible for the insurer's management of Climate Risk. In addition, the Company has a cross functional committee to be responsible for the various elements relating to the management of climate change risk (Emerging & Climate Risk Committee or ECR), made up of C-Suite members (Chief Executive Officer, Chief Risk Officer, Chief Underwriting Officer, Chief Actuary, Chief Sales Officers, by segments, Chief Financial Officer, Chief Claims Officer, and Chief Product, Pricing and Performance Officer), as well as additional members of their teams to supplement the operation of the Committee (*e.g.,* data rich resources to ensure the committee has the information necessary to be effective).**

2. **<u>Organizational Structure - defined/articulated roles, responsibility & accountability for risk-based decision making in setting climate risk limits & implementation:</u> The roles and responsibilities of each member of the ECR Committee are clearly defined in the Committee Charter and tracked by a Charter Scorecard. Executive Leadership considers and approves corporate goals and strategies that consider the impact of Climate Risk relating to business strategies and growth opportunities impacted by climate exposure, including coastal aggregation, correlation and business mix (as examples), as part of overall decision-making process which determines the corporate strategy, both short and long term. The Chief Risk Officer and the ECR are required to report to EROC. EROC's charter requires that this Board level committee review the Company's risk exposure relating, but not limited to Climate Risk. The EROC approves the Company's risk tolerances and the Company's compliance therewith, reviews the Company's ORSA, receives reports and Director Education regarding Climate Risk, weather, and nonweather-related exposures; CAT modeling and return period loss estimates, etc. EROC meets quarterly and the CRO reports to EROC each quarter; the ECR Committee must report to EROC at least once annually or as needed.**

As noted in response to Questions 2 and 3, the Investment Advisory Committee, a subcommittee of the Board's Finance Committee, has responsibility for reviewing any investments in sectors deemed vulnerable to risks based on climate change.

3. **<u>Explicit consideration of climate risks in risk management processes, in enterprise risk reports and ORSA Summary Reports:</u> See responses to #1 # 2 above. In addition: Climate Risk is considered and modeled in the Company's ORSA Summary Report, along with the impact of various climate (and non-climate related impact) including NAT CAT & Severe Convective Storm, as examples.**

4. **<u>Objective, independent & regular reviews of functions & procedures for managing climate risks, report the findings of the reviews to the Board:</u> Internal Audit is charged with ensuring the Company is in compliance with the Climate Risk Guidance and the Emerging & Climate Risk Committee's Charter &**

Scorecard. The Compliance Department (in Corporate Legal) ensures compliance with the climate related disclosure requirements such as the Climate Risk Survey.

5. **Consideration of implementing remuneration policies to align incentives with strategy for managing climate risks & performance against climate risk metrics: The Emerging & Climate Risk Committee discussed and considered options for remuneration policies, including the potential of using a bonus program as a means for aligning the management of climate change risk and performance against applicable metrics. During the next annual cycle, Executive Leadership, Human Resources & the Personnel, Compensation & Benefits Committee (of the Board of Directors) will consider including climate risk management in the creation of goals for leadership.**

6. **Manage Climate Risks through Existing ERM Functions: assessment, compliance internal control, internal audit and actuarial functions. See response to items #1-7 noted above.**

7. **Board & Senior Management Support - development of skill, expertise, knowledge required for assessment & management of climate risks by new hires, all current employees & the Board of Directors. The Company has arranged for and conducted numerous director education presentations to the Board of Directors, the Enterprise Risk Oversight Committee as well as the Emerging & Climate Risk Committee. In addition, the Company required the viewing of a 30+ minute Climate Risk video for each employee and Board Member in 2023.**

8. **Manage Climate Risks through Existing ERM Functions: assessment, compliance internal control, internal audit and actuarial functions. See response to items #1-7 noted above.**

With respect to the organizational structure, the Utica National Insurance Group is a group of insurance and related companies, for which Utica Mutual Insurance Company is the lead company. The Company respectfully incorporates the organizational chart filed with the Department of Financial Services.

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.

Company Response to Question #2:

The Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each survey question, as applicable.

Climate risk poses various risks to the Company, including: underwriting risk, financial risk, liquidity risk, credit risk, operational risk, reputational risk, and human capital risk. These risks could affect the Company in various ways and to varying degrees, depending on the frequency and severity of extreme weather events that occur where the Company's insurance, as well as its operations and workforce, are exposed. We rely upon our data as well as those of our reinsurance and investment partners to help us understand the changes we continue to see.

With respect to engaging with key constituencies, to gain a better understanding of current and future weather patterns and climate change we have met with reinsurers, our reinsurance broker and their meteorologists & climatologists, reviewed CAT models and Climate Risk models, sponsored Board of Director and Senior Leader education sessions, met with investment advisors, met with NYS DFS, attended conferences on Climate, and held a joint session with a college student risk management group to discuss climate risk.

