Preferred Mutual
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August 28, 2024

NYS Department of Financial Services

Re: Insurance Climate Risk Survey for Reporting Year 2023
Preferred Mutual Insurance Company
NAIC No. 15024

Dear Sir or Madam:

Please find below the Company's response to the request dated June 26, 2024 to provide a report using the new National Association of Insurance Commissioners (NAIC) Climate Risk Disclosure Survey, which aligns with the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD).

Please refer to the Company's responses in **red font** following the TCFD Framework statements and questions outlined below.

Governance – narrative

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 Audit and Risk Committee is assigned oversight of climate risk, as would be the case with any key risk of the Company. Although we currently do not have any public disclosures around climate risk required, we will continue to evaluate these risks and incorporate disclosures as appropriate.

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 Audit and Risk Committee is a sub-committee of the Board of Directors, and is comprised of members with varying backgrounds, including several with CPA designations. The Audit and Risk Committee is responsible for overseeing all key risks of the organization, including climate risk.

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

Daniel DeThomas, the Company's Manager, Reinsurance and Risk, specifically oversees the Risk Management function of the Company, and works with the Enterprise Risk Management (ERM) Committee, a cross-functional committee that identifies and performs qualitative assessments of enterprise risks and prioritizes risks on the Company's risk register. The ERM Committee operates under a charter outlining core principles designed to help guide and define the Company's risk culture and governance. This includes the process around risk identification and prioritization, risk appetite, tolerances and limits, risk management and controls, and risk reporting and communication.

Governance – closed ended questions answered in addition to the narrative

- Does the insurer have publicly stated goals on climate-related risks and opportunities? (Y/**N**)
- Does your board have a member, members, a committee, or committees responsible for the oversight of managing the climate-related financial risk? (**Y**/N)
- Does management have a role in assessing climate-related risks and opportunities? (**Y**/N)
- *Does management have a role in managing climate-related risks and opportunities? (**Y**/N)*

Strategy – narrative

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.

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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.

We focused a considerable amount of time around governance and education as they relate to climate risk. We established formal oversight around climate risk with our Audit and Risk Committee and brought in experts, such as a meteorologist PhD and investment specialists (re ESG) to present to our leadership team and Audit and Risk Committee. Climate Risk has also been formally identified as a focus for us as part of our 2024 Strategic Plan. We will continue to make informed decisions about, and manage risks from, climate change and consider offering contemporary products to meet our evolving customer needs in this space.

At this time, the Company does not have a process in place to measure the carbon footprint of its emissions. The Company tries to minimize risk in these areas by seeking energy efficient alternatives when available, including, but not limited to, LED lighting in our offices, work from home options for employees, fuel efficient company vehicles, and ESG incorporated into investment portfolio management.

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, severe convective storm systems, and winter storms (i.e. snow and ice).

With a more long-term view (30-40 years out), rising sea water levels will likely impact any future coastal exposures we have, however, we have historically taken a conservative approach to minimize coastal risks in our book of business. While we

have minimal wildfire exposure with our northeast book today, if long dry spells and climate extremes become more of a normal occurrence through long-term climate change, it is something we will need to monitor.

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.

Climate risk has been formally included in our strategic plan. In regard to climate risk, the Company manages our book of business utilizing enhanced models and tools. Additionally, the Company continues to partner with its investment manager to incorporate ESG into our investment management process. We will continue to make informed decisions and manage risks from climate change and offer contemporary products to meet our evolving customer needs in this space.

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 appear to have low risk in the short and mid-term, with increasing exposure in the long-term. We will continue to make informed decisions and manage risks from climate change and offer contemporary products to meet our evolving customer needs in this space.

Strategy - closed ended questions answered in addition to the narrative

- Has the insurer taken steps to engage key constituencies on the topic of climate risk and resiliency? (**Y**/N)
- Does the insurer provide products or services to support the transition to a low carbon economy or help customers adapt to climate risk? (Y/**N**)
- Does the insurer make investments to support the transition to a low carbon economy? (**Y**/N)
- Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations? (**Y**/N)

Risk Management – narrative

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.

