



NAIC Climate Risk Disclosure Survey

**Group/Insurer
MCS Advantage, Inc.
MCS Life Insurance Company**

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Background

MCS Healthcare Holdings, LLC., a subsidiary of Medical Card System, Inc. (MCS), provides third-party administration services to its three subsidiaries, MCS Life Insurance Company (MCS Life), which in turn provide health and life insurance plans; MCS Advantage, Inc. (MCS Advantage), which in turn provide health plans; and MCS General Insurance Agency, Inc. (MCS GIA), a general agency. The subsidiaries support health insurance services to Puerto Rico's both private and public sectors.

Using a centralized operational structure, MCS's subsidiaries: MCS Advantage, MCS Life and MCS GIA, operate in the Medicare Advantage, Commercial market, and in the insurance sales segment, respectively.

MCS, a leading company in Puerto Rico's healthcare industry, provides a wide range of products and services backed by a comprehensive network comprised of 13,000 providers participating in its various programs. The company contracts and holds strong business relationships with medical groups, primary care physicians, specialists, ancillary providers and hospitals. With over 35 years' worth of experience, the company currently has a client portfolio of over 370,000 members and is among the island's largest private-sector employers with a workforce of more than 1,600 active employees.

Organizational Structure

- Medical Card System, Inc. – The parent company of MCS.
- MCS - The parent company of MCS Life, MCS Advantage and MCS GIA that provides third-party administration services to its subsidiaries.
- MCS Life - Offers group and individual health and life insurance plans on the commercial segment.
- MCS Advantage - Through its MCS Classicare brand, this subsidiary offers Medicare Advantage products to the Medicare population plans pursuant to a contract with the Centers for Medicare and Medicaid Services (CMS).
- MCS GIA – Offers for sale a variety of life, health and disability insurance and other insurance products in the market.

MCS Advantage, Inc. (MCS Advantage)

MCS Advantage, Inc. was incorporated and authorized by the Insurance Commissioner of Puerto Rico as a Health Maintenance Organization (HMO) in 2004. In 2007, CMS authorized MCS Advantage to become a Medicare Advantage contractor/plan provider. The contracts MCS Life



had with CMS were transferred to MCS Advantage, effective January 1, 2007, through a Novation Agreement approved by CMS. MCS Advantage currently operates a Medicare Advantage plan for all 78 Puerto Rico municipalities and has over 180,000 members.

MCS Life Insurance Company (MCS Life)

MCS Life is focused on the commercial market segment, servicing this market through MCS Life. MCS Life is a duly incorporated and risk-bearing entity authorized by the Insurance Commissioner of Puerto Rico since 1994. MCS Life has a large commercial client base featuring large multinational employers, many of whom have longstanding relationships with the company. MCS Life divides its commercial business into three sub-segments: Group, Individual, and Life Insurance - determined by both the type of customer and the product marketed. Group customers can provide their employees with a choice of Preferred Provider Organization (PPO) networks ("at risk") or elect to hire the company to provide the claims and administrative support while the customer elects to self-insure ("cost-plus"). MCS Life also has a variety of healthcare insurance products aimed at the individual market. Currently, MCS Life has over 195,000 members.

In addition, MCS Life was approved by the United States Department of Health and Human Services' (HHS) Centers for Medicare and Medicaid Services to be a Medicare Advantage contractor. A Novation Agreement, effective on January 1, 2007, transferred the CMS contracts to MCS Advantage.

Section 1 – CLIMATE RELATED FINANCIAL DISCLOSURES (TCFD) REPORT

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.*

- MCS's Board of Directors oversees MCS's business strategy. Our Board works with management to consider specific issues relevant to the overall conduct of our businesses, including strategy, emerging challenges and enterprise risks, safety, sustainability, culture, financial performance, and other strategic alliances. Our Board and company are focused on corporate responsibility efforts and meeting the needs of all our stakeholders— our employees, our customers and suppliers, our communities, and our shareholders.
- The Board convenes at least four times per year, but unscheduled meetings may be called at any time to address specific needs of MCS. Additionally, a yearly strategy meeting occurs where climate-related risks and opportunities may be part of the discussion. Committee structures are created to facilitate and assist in the execution of the Board's responsibilities. At each regular meeting of the Board, the committees are required to report significant matters reviewed by the committee and matters considered and acted upon.
- MCS has an Emergency Management Committee, whose members oversee the development and implementation of strategic decisions and the management of everything related to the approval, request, and discharge of the logistical, administrative, and financial resources during an emergency. The Committee is comprised by the Chief Operating Officer, Chief Administrative Officer, Senior VP of Information and Technology, Human Resources VP, Facilities Director, VP of Corporate Communications, , and Controller.

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.*

Refer to Question 1A

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.

MCS invests in business continuity efforts that contribute to mitigating the potential for risk of loss and promote business continuity in the event a climate-related risk materializes.

- Short Term, Acute Physical - Increased severity and frequency of extreme weather events (i.e., cyclones, hurricanes, or floods). Although the sites are not in areas of high direct physical risk, fires may cause business disruption associated with power outages and smoke. MCS offices are in Puerto Rico, where there is an increased risk of stronger hurricanes. This could result in business disruption, as well as decreased asset value or asset useful life, leading to write-offs or asset impairments. In addition to impacting to our leased facilities, acute climate-related physical risks may cause business disruption through our supply chain and logistics functions.
- Medium Term, Emerging Regulation – Carbon Pricing Mechanisms: Potential regulations on energy, in particular carbon, may result in increased cost of energy used to support our operations and increased cost if we are not successful at limiting the associated emissions.
- Long Term, Chronic Physical – Rising Sea Levels: Though MCS has facilities in coastal regions, the sites are not in areas where there is high direct physical risk.