The Company has taken steps to reduce its own greenhouse gas emissions. These include some of the projects to mitigate emissions over the past few years:

- **Decommissioned a 50 year old back up boiler (removal completed)**
- **Replaced a 20 plus year old AC unit at our main entrance with an energy efficient Mitsubishi split system that is controlled by the Building Automation System versus manually**
- **Implementation of all new 2nd floor (85,000sqft space) LED lighting, timers and sensors**
- **All new furniture and carpet is all or partial recycled materials (85,000 sqft space remodeled)**
- **Shut down all non-essential kitchen equipment and compressors**
- **Eliminated multiple printers as a result of our hybrid environment Eliminating printers means elimination of several toner cartridges and reduced paper usage**
- **Reduce or shut down HVAC to vacant floors in a large portion of the home office building**
- **Reduce the number of restrooms in use – saves on supplies**
- **Replacing the final 4 smaller atrium roofs and increasing the insulation value from R-9 to R-31**
- **Reduced our leased footprint in 5 regional offices by almost 31,000 sq ft**

- **Continue to pursue grants and energy star programs**

The Company continues to assess, reduce or mitigate its carbon footprint and is considering the following future initiatives:

- **Rooftop solar/photovoltaic "farm"**
- **Geothermal assessments using our parking lot area**
- **Purchase more or all of our energy from renewable service providers**
- **Lease from property owners who are low or zero emission buildings**

Company Response to Question #2A:

With respect to short, medium and long-term risks:

- **Short-Term (through 2025): The Company will continue to run probabilistic hurricane models with current climate influences (*e.g.,* warmer sea surface temperatures) and the AIR Warm Sea Surface Temperature Catalogue Impact to measure annual aggregate loss change estimates and stress tests at the 1 in 100 return period, as well as further out on the tail. The Company continues to leverage the model's secondary perils such as storm surge and demand surge across our modeling to ensure non-climate factors of increased loss potential are also contemplated. With careful underwriting, we provide flood coverage to commercial policyholders, as appropriate and consistent with our underwriting guidelines. To complement our probabilistic modeling, various severity stress tests of Long Island Hurricane exposure, sea level rise, temperature and ambient temperature are being tracked and analyzed. We continue to review our weather peril guidance as well as continuing to invest in new technologies to help us better establish our guidelines. As an example, we have recently updated our Flood Guidelines based on a new flood score we receive from a vendor partner. This takes into consideration the distance to flood zone, the elevation, and the estimated height of the flood waters.**

- **Medium-Term (through 2030s): See above, plus develop a more refined assessment of the Company's portfolio that is susceptible to increasing trends (*e.g.,* severe tornados & large hail), with an expectation that the trend will continue for the next 10-20 years. This analysis will help identify pockets of exposure that may currently, or historically have been seen as lower risk to thunderstorm, which may shift to increasing propensity for severe tornado or hail outcomes in the future.**

- **Long-Term (2040 & beyond): See above, plus determine which coastal insureds are at risk of becoming a stranded asset due to sea level rise.**

Company Response to Question #2B:

Turning to business, strategy and financial planning, and helping customers adapt to climate-related risk, the Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each Survey question, as applicable. In both our Commercial and Personal Lines offerings we have adopted the ISO Green Coverage Endorsements. These help to cover any increased costs if the insured has "environmentally friendly" equipment or substitute such equipment during a claim. We will continue to research and monitor for opportunities to develop or implement any new products that will help our policyholders adapt to climate-related risk.

In addition to the building and policyholder-related investments described above, the Company has incorporated climate considerations into its investment strategy. The Company engages with asset managers to understand how climate risks are considered in their overall credit review process. Exposure to sectors deemed vulnerable to risks from climate change is monitored and asset managers report on individual issuers and holdings that that they consider at risk. Analysis is done to assess the impact of credit rating changes in our portfolio on surplus. An Investment Advisory Committee Charter scorecard item was added for an annual review of securities deemed vulnerable to risks based on climate change. We engaged our investment consultant to perform an annual ESG/climate risk review and scoring of our portfolios versus benchmarks using MSCI ESG data. In addition to MSCI scoring data, our primary asset manager utilizes a proprietary ESG rating system. And our quarterly review of other than temporarily impaired assets ("OTTI") process was enhanced to include a focus on sectors deemed vulnerable to risks based on climate change. Unrelated to monitoring the impact climate risk has on the credit quality of the investment portfolio, a 1% target allocation to "green" bonds has been made part of the Investment Policy Statement and Guidelines.

Company Response to Question #2C:

Concerning the resilience of the Company's strategy, taking into account different climate-related scenarios, the time frames relative to 2 degree C of warming are most applicable for our long-term scenarios due the expected gradual impact over time. The sea level rise analysis for the Company contemplates a view every 20 years out to 2100, and as a result captures scenarios both below and above 2 degrees C of warming.

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.

Company Response to Question #3:

The Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each survey question, as applicable.

