

**SFM Mutual Insurance Company**  
**YE 2023 NAIC Climate Risk Disclosure Survey**

**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.

*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.*

**SFM Response:** As a monoline workers' compensation insurer operating largely in the Upper Midwest, there is little to no exposure to climate-related or coastal-related threats, and these events are not historically a driver of workers' compensation loss.

SFM's Enterprise Risk Management program identifies climate and other catastrophic risks such as flooding, tornadoes and pandemics, and identifies mitigations to reduce risk exposure which are reviewed by business managers on at least an annual basis. A dedicated risk team manages and monitors that program. SFM's Board of Directors Audit Committee oversees the ERM framework and is kept informed by senior management of risks impacting the business.

**No change from YE2022 Response.**

**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) 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) Y
- Does management have a role in assessing climate-related risks and opportunities? (Y/N) Y
- Does management have a role in managing climate-related risks and opportunities? (Y/N) Y

## 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.*

*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.\*<sub>i</sub>
- 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.*

- 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.*

- 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.

*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:*

- 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.*

**SFM Response:** As a monoline workers' compensation insurer operating largely in the Upper Midwest, there is little to no exposure to climate-related or coastal-related threats, and these events are not historically a driver of workers' compensation loss.

SFM educates its employees, independent agents and policyholders on weather-related risk and how to be safe when surfaces are wet, icy or snowy, as well as how to be safe in storms and during extreme heat events.

SFM continues to see the pressure on reinsurance premiums due to catastrophic climate events.

SFM recycles paper, plastic, glass and aluminum. The building where SFM leases office space is a Silver LEED level building. SFM purchases fuel-efficient fleets to reduce emissions, and replaces vehicles realizing improved efficiencies on a regular cadence. SFM operates in an almost paperless

environment with files stored electronically. We have taken these steps to be a good corporate citizen and to be a more efficient and effective company.

**No change from YE2022 Report.**

**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) 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) N
- Does the insurer make investments to support the transition to a low carbon economy? (Y/N) N
- