Auto Club Enterprises Insurance Group

Interinsurance Exchange of the Automobile Club (NAIC# 15598)
Automobile Club Inter-Insurance Exchange (NAIC# 15512)
Auto Club Family Insurance Company (NAIC# 27235)

2023 Climate Risk Disclosure Survey

Please refer to the Company's responses in blue font following the statements and questions below.

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.

   The Company's addresses climate-related risks through the Company's Enterprise Risk Management (ERM) program, which applies a strategic approach to risk at an enterprise-wide level. The ERM program helps the Company achieve its business objectives through a process of risk identification, assessment, prioritization, management, and reporting in accordance with the Company's risk appetite.

   The Company's ERM program is overseen by the Finance and Investment Committee of the Company's Board of Directors and the ERM Committee with support from the Enterprise Risk Management Department and the Compliance Department. The general responsibilities of the ERM Committee include ongoing review of Company's risk appetite statement and risk tolerances, promoting an environment of increased awareness, discussion, collaboration, and feedback on risk management strategies, ongoing review of processes for identification and reporting of emerging and existing risks, and ongoing review of adherence to the risk appetite, risk tolerances, and general risk governance policies.

   The Company does not publicly disclose its enterprise risks.

   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.

The Finance and Investment Committee is comprised of members of the Company's Board of Directors. The ERM Committee is comprised of several key executives, including Executive Vice President of Operations, Senior Vice President & Chief Financial Officer, Senior Vice President of Insurance Operations, Senior Vice President & Chief Legal Officer, Senior Vice President of Member Services, Senior Vice President & Chief Technology Officer, and Head of Compliance and Risk.

The Finance and Investment Committee is responsible for oversight of managing the Company's financial risks, including climate-related financial risks.

B. Describe management's role in assessing and managing climate-related risks and opportunities.

The ERM Committee and management are responsible for assessment and management of the Company's risks, including climate-related risks. The ERM Committee responsibilities include ongoing review of the Company's risk appetite statement and risk tolerances, promoting an environment of increased awareness, discussion, collaboration, and feedback on risk management strategies, ongoing review of processes for identification and reporting of emerging and existing risks, and ongoing review of adherence to the risk appetite, risk tolerances, and general risk governance policies.

The ERM Committee also maintains the Company's Significant Risk Register, which broadly identifies the Company's significant risks and the risk owners. The Significant Risk Register, where appropriate, also includes models of the stressed financial outcomes of the risk. The Enterprise Risk Management Department and the Compliance Department assist the ERM Committee with maintaining and updating the Significant Risk Register.

A key component of the Company's ERM program is its annual process referred to as the Significant Risk Analysis (SRA), which is conducted by the Enterprise Risk Management Department. The SRA evaluation process entails annual interviews of key executives and managers throughout the Company. The focus of the SRA is identification of significant emerging risks and ongoing evaluation of existing risks and mitigation measures. The results of the SRA process are presented to the Finance and Investment Committee, reviewed by the ERM Committee, and reported to the Company's senior executives.

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. *

The Company evaluates several catastrophic perils related to the Homeowner and Auto lines of insurance, including earthquake (including fire following an earthquake), hurricane, tornado, hail, and wildfire. Catastrophe exposures are actively managed using extensive semi-annual modeling to quantify and manage the risk. Capital is protected with the purchase of an extensive reinsurance program. Control of risk is achieved through continual re-evaluation of our high-risk exposures in our book of business, strict underwriting requirements, inspections, product design, coverage options for our policyholders, and highly segmented pricing plans.

The Company implements a Sustainability Strategy that is reflective of, and based on, the unique heritage and continuing mission of the Company and the AAA Federation. The Sustainability Strategy is also consistent with efforts underway in organizations across the globe. The Company maintains an internal working group focused on ensuring that sustainability efforts are monitored and tracked for forward progress. The working group is led by a Senior Vice President as the executive sponsor and includes multiple executive and senior-level managers. One of the objectives of the group is not only to review existing efforts but also to understand potential emerging risks and opportunities and adapt initiatives accordingly. The Company's Board of Directors is updated annually on the Company's sustainability efforts. This includes employee-focused, community-focused, and environmental efforts.