With respect to underwriting risk, corporately, we strive to keep a geographic spread of business to avoid exposure beyond our appetite to a storm or other climate changes in one area. We continue to monitor risks with coastal exposure to hurricane surge/wind via our coastal proximity guidelines. We also monitor our aggregation as far as tornado/wind exposure inland on individual risks as they are submitted, as well as from a corporate level. We have grown substantially away from the coast to diversify the underwriting portfolio. We consistently review our results from a geographic standpoint to understand if there are any changes related to weather/climate exposures. We have limited transition risk in our underwriting portfolio given the markets that we write. We will continue to assess any liability risks.

With respect to assisting policyholders, the Company prepares loss control surveys that it provides to insureds to address identified risk exposures. The Company also offers technical loss control support to policyholders on weather-related exposures.

Our investment management function is supported by multiple industry advisors. Our primary asset manager utilizes a proprietary ESG rating system for corporate and municipal issues. Exposure in the portfolio to the energy and metals and mining sectors is reported monthly. Our quarterly OTTI process has been enhanced to include a focus on sectors deemed vulnerable to risk based on climate change and to determine if there is concern with individual issuers. As part of that review, our primary asset manager provides a transition risk assessment for each industry, indicating the degree of preparedness to transition towards a lower carbon economy and assigns a ticker-level transition risk factor to identify companies at risk for non-alignment. These factors also feed into their overall ESG rating system for corporate and municipal issues. Monthly, asset managers report on individual holdings they consider to be at risk, or which have been placed on close watch. Our investment consultant performs an annual ESG/climate risk review and scoring of our portfolios versus benchmarks using MSCI ESG data; MSCI ratings do not cover municipals, High Yield Bank Loans, non-Agency asset backed securities, or private securities. We have utilized the 2DII PACTA tool as an additional way of viewing our portfolio's alignment with various climate scenarios. Annually, we assess the impact to RBC from a sweeping downgrade of credit ratings across the portfolio (a one-notch drop across the entire fixed income portfolio). We maintain a 1% target allocation to "green" bonds, which has been made part of the Investment Policy Statement and Guidelines.

<u>Company Response to Question #3A</u>:

With respect to the process for identifying and assessing climate-related risks, the Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each survey question, as applicable. See also the responses to Question 1. Based on historical and modeling data along with our property reinsurance placement, the Company has developed exposure aggregation restrictions in high-risk areas. The Company incorporates the weather exposure and corresponding reinsurance charges in our property pricing.

<u>Company Response to Question #3B</u>:

With respect to managing risk, please see above and below responses, which are incorporated herein. Additionally, the Company uses deterministic models with various scenarios including CAT & Non-CAT, (*e.g.,* CAT 1-100, 1-250 and beyond, Climate Risk, Cyber, Pandemic, Epidemic, inflation, severe convective storm, reverse stress tests/tail events, etc.) and stochastic models. The Company manages risk with mitigation strategies informed by modeled results. The Company's robust reinsurance programs ensure adequate transfer of risk and are analyzed each year based on exposure changes.

<u>Company Response to Question #3C</u>:

With respect to the first two bullet points under question 3, the Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each survey question, as applicable. See response to Questions 1(A), 2(A), 3(B), 4, 4(A). With respect to the third bullet point please refer to the portion of the response to Question 3 addressing investments.

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.

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

Company Response to Question #4 and 4A:

The Company Response to individual Survey questions can be applicable to more than one Survey question(s), and as such, the response to each Survey question is hereby incorporated by reference into the response to each survey question, as applicable. The Company uses catastrophe modeling to analyze Natural Catastrophe losses as well as specific impacts to various gates around the country, which could impact our underwriting portfolio. The return period estimates in the 1 in 100 and 1 in 250 inform our mitigation strategies, including our reinsurance purchase. The Company sets and monitors targets for impact to surplus at risk tolerance limits. The CAT reinsurance protection purchased by the Company annually maintains compliance with our stated risk tolerance limits. Those limits are approved by the Enterprise Risk Oversight Committee of the Board of Directors annually.

The Company reviews exposure accumulations by distance to coast bands every three months with regional leadership and then identifies any new business written by inception date in these areas of concern to ensure that sufficient underwriting was maintained. Utica Mutual utilizes catastrophe models to annually determine how much catastrophe reinsurance coverage to purchase based on the 1:100 and 1:250 return period estimates.

Company Response to Question #4B:

With respect to greenhouse gas emissions, the Company has not calculated our GHG emissions and we are not aware of a rule that would require a mutual insurance company to do so.

Company Response to Question #4C:

With respect to targets, the surplus impact targets are absolute, annual and the base year is current year and the KPI is the compliance with the stated target. The placement of the Company's property catastrophe reinsurance coverage is based on risk tolerance metrics which are a function of the surplus position at year-end, are absolute, and are applied annually to the Company's risk modeled exposure across the portfolio.