ERM identifies risks or potential risks (including climate risk), and describes their high-level potential impact while considering the following; Underwriting / Insurance, Market / Investment, Liquidity / Credit, Operational, Legislative / Regulatory and Strategic. These risks are placed on a risk register maintained by ERM. Risk identification is reviewed at least quarterly through leveraging existing analysis and processes performed within the enterprise. The ERM Committee will continue to perform qualitative, and if appropriate quantitative, risk assessments as it evaluates enterprise risks and all risks will be prioritized based upon respective qualitative scores.

Our corporate communications team frequently offers advice and communications on how insureds can better fortify, protect and prepare for climate-related events and situations in order to minimize potential loss.

The Company partners with its investment manager to incorporate ESG concepts into our investment management process. We are beginning to assess geographic concentrations and exposure to similar losses between our investment portfolio and insurance risks. We will continue to make informed decisions and manage risks from climate change as part of our overall efforts to meet investment goals.

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.

ERM identifies risks or potential risks (including climate risk), and describes their high-level potential impact while considering the following; Underwriting / Insurance, Market / Investment, Liquidity / Credit, Operational, Legislative / Regulatory and Strategic. These risks are placed on a risk register maintained by ERM. Risk identification is reviewed at least quarterly through leveraging existing analysis and processes performed within the enterprise. The ERM Committee will continue to perform qualitative, and if appropriate quantitative, risk assessments as it evaluates enterprise risks and all risks will be prioritized based upon respective qualitative scores.

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

ERM coordinates the establishment of the risk framework and provides risk management expertise through the process. It is responsible for compiling and preliminarily ranking key risks as identified by relevant contributors, accumulating the risk register and relevant documentation, developing risk tolerances and appetite, and reporting findings to the Company's Senior Executive Team, Audit & Risk Committee, BOD & CEO/ President.

Managers are responsible for maintaining and executing proper monitoring and internal control activities as part of the Company's 'First Line' of defense (in our Three Lines of Defense Model). Managers are to consider relevant risks (including climate risk) within the framework established by the Senior Executive Team, ensure

compliance with policies and procedures, and are responsible for execution of risk mitigation strategies.

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.

Climate risk has been identified as an enterprise risk that is being assessed and monitored by the ERM Committee as part of the general enterprise-risk management process.

Preferred Mutual Insurance Company (PMIC) has an integrated Enterprise Risk Management (ERM) function led by the Company's Manager, Reinsurance and Risk, that includes oversight by the Company's Audit & Risk Committee, Board of Directors, and CEO/ President. Additionally, the Company has an ERM Committee, a cross-functional committee that identifies and performs qualitative assessments of enterprise risks and prioritizes risks on the Company's risk register. The ERM Committee operates under a charter outlining core principles designed to help guide and define the Company's risk culture and governance. This includes the process around risk identification and prioritization, risk appetite, tolerances, and limits, risk management and controls, and risk reporting and communication.

To assess the potential impact of climate risk with respect to overall catastrophe risks, the Company models losses to its book of business utilizing model results from multiple vendors (AIR and RMS) for Hurricane, Winter

Storm, Severe Convective Storm, and All Perils, and does so across varying return periods. This modeling is performed at least semi-annually and is used to enhance a better understanding of the possible exposure from catastrophic losses and in reinsurance purchasing decisions.

Risk Management – closed ended questions answered in addition to the narrative

- Does the insurer have a process for identifying climate-related risks? (**Y**/N)
    - If yes, are climate-related risks addressed through the insurer's general enterprise-risk management process? (**Y**/N)
- Does the insurer have a process for assessing climate-related risks? (**Y**/N)
    - If yes, does the process include an assessment of financial implications? (**Y**/N)
- Does the insurer have a process for managing climate-related risks? (**Y**/N)
- Has the insurer considered the impact of climate-related risks on its underwriting portfolio? (**Y**/N/Not Applicable)
- Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks? (**Y**/N)
- Has the insurer considered the impact of climate-related risks on its investment portfolio? (**Y**/N)
- Has the insurer utilized climate scenarios to analyze their underwriting risk? (**Y**/N)
- Has the insurer utilized climate scenarios to analyze their investment risk? (**Y**/N)

Metrics and Targets – narrative

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.

