Sustainability Report
2023

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About this Report

Brotherhood Mutual is committed to helping Christian ministries adapt to the increasing challenges they face. We protect them in their calling through property and liability coverages, commercial auto, risk management guidance, and more.

The purpose of this report is to address the four core elements of our organization's climate approach through Governance, Strategy, Risk Management, and Metrics & Targets. Our plan is to annually report risks presented by climate change and how we are minimizing our operational impact on the environment.

Governance

Governance

Board Oversight

Brotherhood Mutual's (The Company) Board of Directors is responsible for ensuring that the Company is fiscally sound and effectively operating in accordance with the Company's long-term mission and objectives. This includes overseeing the company's Enterprise Risk Management (ERM) program managed at the entity level. Climate-related issues is one of many risks considered within ERM.

The Board's Governance Committee is responsible for the Company's compliance with federal and state regulations pertaining to corporate governance matters. This committee monitors climate related risks and opportunities. The Governance Committee refers climate related issues to the full board as deemed necessary.

Management of Climate-related Financial Risks

The Audit Committee is responsible for the financial risks and risk management activities of the Company. The Company's Investment Committee is responsible for directing the Company's investment activity in accordance with the investment policy reviewed and updated regularly by the Board of Directors. These committees consider climate-related risks to the extent it is necessary to fulfill their responsibilities.

The Executive Leadership team under the direction of the Company's President oversees the Company's ERM initiatives. The day-to-day management of ERM activities is overseen by the Chief Risk Officer. The Chief Risk Officer, or his designee, leads a climate team consisting of officers and senior managers from throughout the organization. The members of this team all have risk management experience and responsibilities. One objective of this team is to understand the Task Force on Climate-Related Disclosures (TCFD) framework and apply it to the Company. This includes identifying climate-related risks and opportunities. This team also considers metrics that could be used to establish benchmarks to inform future analysis of climate-related risks. The Chief Risk Officer keeps senior management informed on the activities and conclusions of this team.

Strategy

Strategy

Key Constituencies

The Company's key constituencies are its policyholders, agents, reinsurers, Enterprise Risk Management (ERM) unit, and regional managers. Our agents are a key constituency to keep policyholders engaged on the wide array of resources available to help reduce risk and loss from natural events. The Company encourages policyholders to reduce their risk of loss by offering free risk management resources, loss prevention services, and premium discounts for implementing certain safety features. The Company has risk control personnel located throughout the United States. They make physical and virtual connections with many of our policyholders to evaluate a policyholder's performance and/or loss potential and offer recommendations to assist them in their loss prevention efforts.

Reinsurers are engaged through the evaluation of the Company's claims data from which they model losses and analyze risk concentration. Climate-related risks are included in their models.

The Company maintains an ERM unit, and a focus of this unit is climate risk, which establishes internal methodologies including analyzing climate risks. Regional managers are engaged through quarterly pricing meetings with company leadership to review and assess risk exposures. These meetings identify and evaluate the Company's pricing adequacy and ensure its long-term pricing strategies are effective.

Plan to Assess, Reduce, and Mitigate Greenhouse Gas

The Company maintains a comprehensive facilities plan. Twenty-four percent of the Company's home office space was constructed in 2013 and another 36% was constructed in 2020.

These buildings were constructed in a highly energy efficient manner following best practices. This includes high efficiency heating/cooling, low-VOC paint and flooring adhesive, and LED lighting.

In the older portion of the Company's campus, all light fixtures have been converted to LED fixtures. There is an ongoing effort to rebuild older HVAC units to gain energy efficiency.

The greenspace on the Company's campus includes a variety of trees and vegetation. An electric vehicle (EV) charging station has been installed with the capacity to add more stations as demand increases.

Strategy

Company Highlight

The Company is predominately a paperless organization. It has implemented a variety of initiatives and is planning for others to minimize paper usage internally and continue to reduce paper mailings to policyholders. The Company is actively providing policyholders with electronic billing and document options.

