Governance

Pharmacists Mutual Insurance Company "PHMIC" recognizes the potential impacts of climate related change on the company as well as the industry as a whole. In order to ensure that current and further steps align with corporate goals, PHMIC has established a formal governance framework for climate related discussions and actions. PHMIC has a goal of net carbon neutrality for all scope 1 and 2 emissions by 2030. Furthermore, we consciously endeavor to engage with other like-minded, climate conscious corporations when possible.

Like many organizations the road to achieving a framework of climate risk reduction is not one that can be traveled without sound planning, corporate commitment and a phased approach to implementation. Our broad approach to disclosure begins at the Risk Management department level. It is at this level that the company's budgeting and climate disclosure and management is coordinated. Climate risk is a part of our ERM-ES (Enterprise Risk Management & Environmental Sustainability) program. The group is comprised of executive, operations, finance, underwriting, claims and sales related staff/leaders. This group helps identify the short- and long-term risks posed to the enterprise and formulates strategies to mitigate those risks.

Our climate related activities extend well beyond the internal committee level. The PHMIC Board of Directors has established the Enterprise Risk Management and Environmental Sustainability Charter for the purposes of overseeing the company's climate risk assessment process. Both the board and PHMIC management continue to work closely quantifying the risks posed to the company and the impacts that changes PHMIC operations will have on the environment.

Strategy

PHMIC recognizes the impacts of climate-related risks both present and future. The evolution of climate risk is present in strategic, tactical and financial discussions. Outside consultants have previously been leveraged for assessment of both internal and external risks to our operations. We promote options for environmental sustainability to our policyholders.

As an organization we have previously leveraged the experience of an industry leading firm to aid us in the assessment of our greenhouse gas emissions. As part of that assessment we have identified a series of mitigation measures within our own carbon footprint. As an organization we align with the industry definitions of time relative to Short Term (1-5 years), Medium Term (5-10 years) and Long Term (10-30 years).

As an insurer our internal opportunities have been well identified in both Scope 1 and 2 emissions categories. Our plans are to achieve net neutrality, while still working to further reduce our own emissions. Thus, allowing us a further reduction in our direct impact on the environment with a gradual reduction in reliance on carbon credit acquisitions.

From an external perspective, we already recognize the shift in storm and wildfire patterns around the world. We have taken short term steps to reduce or eliminate our writings in areas where these largely uncontrolled risks exist. As a niche carrier we are not engaged in business with carbon intensive industries. As pressure increases in those sectors the impacts on our business model will not be as profound as they will be in other segments of the business sector. As a general rule we do not provide products aimed specifically at supporting a transition to a low carbon economy. We do however promote paperless goals aimed at reduction the impact of deforestation and greenhouse gas producing shipping.

As an organization we have formal, board approved, corporate goals moving toward paperless solutions. Our office building in Austin, TX is outfitted with a full array of solar panels, capable of producing enough energy to support our entire corporate footprint, in the space. Additionally, a subsidiary holding company of the insurance company constructed a hotel and prioritized charging stations for electric vehicles. Our strategy is resilient in that a climate shift of 2 degrees Celsius would have little to no impact on our operational capabilities.

Risk Management

The company identifies, assesses and manages climate related risks a variety of tools. In our underwriting portfolio CAT modeling is leveraged to understand the changing nature and impact of climate events on our book of business. We leverage our partners to provide feedback and guidance on areas where value saturation or changing environmental conditions may have influence on our long-term goals. While we certainly look at reinsurance as a layer of protection from significant events, we choose to take an active role in reducing and mitigating these exposures within our portfolio.

We communicate with our policyholders on a regular basis. We have shared details on programs that aid in reduce the climate driven risk of wildfires. We consult with our members as they acquire and build new properties on the risks they will face in a given area. We discuss the value of a transition to becoming paperless and the impact it will have on the changing environment.

We do consider climate change in our investment portfolio. Our fixed income manager uses a proprietary rating system that rates each security on E, S, G using a scale of 1 to 4 and generates an overall all score for that security. The ESG score considerations impact decisions to buy and sell securities solely based on whether ESG risks are adequately reflected in the price of a bond. Leveraging this information is believed to deliver a more durable portfolio.

Our assessment and evaluation process are spread throughout the year and forms a dialogue where there is continuous monitoring and discussion, of the impacts and controls, influencing our future success.

As noted in detail in previous sections climate related risks are addressed through our comprehensive ERM-ES process.

Metrics and Targets

We leverage the resources of our reinsurance partners. Our losses are modeled in intervals extending from 20 to 1000-year intervals. The model assists us in understanding our geographic diversity is a favorable component of our strategy in combating impact of climate change on our portfolio. While weather patterns may change and storm frequency may intensify, we will be somewhat insulated from large impacts due to our reduced writing in weather, flood and wildfire prone areas. While our models do indicate an increase in our financial risk of loss from catastrophic events, much of the increase is related to growth of our operations. Our climate change related portion of this increase is limited. Our goal is to utilize modeling so there is a less than a 1% chance of a substantial portion of policyholder surplus being lost in a year due to catastrophes.

As a company, we leverage our reinsurance agreements and underwriting models to manage our exposure to climate related risks. Our desire to take a conservative approach is expected to yield a sustainable risk model for the foreseeable future.

The company has completed a formal GHG inventory and risk assessment.

Our emissions are from Scope 1 are primarily comprised of Natural Gas and Fleet related emissions. Despite an ongoing shift to wind energy our electrical power in the Midwest remains GHG heavy. As a result, a move away from natural gas is premature at this time for heating purposes. We are moving away from our fleet and this will reduce our GHG footprint. We intend to invest in carbon credits to offset our emissions in the short term while gradually shifting away over the long term.

Our emissions from Scope 2 are entirely driven by our electrical consumption. Our consumption is modest for a company of our size. Our Austin office if capable of running off of the solar power generated. While the credits were sold, the system does produce the power necessary to support our operations. We will continue to invest in technologies that reduce our electrical consumption like LED lighting and motion activated/timed lighting controls in all facilities.

Scope 3 emissions are driven by our use of paper and airlines to travel. We continue to move toward paperless solutions for our members. State regulations have truly hampered this full conversion as many states still require excessive amount of printed material for each policy. We have moved toward more virtual meetings and airlines that gain net neutrality as we make our flight plans.

As an organization our targets are simply to achieve net neutrality by 2030. We are well down this path and likely to achieve the goal before 2030.