NAIC CLIMATE RISK DISCLOSURE SURVEY

Sutton National Insurance Co. - NAIC 25798
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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.

Response for Governance:

Climate Risk Governance is handled on an entity level basis by the Board of Directors and the Investment and Enterprise Risk Management committee both of which meet on a quarterly basis. The Board of Directors is comprised of financial and insurance professionals that are knowledgeable on the topic of Climate Risk as it relates to risks and opportunities. The Investment and Enterprise Risk Management Committee is comprised of senior level Sutton employees as well as representatives from the Board of Directors (including independent directors). One of the principal functions of the Investment and Enterprise Risk Management Committee is to review investment risk management exposures, including climate risks and opportunities. In addition, the Company's Underwriting Committee comprised of senior team members meets weekly and includes discussions on climate risk topics, as necessary. The Company also has an Environmental, Social, and Governance (ESG) policy statement that addresses Climate Risk.

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 1-5years as short term, 5-10years as medium term, and 10-30years 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.

Response for Strategy:

The Company recognizes that Climate Risk has the potential to impact the Company and stakeholders (including employees and policyholders) from insured loss events that could affect the ongoing operations of the Company. As a result, the Company has taken a number of steps embedded in the decision-making process to mitigate Climate Risk. Scorecards that consider Climate Risk components are utilized to evaluate new business opportunities and the associated business partners. From an environmental perspective, material changes in climate risk are identified and measured. The Company employs catastrophe models to assess climate risk from both a short-term and long-term perspective. Risk appetite statements dictate the amount of risk the Company is willing to assume from catastrophic events. The Company maintains an Investment Policy overseen by the Investment and Enterprise Risk Management Committee. However, the Company does not have any energy-related investments and does not intend to make any energy-related investments. While the Company also offers products that provide consumers access to property insurance in underserved markets such as catastrophe prone areas with insurance availability issues, the Company is aware of the potential impact of changes in temperature on events that include flooding, tropical cyclones, and wildfires. The Company also maintains a work-at-home arrangement for over 90% of employees and utilizes virtual meetings, reducing its carbon footprint.

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.

Response for Risk Management:

The Company employs a dedicated CRO to oversee the Enterprise Risk Management Department and prepare a risk register. The risk register contains more than 50 risks including Climate Risk. Each risk is ranked quarterly to identify elevated risks and appropriate mitigants. Each quarter, the risk register is prepared by the CRO with input from the management team, presented to the Investment and Enterprise Risk Management Committee for review and discussion, and ultimately shared with the Board. From a physical risk perspective, Climate Risk is mitigated by maintaining a portfolio that is highly diversified both geographically and by product. The Company utilizes scenario analysis which includes forward looks at historical events, realistic disaster scenarios, stress testing and reverse stress testing. Transition risk is governed by the Investment Policy and the Investment Committee which reports changes in the investment portfolio. However, the Company does not have any energy-related investments and does not intend to make any energy-related investments. Liability risk is mitigated through minimal use of a physical office as employees are almost entirely remote. The Company has risk appetite, tolerance, and limit statements as well as a business continuity plan.

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 identified by the insurer to manage climate-related risks and opportunities and performance against targets.

Response for Metrics and Targets: The threats of Climate Risk identified include more intense events, stronger tropical cyclone activity with an increase in Cat 3's and higher, rising sea levels (1 foot over next 25 years) and flooding/higher storm surge, heavier rainfall as the atmosphere holds more moisture, and an increase in wildfires. To assess this, the Company makes extensive use of catastrophe modeling. Perils modeled include hurricane, flood, severe convective storm, wildfire, and winter storm. The Company relies on two models (AIR Touchstone and Risk Management Solutions) to evaluate risk. The overall all peril modeling is limited to 5% of surplus at the 1 in 250; however, the Company currently purchases reinsurance excess of the 300-year return period on an individual peril basis. In addition, the Company further monitors and reacts to Climate Risk through aggregation management utilizing Spatial Key Software.