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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 Company has established metrics for its catastrophe reinsurance program, including impact to surplus at varying return periods, return period attach and exhaust points, exposure to earnings, credit quality standards, and diversification of the participating reinsurer panel.

To assess the impact of climate risk with respect to overall catastrophe risk, the Company models losses to its book of business utilizing model results from multiple vendors (AIR and RMS) for Hurricane, Winter Storm, Severe Convective Storm, and All Perils, and does so across varying return periods. This modeling is performed at least semi-annually, and is used to enhance a better understanding of the possible exposure from catastrophic loss and in reinsurance purchasing decisions.

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

The Company currently has direct and indirect emissions broken out by scope as referenced below. At this time, the Company does not have a process in place to measure the carbon footprint of its emissions. The Company tries to minimize risk in these areas by seeking energy efficient alternatives when available, including, but not limited to, LED lighting in our offices, work from home options for employees, fuel efficient company vehicles, and ESG incorporated into investment portfolio management.

Scope 1: Fuel combustion; Company vehicles
Scope 2: Purchased electricity
Scope 3: Purchased goods and services; Business travel; Employee commuting; Waste disposal; Investments

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

The Company does not currently have specific targets used to manage climate-related risks and opportunities and performance against such targets at this time. We will, however, continue to give consideration to this area as our Risk Management approach matures and will incorporate same as necessary.

Metrics and Targets – closed ended questions answered in addition to the narrative

- Does the insurer use catastrophe modeling to manage your climate-related risks? (**Y**/N)
- Does the insurer use metrics to assess and monitor climate-related risks? (**Y**/N)
- Does the insurer have targets to manage climate-related risks and opportunities? (Y/**N**)
- Does the insurer have targets to manage climate-related performance? (Y/**N**)

Appendix – Information that New York domestic insurers should include in the Governance section of their Survey responses:

1. Please describe your company's board governance structure as it relates to climate risks and include at least the information below:

- The board member(s) or committee(s) that are responsible for the oversight of the management of climate risks.
  - **The Audit and Risk Committee is assigned oversight over climate risk consistent with its responsibility to oversee all key risks of the Company.**
- The board's familiarity with climate risks and education/training on climate risks.
  - **The Audit and Risk Committee is a sub-committee of the Board of Directors, and is comprised of members with varying backgrounds, including several with CPA designations. The Committee regularly shares a summary of its findings and discussions with the full Board of Directors.**
  - **The Company focused a considerable amount of time and effort around governance and education as it relates to climate risk. We established formal oversight around climate risk with our Audit and Risk Committee and brought in experts, such as a meteorologist PhD and investment specialists (re ESG) to present to our leadership team and Audit and Risk Committee. Climate Risk is also formally identified as a focus for us as part**

of our 2024 Strategic Plan. We will continue to make informed decisions and manage risks from climate change and endeavor to offer contemporary products to meet our evolving customer needs in this space.

- Whether board governance is done at the ultimate holding company level (if applicable), intermediate holding company level (if applicable), the entity level, or a combination. If handled at the ultimate holding company level, describe what activities are undertaken at the entity level.
  - **Board governance is done at the entity level. While the Company does have a holding company structure, the other entities within the holding company are inactive and essentially dormant companies at this time. Should that change, a similar process as outlined within this report would apply to other entities of the holding company.**
- If the company has made climate commitments, how the board oversees management's progress toward meeting such commitments.
  - **The Company has not made specific climate commitments at this time.**
- The senior management function(s) that are responsible for the management of climate risks.
  - **Management is responsible for assessing and managing climate-related risks and opportunities, with Daniel DeThomas, Manager, Reinsurance and Risk, specifically overseeing the Risk Management function of the Company, along with the Enterprise Risk Management (ERM) Committee.**

Please share any other relevant information.

