Proposed Redesigned NAIC Climate Risk Disclosure Survey (draft adopted March 21, 2022)
Grinnell Mutual Group
2024

Grinnell Mutual NAIC #: 14117
GSIC NAIC #: 16144
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Group Code: 0518

Governance

1. *Disclose the insurer's governance around climate-related risks and opportunities. Insurers should consider including the following:*
    a. *Identify and include any publicly stated goals on climate-related risks and opportunities.*
    b. *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.*
        i. *Describe the board and/or committee responsible for the oversight of climate-related risks and opportunities*
            1. *Describe the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks.*
        ii. *Describe management's role in assessing and managing climate-related risks and opportunities.*

Response:

Climate-related risks and opportunities are integrated within Grinnell Mutual's Enterprise Risk Management (ERM) process. The most significant impact is changing weather patterns and the related affects to property exposures of our reinsured mutual insurance companies and our policyholders. The ERM process is managed by our Risk Committee and is conducted at the group level which includes Grinnell Mutual Reinsurance Company and all subsidiaries (Grinnell Select Insurance Company; Grinnell Compass, Inc.; Grinnell Specialty Agency, LLC; Grinnell Advisory Company; and Farmutual Insurance Services, LLC). Grinnell Mutual has not issued a public statement on its climate policy; however, information about the environment is included in the Corporate Social Responsibility and Environmental, Social, and Governance reports which are shared in our Annual Report and website.

All departments are involved in reviewing risks on a regular basis (at a minimum annually, but more frequently as changes occur). The Senior Leadership Team (SLT), which represents all areas of the organization, meets on a weekly basis and the topics include significant changes in operations (including climate implications), strategy, industry developments, economic, and regulatory matters.

The Audit Committee of the Board of Directors governs the ERM process, including climate-related changes, as well as governs and approves the Own Risk Solvency Assessment (ORSA) report highlighting the importance and weight placed on risk and capital from the very top of the organization and which permeates through all management. Various scenarios which could potentially impact Grinnell Mutual are regularly assessed and documented within the ORSA process. The report describes those scenarios and conservative estimates used to determine the surplus impacts that could potentially occur. In addition, the individual scenarios are combined to estimate the potential impact of several major events happening at the same time.

Management is actively involved with assessing climate impacts to our lines of business and partnering with actuarial team members, business analysts, as well as strategy and risk committee members to determine property and liability exposures in establishing appropriate pricing levels to ensure adequacy to cover claims and future loss and loss adjustment expense development.

<u>Strategy</u>

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. Insurers should consider including the following:*
    a. *Describe the steps the insurer has taken to engage key constituencies on the topic of climate risk and resiliency.*
    b. *Describe the insurer's plan to assess, reduce, or mitigate its greenhouse gas emissions in its operations or organizations.*
        i. *Describe the climate-related risks and opportunities the insurer has identified over the short, medium, and long-term.*
            1. *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.*
        ii. *Describe the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning.*
            1. *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 risks.*
            2. *Discus if and how the insurer makes investments to support the transition to a low carbon economy.*
        iii. *Describe the resilience of the insurer's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario.*

Response:

Grinnell Mutual regularly monitors published research papers, Intergovernmental Panel on Climate Change (IPCC) reports, catastrophe model literature, industry presentations, and congressional testimony on the topic of climate change and how it might impact our business and policyholders. These risks are considered and evaluated in Grinnell Mutual's ERM process and include the potential impact to customer demand for our property and casualty insurance products, frequency and severity of claims experience, liquidity and capital resources, and reinsurance needs. We regularly utilize weather computer models to assess our concentrations of risk, potential impacts to frequency and severity of storms, and those interrelated effects on our underwriting and product pricing. Grinnell Mutual does not have any mutual policyholders in coastal states that could be adversely impacted by periods of increased hurricane activity or storm surge. Also, due to the nature of our business, Grinnell Mutual has very limited exposure to scenarios of extreme flooding or drought. We will continue to monitor trends that weather and other climate change may have on our business recognizing that the process will evolve in the future as more data and a better understanding of the patterns emerge.