42%

of used laptops

donated in 2023

The Company donates a significant percentage of its used laptops to nonprofits. During 2023, more than 42% of the laptops taken out of service were donated to nonprofits. This prolongs the useful life of that equipment and is a significant help to these nonprofits.

The Company maintains a vehicle fleet of both owned and leased vehicles. Rarely is a vehicle older than three years. Many of the recently purchased vehicles are flex fuel vehicles.

The Company has an extensive recycling program with a goal to recycle all paper, plastic, and aluminum weekly.

The employee base is encouraged and reminded of recycling procedures.

The Company is in the process of analyzing and tracking greenhouse gas emissions (see Metrics and Targets).

Climate Risks and Opportunities

(Insurance Operations Risks)

As an insurer, losses from climate risks during a year can have a significant impact on that year's financial results. Modeling, reinsurance, and reviews of risks are the methods used to manage property risk concentrations and minimize the financial impact of climate risks. Monitoring county exposure is part of the Company's catastrophe management plan, and the daily management of concentration risks is the responsibility of the Company's ERM unit.

The following is a brief overview of the Company's approach to inland storms, winter storms, coastal areas, and wildfire:

The Company monitors property exposure for inland storms at the county level to manage overall impact of these storms. This is accomplished by concentration tests with thresholds varying by Total Insured Value (TIV) limits. If necessary, the Company restricts business in certain counties.

Winter storms are managed in the same manner as inland storms. There is a recognition that winter storms impact a broader area. The Company monitors concentration for weight of ice and snow in the various counties across the nation.

Strategy

The coastal areas are split into zones based on research as to frequency and severity of tropical storms. Each prospect in a tropical storm county is individually evaluated by the ERM unit.

In certain counties and/or states, the Company reviews each prospect to assess its exposure to wildfire risk. The Company utilizes software tools to analyze wildfire potential, current wildfire activity, hot spots, current wind speeds and direction, and red flag warnings.

In addition to potential physical losses from climate-related risk, the Company has identified additional risks within its insurance operations.

These risks include the ability to manage catastrophe risk due to state legislation and regulation, court decisions that expand coverage, and residual markets.

States' legislation and regulations that limit the Company's ability to assess actuarially sound rates in high-risk climate-related areas is viewed as a significant risk. With more people and property development in high-risk climate-related areas, it is imperative for the Company to be able to assess actuarially sound rates for insuring these types of risks. Limitations that slow or hinder the necessary rate increases for policyholders subject to significant climate-related risks prevent the Company from pursuing the necessary pricing. The potential inability to assess sound actuarial rates would require the Company to evaluate and potentially limit exposure in certain geographical areas with significant climate-related risks.

There is an increase in litigation after a major climate-related event that causes significant physical damage and loss of life. At times, this results in the courts expanding coverage beyond what was detailed in the insurance contract. These types of court decisions increase claims costs beyond the expected losses when the rates were established and have a negative impact on the Company's surplus.

The Company is mandated to participate in a variety of residual market programs. These programs have the potential to create significant assessments. In certain states there are incentives to write in counties with significant wind exposure. The Company's ERM unit expends much effort evaluating the Company's best strategic approach to the quantity and quality of risks in counties with significant wind exposure.

Strategy

Insurance Operations Opportunities

The Company also sees opportunities to address climate risks.

We help insureds as they pursue alternative energy sources. This includes covering policyholders that install technology such as solar panels and EV charging stations.

Additionally, the Company can provide best-practices for resilient building through its partnership with Insurance Institute for Business & Home Safety® (IBHS). The Company makes available premium incentives for policyholders in certain states that meet the requirements of either the International Building Code® or FORTIFIED Commercial™ (IBHS) standards. Further, the Company seeks to minimize property damage by offering premium incentives for policyholders that have sensors designed to detect water leaks or dangerously low temperatures.

Other opportunities are believed to be available through the loss control services that the Company provides as a resource for insureds.

Investments

Investment management is the responsibility of the board's investment committee. This committee directs the company's investment program and activity in accordance with an investment policy that is regularly reviewed and updated by the Board of Directors.