The Company has contracted with a sustainability consultant to help identify Scope 1, 2, and 3 emissions sources, build our greenhouse gas (GHG) emissions inventory, and calculate our carbon footprint. Based on the findings, the Company has implemented several initiatives to reduce emissions from our largest contributors: Emergency Roadside Service (ERS) vendors, paper consumption, employee commute, and electricity usage in our facilities.

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.

Climate-related risks and opportunities relevant to the Company over the short, medium, and long term include natural catastrophes, such as hurricanes, tropical storms, tornados, hailstorms, wildfires, severe convective storm systems, and winter storms (i.e. snow and ice). Long-term, we also monitor exposures to rising sea water levels. Control of risk is achieved through continual re-evaluation of our high-risk exposures in our book of business, strict underwriting requirements, inspections, product design, coverage options for our policyholders, and highly segmented pricing plans.

In 2023 and 2024, the Company evaluated specific geographies that potentially represent an increased risk of wildfire during certain parts of the year. The Company re-evaluated the potential of catastrophic losses to our homeowner insureds based on proximity to unmaintained natural brush or timber. In coordination with various departments, the Company identified areas considered above an acceptable risk to both our insureds and the Company's financial stability.

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.

Motor vehicles are central to the heritage and continuing mission of the Company and the AAA Federation. The Company's Sustainability Strategy includes research of various automotive engineering advances related to sustainability through the Company's Automotive Research Center (ARC). The ARC is committed to exploring technologies that help to improve the fuel economy of gasoline-powered vehicles, as well as looking at electric vehicles (EVs). The Company provides consumer guidance through publication and promotion of its AAA Car Guide. While the AAA Car Guide was expanded in 2020 to include "non-green" vehicles, hybrids, plug-in hybrids, and EVs are still the primary focus.

Environmental, Social, and Governance (ESG) is a key factor the Company considers in investment decisions. The Company's utilizes investment managers that have implemented ESG integration in actively managed portfolios. To generate enhanced risk-adjusted returns, financially material ESG factors are considered as a part of an overall risk assessment. Key risks associated with ESG are transition, regulatory, and litigation risk.

C. Describe the resilience of the insurer's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario.

Although we have not yet formally modeled a specific 2 degree Celsius scenario, we have considered the effects of sea-level rise, more severe tornado patterns, increased hail trends, climate extremes, drought and wildfire into our modeling to understand potential loss and exposure implications arising from our existing book. We will continue to make informed decisions and manage risks from climate change through our underwriting requirements, product design, and coverage options for our policyholders.

In 2023 and 2024, the Company evaluated specific geographies that potentially represent an increased risk of wildfire during certain parts of the year. The Company re-evaluated the potential of catastrophic losses to our homeowner insureds based on proximity to unmaintained natural brush or timber. In coordination with various departments, the Company identified areas considered above an acceptable risk to both our insureds and the Company's financial stability.

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. *

From a business risk and financial solvency perspective, the primary impact of climate change would be any potential increase in the frequency or intensity of thunderstorms, hailstorms, hurricanes, or brushfires. This exposure is primarily concentrated in our homeowners' insurance product. More severe or more frequent climate events would increase the number and cost of claims and have an impact on the financial health of the company. If the impact were large enough, it could affect our ability to write new policies or renew business in some catastrophe exposed areas. These impacts are considered in our underwriting guidelines and in the amount and terms of our reinsurance program, as well as in evaluating our risk management program.

In coordination with various departments, the Company identified areas considered above an acceptable risk level to both our insureds and the Companies' financial stability. The Company then strengthened its underwriting standards to ensure that its homeowners insurance product would not be offered in areas identified as above the Companies' acceptable level of risk. Through effective risk assessment and risk management, the Company utilizes effective climate modeling to identify geographic areas adversely affected by climate change.

The Company believes that one of the most effective ways to encourage risk reduction to our policyholders is to provide them with the real costs associated with their risk exposure through accurate pricing. Examples of this include rating by roof type, age of roof, home construction type, and the deductible selected. Once our policyholders understand the true cost differentials associated with the choices that they make; they can then decide for themselves what steps to take to mitigate possible losses from future events. Our products are designed considering the potential for catastrophic events, including providing suitable coverage options to the policyholder.