Our most significant property exposures, which are susceptible to climate- related changes, are primarily for our reinsured property coverages of our mutual customers. We hold various educational and marketing meetings with representatives of the mutuals and regularly discuss increased frequency and severity of storms based on recent weather results as well as trends identified in research papers and industry articles. Items addressed include monitoring concentration of exposure, as well as establishing appropriate pricing, deductible levels, and coverage limits.

Grinnell Mutual has relatively minor greenhouse gas impacts from our operations or customers we serve. Our home office campus has capacity to house approximately six hundred employees, but our work environment allows team members to self-select their work location with over 75% choosing to work remotely from home. We constantly monitor our home office to identify opportunities to enhance energy efficiency and reduce or mitigate emissions. We continue to replace and update water saving devices and energy efficient lighting throughout the building. All light fixtures have more efficient LED lighting. We also assist the local power company during peak energy demands, by reducing or shutting down most lighting fixtures and unnecessary computers and other electric devices as we go off the power grid and utilize our own backup generator.

Although we do not specifically measure or quantify emissions, including energy use, we seek to minimize paper, cardboard and other waste products by promoting paperless systems and electronic communications. We utilize Onbase, a paperless administration and claims systems, which allows us to maintain documentation and records electronically thereby significantly reducing paper. We are also in the middle of a multi-year project implementing the full Guidewire insurance software system which will provide for paperless processes.
Employees are encouraged to utilize email communications to minimize the distribution of paper and letters both internally and externally. We also utilize websites and mobile applications for agents and policyholders which allow delivery of policy information electronically instead of paper. New opportunities for efficiencies and reduced emissions are considered whenever new building or remodeling projects are planned. The Company has installed a solar panel field which provides over 10% of our electrical needs.

Grinnell Mutual's reinsurance and insurance customers are primarily located throughout the Midwest and are mainly engaged in agricultural operations and small businesses supporting those living in rural areas. We do not reinsure or provide insurance for manufacturing, energy production or other facilities which have significant greenhouse gas emissions. As a result, we have not identified any short, medium, or long-term risks or opportunities related to such emissions. Grinnell Mutual does not provide products or services or makes investments to specifically support the transition to a low carbon economy.

The primary consideration of climate-related scenarios applies to property exposures and the impacts of severe convective storms on those exposures. Various industry models are used to forecast the potential losses to determine rate adequacy and surplus at risk.

Grinnell Mutual utilizes various models in assessing our business operations and strategies including AIR Worldwide (Verisk), RMS (Moody's), and proprietary ones. The various scenarios and results from the models are considered when establishing prices for our reinsurance and insurance products we offer to customers as well as ceded reinsurance coverages we purchase for our protection. We have not currently estimated the impacts of a 2 degree Celsius change in these models as those capabilities are still being developed for exposures in our footprint.

<u>Risk Management</u>

3. *Disclose how the insurer identifies, assesses, and manages climate-related risks. In disclosing how the insurer identifies, assess, and manages climate-related risks, insurers should consider including the following:*
    a. *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.*
    b. *Describe any steps the insurer has taken to encourage policyholders to manage their potential physical and transition climate related risks, if applicable.*
    c. *Describe hos the insurer has considered the impact of climate-related risks on its investment portfolio, including what investment classes have been considered.*
        i. *Describe the insurer's processes for identifying and assessing climate-related risks.*
            1. *Discuss whether the process includes an assessment of financial implications and how frequently the process is completed.*
        ii. *Describe the insurer's processes for managing climate-related risks.*
        iii. *Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management.*
    d. *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.*

e. *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.*
f. *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:

Grinnell Mutual considers climate-related risks within our Enterprise Risk Management (ERM) process as described above in questions 1 and 2. Grinnell Mutual's reinsurance and insurance customers are primarily located throughout the Midwest and are mainly engaged in agricultural operations and small businesses supporting those living in rural areas. We do not have customers engaged in manufacturing, extraction, or mining operations but we rather insure and reinsure farmers, agricultural operators, and small businesses serving them. We have not actively encouraged or provided communications to customers to manage or educate them regarding their climate related risks. We will continue to monitor published reports and related climate information to assess potential customer impacts and consider more proactive communications, if necessary, in the future.

