NAIC Climate Risk Disclosure Survey

2024 Submission
August 30, 2024

First Financial Insurance Company
Alamance Insurance Company
Guilford Insurance Company
The Burlington Insurance Company

Identity of Survey Respondents

This Climate Risk Disclosure survey response is submitted on behalf of the following insurance companies (collectively, the "Companies"), each domiciled in Illinois and each a part of the same Illinois registered insurance holding company:

- First Financial Insurance Company (NAIC 11177)
- Alamance Insurance Company (NAIC 10957)
- Guilford Insurance Company (NAIC 10956)
- The Burlington Insurance Company (NAIC 23620)

Governance

The Companies consider and govern climate-related risks and opportunities as part of their general Enterprise Risk Management program (the "ERM program").

The ERM program is coordinated by a management-level risk committee (the "Risk Committee"). The Risk Committee and ERM program operate at the group level, which is consistent with the Companies' overall management model. The Risk Committee is multi-disciplinary in composition. It is composed of the President, Chief Actuary, Chief Claims Officer, Chief Financial Officer, Chief Information Officer, Chief Operating Officer – Underwriting, Chief Regulatory and Compliance Officer, Chief Legal Officer and Vice President – ERM, with regular invitations extended to subject matter experts. The Risk Committee governs risks and opportunities falling into three (3) major categories; financial, operational and strategic risk. The Risk Committee meets periodically during the year to identify, analyze and discuss emerging risks and opportunities, including those that are climate-related.

Strategy

The actual and potential impacts of climate-related risks and opportunities to the Companies are low given their reduced climate-related catastrophe risk underwriting appetite. Property exposures are managed as described below in the “Risk Management” and “Metrics and Targets” sections.

Because of this, the Companies do not currently view such risks and opportunities as being materially impactful to their business, strategy and financial planning in the short, medium or long-term. At the same time, the Companies remain watchful and engaged, monitoring and managing climate-related risks and opportunities as a part of their general ERM program. The Companies believe this approach will remain effective in the long term.

While the Companies are not in the business of providing products and services that support the transition to a low-carbon economy or helping customers to adapt to climate risks, a number of the Companies' insured industries are transitioning toward lower-carbon footprints.

In addition, the Companies have been allowing flexible work arrangements for a number of years, particularly for employees with long distances to an office, and that has allowed reduced commuting and thereby a reduced carbon footprint for those working remotely.

Risk Management

The Companies identify, assess and manage emerging risks, including climate-related risks, as a part of their general ERM program. In particular, property exposures are subject to the Companies' Catastrophe Risk Management framework, whereby aggregate risk limits, individual peril limits and effective catastrophe risk pricing are monitored. Individual accounts and aggregate portfolios are modeled quarterly for catastrophe risks relative to the established target limits.

Moreover, the Companies employ deterministic scenario-based catastrophe event modeling to further assess the risk (including the potential for adverse financial impacts) present within its property portfolio. Similarly, stochastic event scenarios are employed to help the Companies structure their reinsurance programs. Catastrophe models are employed based on risk factors that inform on expected value and tail exposures to ensure 1) appropriate pricing of risk, 2) the timely assessment of such risks to capital, and 3) prudent development of strategies to mitigate such risk.

The Companies have a limited property catastrophe risk appetite and as such limit tail risk exposure.

The Companies do not manage climate related risks within their investment portfolios.

Metrics and Targets

The Companies employ the following targets and metrics to assess and manage climate-related risks and opportunities:

- Property CAT Risk Limits – Probable Maximum Loss (PML)
    - 1-in-250 Return Period Aggregate All Peril Net Pre-Tax – lesser of 5% of surplus or $15M
        - Monitor trend statistics around TIV and AAL growth
        - Analyze PML contributions by state and county
        - Manage concentration metrics by geographical limits (i.e. Gulf states, Tier I and II counties)
    - 1-in-250 Return Period Occurrence Gross Pre-tax Sub-limit
        - Hurricane – no more than 30% of Surplus
        - Earthquake – no more than 30% of Surplus

        - Tornado/Hailstorm – no more than 20% of Surplus
- Gross Single Policy Limit – up to $10M
    - Single Location Net Loss Limit – Less than 1 quarter pre-tax earnings