The Company informs its policyholders of any issues found during inspections of homes. This helps the policyholder by informing them of ways that they can improve their home's resistance to losses, including those caused by climate change-influenced events. We inspect about half of all homes when they are first insured with us and re-inspect a portion of renewing policies each year as they come up for renewal. To further encourage the reduction of losses caused by climate-related events, the Company educates its members about homeowner losses through our member publications. In these publications, we provide tips and guides to reduce losses caused by brush fires and water or weather-related perils.

The Company's investment policies are designed to ensure that investment and economic risks are identified and that the rates of return compensate for the risk inherent in the investments. Investment strategies are selected that compensate for the risk taken and that provide long-term benefits under various economic conditions. Particular attention is paid to worst case scenarios (covering all asset classes). Most portfolios are managed by external investment management firms, which have expertise in particular investment management styles. The Company's investment strategies are overseen by the Finance and Investment Committee of the Company's Board of Directors

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. *

We use catastrophe modeling, including earthquake, hurricane, tornado/hail, and wildfire modeling extensively to quantify and manage our climate-related risk. Our catastrophe modeling is completed on a semi-annual basis. Modeling is used to develop pricing segmentation, develop plans to optimize growth while minimizing catastrophe exposure, make reinsurance decisions, and monitor probable maximum loss and spread of risk levels. Catastrophe modeling estimates for individual perils are updated semi-annually and utilize the models of all the major catastrophe modeling vendors. The results of the modeling help us to determine if changes need to be made to our reinsurance coverage or to our underwriting criteria. The goal is to limit capital at risk so that a single large catastrophic loss (after applicable offsets for reinsurance proceeds, tax implications, reinsurance reinstatement premium, etc.) would reduce our surplus by no more than 10%. The loss would be equivalent to an event that would occur approximately once in 250 years.

Catastrophe modeling is also used by the Company to identify geographic areas of our market footprint to determine if underwriting and/or rating changes should be evaluated in light of changing climate conditions. Climate-related modeling is a vital element of the risk assessment and risk management function of the Company.

B. Describe the insurer's processes for managing climate-related risks.

As discussed in the Governance section, the Company identifies, assesses, and manages risk, including climate-related risks, through its Enterprise Risk Management (ERM) program. In support of the ERM program, several teams in the organization are involved in the identification of risks facing the organization and individual business units in all markets. The Enterprise Risk Management Department, Office of the Chief Legal Officer, Compliance Department, and Internal Audit are central to the facilitation of risk identification, evaluation, cataloging, and compliance oversight. The identification process includes several components, including but not limited to, the annual Significant Risk Analysis, contract review, individual or scenario-specific referrals, and review of trade publications. The ERM Committee oversees the ERM program and is responsible for the development and review of the Company's risk appetite and tolerances based upon the strategic objectives set by the Company's Board of Directors. The Company's managers consider relevant risks (including climate risk) within the framework established by the ERM Committee and the Company's senior executives, ensure the Company's operations comply with the Company's risk appetite, risk tolerances and strategic objectives, and are responsible for execution of risk mitigation strategies, including proper monitoring and internal control activities.

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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.

As described above, climate-related risks are identified, assessed, and managed through the Company's ERM program and underwriting and rating strategy.

The Company completes catastrophe modeling, including earthquake, hurricane, tornado/hail, and wildfire, on a semi-annual basis. Modeling is used to develop pricing segmentation, develop plans to optimize growth while minimizing catastrophe exposure, make reinsurance decisions, and monitor probable maximum loss and spread of risk levels. Catastrophe modeling estimates for individual perils are updated semi-annually and utilize the models of all the major catastrophe modeling vendors. The results of the modeling help us to determine if changes need to be made to our reinsurance coverage or to our underwriting criteria. The goal is to limit capital at risk so that a single large catastrophic loss (after applicable offsets for reinsurance proceeds, tax implications, reinsurance reinstatement premium, etc.) would reduce our surplus by no more than 10%. The loss would be equivalent to an event that would occur approximately once in 250 years.