The Company mitigates the risks within its equity and fixed income portfolios through diversification by risk, industry, location, and type of security. Geographic and industry concentration of exposures within the portfolio are monitored. The Company's commercial real estate investment includes its corporate headquarters office park and an investment in a real estate investment trust.

Risk Management

Risk Management

The Company has a mature catastrophe risk management discipline that involves individuals from several business units. The ultimate objective of the Company's risk management efforts is to accurately price a policy considering potential risks, including climate change. **The following committees, teams, departments, and units are involved with risk management:**

- **Underwriting Committee** – This is a standing committee and includes individuals from Underwriting, Sales, Claims, Risk Control, Legal, Finance, and Customer Service. There is an internal process by which a sub-set of this team evaluates potential risk exposures.

- **Market Committee** – This is a standing committee that develops strategic production goals and implements operational production plans. This includes a review of pricing. Members of this committee come from the following departments: Executive, Information Technology, Claims, Sales, Legal, Marketing, Research & Development, Finance, and Underwriting.

- **Strategic Market Assessment (SMAT)Team** – This team uses a variety of analytical techniques in addition to external resources to evaluate trends, including weather/climate trends in each state. This analysis is then distributed to key individuals involved in risk management decisions within the Company.

- **Reinsurance Team** – This team is responsible for the Company's reinsurance program. This team works extensively with the Company's reinsurance broker and interacts with various models. This team's objective is to implement a program that provides reinsurance protection for catastrophes including aggregate coverage.

- **Catastrophe Assessment Team (CAT) Team** – The objective of this team is to identify and quantify catastrophe exposure that threatens the financial stability of the Company. This team uses computer models to project probable maximum loss (PML) of exposures. Recommendations from this team are sent to the market committee.

- **Underwriting Department** – The underwriting department, specifically the underwriting executives and managers, develop underwriting guidelines that are geared toward pricing underwriting exposures properly. This is a collaborative effort between the Research & Development department and the ERM unit that is part of Finance. There is a process for high-risk exposures to be evaluated by a cross departmental committee.

- **Research & Development Department** – This department is focused on pricing and develops pricing strategies for the Company. This department considers loss trends and the regulatory environment when establishing pricing.

- **ERM Unit** – The Company's ERM unit is responsible for tracking the concentration of exposures. The focus is on exposures in geographical areas with wildfire risk, earthquake, hurricane/tropical storm exposure, inland storm exposure, and weight of snow and ice.

Risk Management

Multidisciplinary Risk Management Team

Provides detailed analysis that helps the Company in the following ways:

- Influences reinsurance decisions
- Provides the necessary data as to when to restrict business in specific counties
- Influences how much business to write in wind pool counties in applicable states
- Provides the framework on when to use wind/hail deductibles or wind exclusions
- Creates a process by which elevated risk exposures are reviewed by a committee
- Manages exposures to limit losses in the event of catastrophic events

Quality data is the foundation of good risk management decisions. The Company has implemented or is in the process of implementing a variety of software tools that can aid this analysis in a more efficient and cost-effective manner.

As noted in the Strategy section, a concern is the regulatory environment that limits the Company's ability to assess actuarially sound rates to account for catastrophe risk. In these circumstances, the Company will be forced to evaluate additional restrictions in various geographical areas.

The Company is committed to improving the tools it uses and the processes developed to increase the ongoing effectiveness of its risk management program.

Metrics & Targets

Metrics & Targets

Catastrophe modeling is performed annually. Probable Maximum Losses (PML) are calculated for each catastrophic peril including severe convective storms, winter storms, tropical storms, wildfire, and earthquake. The ratio of PML to surplus is then calculated for each peril and compared to target ratios, on a direct and net of reinsurance basis. This analysis then determines the catastrophic reinsurance structure and available capacity to insure catastrophic perils. Catastrophic loss history is updated monthly and is analyzed for trends and budget purposes. Concentration of risks analysis is performed monthly to manage exposures and determine remaining capacity for weather related perils.

We are undergoing a review of Scope 1 and 2 emissions and are evaluating, and in some cases, developing a means to track. Additionally, we are reviewing the relevancy of the categories within Scope 3 emissions.

Brotherhood Mutual.

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