None at this time.

2. Please describe the specific plans the company has developed on climate-related organizational structure and include at least the information below:

- How climate risks will be managed through the company's existing enterprise risk management functions.
  - **Preferred Mutual Insurance Company (PMIC) has an integrated Enterprise Risk Management (ERM) function led by the Company's Manager, Reinsurance and Risk, that includes oversight by the Company's Audit & Risk Committee, Board of Directors, and CEO/ President. Additionally, the Company has an ERM Committee, a cross-functional committee that identifies and performs qualitative assessments of enterprise risks and prioritizes risks on the Company's risk register. The ERM Committee operates under a charter outlining core principles designed to help guide and define the Company's risk culture and governance. This includes the**

process around risk identification and prioritization, risk appetite, tolerances, and limits, risk management and controls, and risk reporting and communication.
    - **Climate risk has been identified as an enterprise risk that is being assessed and monitored by the ERM Committee.**
- The roles and responsibilities of the control functions related to managing climate risks.
    - **ERM coordinates the establishment of the risk framework and provides risk management expertise through the process. It is responsible for compiling and preliminarily ranking key risks as identified by relevant contributors, accumulating the risk register and relevant documentation, developing risk tolerances and appetite, and reporting findings to the Company's Senior Executive Team, Audit & Risk Committee, BOD & CEO/ President.**

      Managers are responsible for maintaining and executing proper monitoring and internal control activities as part of the Company's 'First Line' of defense (in our Three Lines of Defense Model). Managers consider relevant risks within the framework established by the Senior Executive Team, ensure compliance with policies and procedures, and are responsible for execution of risk mitigation strategies.
- How the risk management process will be implemented across lines of business, operations, and control functions.
    - **ERM coordinates the establishment of the risk framework and provides risk management expertise through the process. It is responsible for compiling and preliminarily ranking key risks as identified by relevant contributors, accumulating the risk register and relevant documentation, developing risk tolerances and appetite, and reporting findings to the Company's Senior Executive Team, Audit & Risk Committee, BOD & CEO/ President.**

      Managers are responsible for maintaining and executing proper monitoring and internal control activities as part of the Company's 'First Line' of defense (in our Three Lines of Defense Model). Managers consider relevant risks within the framework established by the Senior Executive Team, ensure compliance with policies and procedures, and are responsible for execution of risk mitigation strategies.
- Plans for explicitly considering climate risks in enterprise risk reports and ORSA summary reports.

- **Climate risk has been identified as an enterprise risk that is being assessed and monitored by the ERM Committee.**
    - **The ERM Committee is responsible for communicating designated deliverables to the Audit & Risk Committee periodically throughout the year at scheduled Audit & Risk Committee meetings and also reports periodically to the full Board of Directors.**
    - **The Company is not required to prepare an ORSA report, however, we will continue to assess and incorporate as necessary in the future.**
- Plans for the internal review of the functions and procedures for managing climate risks.
    - **Internal review of the functions and procedures for managing climate risks are incorporated in the ERM process to assess climate risk as an enterprise risk on the Company's risk register.**
- Plans for developing the skill, expertise, and knowledge for assessing and managing climate risks.
    - **The Company focused a considerable amount of time and effort around governance and education as it relates to climate risk. We established formal oversight around climate risk with our Audit and Risk Committee and brought in experts, such as a meteorologist PhD and investment specialists (re ESG) to present to our leadership team and Audit and Risk Committee. Climate Risk is also formally identified as a focus for us as part of our 2024 Strategic Plan. We will continue to make informed decisions and manage risks from climate change and endeavor to offer contemporary products to meet our evolving customer needs in this space.**

Should you have any questions, please do not hesitate to contact me.

Very truly yours,

Daniel DeThomas

Daniel S. DeThomas
Manager, Reinsurance and Risk