The Company's Underwriting Department also implements a catastrophe mitigation strategy that includes disciplined underwriting guidelines to reduce exposure to catastrophic events, such as wildfires and hurricanes. The Underwriting focus is on risk selection, providing adequate coverage levels, and establishing accurate replacement costs for new and in-force homeowners insurance policies. The Underwriting Department uses advanced analytics and mapping solutions helps us identify geographic areas with high-risk concentration and catastrophe exposure and drives our underwriting and reinsurance strategy.

Catastrophe modeling is also used by the Company to identify geographic areas of our market footprint to determine if underwriting and/or rating changes should be evaluated in light of changing climate conditions. Climate-related modeling is a vital element of the risk assessment and risk management function of the Company.

In 2024, the Company reviewed its underwriting authorities and enhanced its sales processes to provide clarity to staff on the circumstances under which binding of new insurance products could be curtailed when a major disaster, such as a hurricane or wildfire is projected to impact parts of our territory. This authority is a direct result of climate-related events and allows staff to protect the Company against foreseeable and unacceptable risk of loss of Company assets.

The Company's investment policies are designed to ensure that investment and economic risks are identified and that the rates of return compensate for the risk inherent in the investments. Investment strategies are selected that compensate for the risk taken and that provide long-term benefits under various economic conditions. The Company's utilizes investment managers that have implemented ESG integration in actively managed portfolios. To generate enhanced risk-adjusted returns, financially material ESG factors are considered as a part of an overall risk assessment. Key risks associated with ESG are transition, regulatory, and litigation risk.

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.

As described above, the Company's catastrophe modeling includes earthquake, hurricane, tornado/hail, and wildfire. Modeling is used to develop pricing segmentation, develop plans to optimize growth while minimizing catastrophe exposure, make reinsurance decisions, and monitor probable maximum loss and spread of risk levels. Catastrophe modeling estimates for individual perils are updated semi-annually and utilize the models of all the major catastrophe modeling vendors.

Catastrophe modeling is also used by the Company to identify geographic areas of our market footprint to determine if underwriting and/or rating changes should be evaluated in light of changing climate conditions. Climate-related modeling is a vital element of the risk assessment and risk management function of the Company.

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.

The results of the modeling help us to determine if changes need to be made to our reinsurance coverage or to our underwriting criteria. The goal is to limit capital at risk so that a single large catastrophic loss (after applicable offsets for reinsurance proceeds, tax implications, reinsurance reinstatement premium, etc.) would reduce our surplus by no more than 10%. The loss would be equivalent to an event that would occur approximately once in 250 years.

Climate-related modeling is a vital element of the risk assessment and risk management function of the Company. The development of effective underwriting standards utilizing climate modeling is essential in assessing long-term risk based on evolving climate conditions.

B. Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

The Company retained a sustainability consultant to help us identify our Scope 1, 2, and 3 emissions sources, build our greenhouse gas (GHG) emissions inventory, and calculate our carbon footprint. Our carbon footprint includes emissions of carbon dioxide (CO_2), methane (CH_4), and nitrous oxide (N_2O), expressed as metric tons of carbon dioxide equivalents ($MTCO_2e$). The Company identified the following activities to be included in our carbon footprint calculations:

- Scope 1 (Direct Emissions): Company owned fleet vehicles, including both the Emergency Roadside Services fleet and our passenger vehicle fleet.
- Scope 2 (Indirect/Purchased Emissions): Purchased electricity and natural gas used for heating and operation of our owned and leased facilities.
- Scope 3 (Indirect Emissions from business activity): Paper consumption, contracted Emergency Roadside Services fleet, employee business travel, and employee commutes.

C. Describe the targets used by the insurer to manage climate-related risks and opportunities and performance against targets.

Annually, we evaluate our GHG emissions sources and initiatives designed to reduce our carbon footprint. We are reviewing options for further reducing our GHG emissions and plan on setting goals for the organization in multiple categories to ensure we have the right amount of focus on these efforts.

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