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.

- The climate-related risks that have been identified would not alter that mission for the benefit of both current and future members. Climate-related risks, however, inform how we evaluate our operations and supply chains for potential disruptions in connection with climate changes, implement contingency plans, and advance our preparedness. MCS has invested in business continuity efforts aimed at mitigating the potential for risk of loss and promoting business continuity in the event a climate-related risk materializes. The financial impact of these activities is evaluated within our annual and long-range financial planning cycles.

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.*
- MCS have a better understanding of short-, medium- and long-term risks associated with climate-related risks. MCS identified the increased severity of climate-related weather events as having the potential to impact operations and supply chain. Our strategy has been influenced by climate-related risks informing the increased importance to tracking and monitoring severe weather events in real-time, to maintain business continuity. Weather events may not only impact MCS, but also the partners we rely on within MCS's supply chain. To mitigate climate-related disruptions to MCS's supply chain, MCS works with its supply chain partners to ensure they have robust continuity plans and makes investments itself in assurance of supply activities. This investment includes, but is not limited to, obtaining redundant suppliers for raw materials.

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.
Climate risks are integrated within the broader risk management framework. Some potential risks are identified through the development of the Business Continuity Program (BCP) and the Disaster Recovery Program (DRP). See, Attachments 1 and 2, respectively. The BCP and DRP are revised annually.

MCS' strategy has been influenced by climate-related risks informing the increase importance to tracking and monitoring severe climate-related events in real-time to maintain business continuity.



Risks relating to emerging federal and state regulations around climate related risks are also considered.

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

The potentially most significant risks for the Company are prioritized for mitigation through EMC strategic planning efforts. We have enterprise-wide risk mitigation protocols for physical climate-related risks from extreme weather, including with critical vendors and suppliers. During active situations, risks and threats are tracked in real time. Through business continuity measures, our resources are quickly shifted to alternative hubs to reduce the risk and impact of business interruptions and manage climate-related physical risks.

C. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management.

Our EMC regularly evaluates risks to our operational footprint, including our physical assets and colleagues, as well as risks within our supply chain. We prioritize mitigation efforts based on the importance of the issue to the business, stakeholders, and the potential financial impact on the Company. Other major considerations include number of assets, employees, and customers potentially affected.

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.

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.

In order to measure and manage risk of write-offs and early retirement of existing assets (e.g., damage to property and assets in "high-risk" locations) the following metrics are tracked:

- Number and proportion of high-risk sites (critical infrastructure and retail sites) with exposure to hurricanes, flooding.
- Proportion of square footage of high-risk sites ((critical infrastructure and retail sites) with exposure to hurricanes, flooding

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)

Water

To evaluate our exposure to water-related risks we track:

- Number of critical infrastructure sites with high risk of severe hurricanes or flooding
- Number of retail sites with high risk of severe hurricanes or flooding

Energy

To evaluate our exposure to energy-related risks we track:

- Total energy consumption
- % Grid electricity: 100%
- Cost per kWh, Rate of change

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

Not Applicable

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

Our goal is to mitigate potential asset impairment due to hurricane-induced flooding. We do this through adequate insurance coverage for all Company sites with a reasonable deductible. Risks are currently well mitigated through insurance, resulting in estimated residual risk.

Section 2 – Close-Ended Questions

Closed-ended questions directly correspond to the narrative above, allowing for explanation and qualification of the yes/no answers. Closed-ended questions are voluntary for reporting year 2023 and individual states may elect not to request them.

Governance

- Does the insurer have publicly stated goals on climate-related risks and opportunities? (Y/N)
 - No
- Does your board have a member, members, a committee, or committees responsible for the oversight of managing the climate-related financial risk? (Y/N)
 - Not Applicable
- Does management have a role in assessing climate-related risks and opportunities? (Y/N)
 - Not Applicable
- Does management have a role in managing climate-related risks and opportunities? (Y/N)
 - Not Applicable

Strategy

- Has the insurer taken steps to engage key constituencies on the topic of climate risk and resiliency? (Y/N)
 - Not Applicable
- 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)
 - Not Applicable
- Does the insurer make investments to support the transition to a low carbon economy? (Y/N)
 - Not Applicable
- Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations? (Y/N)
 - Not Applicable

Risk Management

- Does the insurer have a process for identifying climate-related risks? (Y/N)
 - Yes
 - If yes, are climate-related risks addressed through the insurer's general enterprise-risk management process? (Y/N)
 - Yes, MCS Emergency Management Committee
- Does the insurer have a process for assessing climate-related risks? (Y/N)
 - Yes
 - If yes, does the process include an assessment of financial implications? (Y/N)
 - See, Attachments 1 and 2, respectively. The BCP and DRP are revised annually.



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- Does the insurer have a process for managing climate-related risks? (Y/N)
 - Yes
- Has the insurer considered the impact of climate-related risks on its underwriting portfolio? (Y/N/Not Applicable)
 - Not Applicable
- Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks? (Y/N)
 - Not Applicable
- Has the insurer considered the impact of climate-related risks on its investment portfolio? (Y/N)
 - Not Applicable
- Has the insurer utilized climate scenarios to analyze their underwriting risk? (Y/N)
 - Not Applicable
- Has the insurer utilized climate scenarios to analyze their investment risk? (Y/N)
 - Not Applicable

Metrics and Targets

- Does the insurer use catastrophe modeling to manage your climate-related risks? (Y/N)
 - Not Applicable
- Does the insurer use metrics to assess and monitor climate-related risks? (Y/N)
 - Not Applicable
- Does the insurer have targets to manage climate-related risks and opportunities? (Y/N)
 - Not Applicable
- Does the insurer have targets to manage climate-related performance? (Y/N)
 - Not Applicable