Grinnell Mutual assesses and considers various factors in purchasing new investment opportunities. Our investment policy is the primary focus but other characteristics including, but not limited to the following: investment type, maturity, duration, return, credit risk, equity risk, liquidity risk, as well as the issuer's ESG rating. Bloomberg's investment system is utilized to determine ESG ratings which are sourced from Refinitiv. Refinitiv offers one of the most comprehensive ESG databases in the industry covering over 70% of the global market cap, across more than 500 different ESG metrics. These scores provide a company's relative ESG performance, commitment, and effectiveness based on company-reported data. ESG ratings are a consideration but not the preeminent factor in determining purchases and holdings of investments, especially as companies continue to refine and adopt disclosures indicating their ESG impacts. Nearly 100% of investment purchases are in bonds or mutual fund equities available through exchanges which generally have Refinitiv ratings available. We have less than 1% of our investment portfolio currently invested in non-exchange traded holdings.

Our climate-related risks are addressed through Grinnell Mutual's general ERM process as described in question 1. The ERM process is continually monitored and updated with a full review and publication of our risks and ratings prepared annually.

Grinnell Mutual utilizes AIR, RMS and proprietary models for underwriting our property exposures in our territory. Weather factors include convective storms (wind, hail, tornados) as well as earthquake and terrorism exposures. We have minimal impacts from hurricanes as our business is primarily located in the Midwest or farther inland for the couple of states that are along the coast (New York and Pennsylvania). These models take into account historical weather patterns, especially considering more recent years, as well as potential cat and non-cat events impacting particular areas of our footprint. The models run various simulations and return potential losses reflecting events that are 1 in ten, fifty, one hundred, five hundred, and one thousand as well as percentages in between those bases.

As noted in 3 (c) above, ESG scores are considered in assessing investment purchases; however, climate scenarios and modeling are not conducted for specific investments other than reviewing the ESG score which takes into account potential climate impacts.

Metrics and Targets

4. *Disclose 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:*
    a. *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.*
        i. *Disclose 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:*
            1. *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 probably maximum loss, Climate VaR, carbon intensity), and the amount of financed or underwritten carbon emissions.*
        ii. *Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.*
        iii. *Describe the targets used by the insurer to manage climate-related risks and opportunities and performance against those targets.*

Response:

As previously described, Grinnell Mutual considers the primary climate-related risks to be exposures to our property lines of business which we provide reinsurance and insurance coverages for as well as ceded reinsurance coverage we purchase. AIR, RMS and proprietary models are utilized for assessing our property exposures in our territory. Weather factors include convective storms (wind, hail, tornados) as well as earthquake and terrorism exposures. We have minimal impacts from hurricanes as our business is primarily located in the Midwest or farther inland for the couple of states that are along the coast (New York and Pennsylvania). Model results at the 1 in 50 years have particular focus; however, given recent derecho cat events that have impacted areas of our territory, more remote levels of 1 in 100 are also considered knowing extreme events can occur. Significant cat events are overlayed on various high exposure areas of our footprint to assess some of the most severe impacts as pricing of our products and levels of ceded reinsurance are considered. Significant exposure areas include northeast Iowa, northwest Iowa, southwest Minnesota, north central Minnesota. The need for separate reinsurance programs are also assessed for those highly concentrated counties to manage extreme potential losses.

Grinnell Mutual does not measure or assess carbon emissions and greenhouse gases or those vulnerabilities to business lines, sectors or geographies. Our primary climate-related physical risks are property reinsurance and insurance exposures which are assessed for potential losses.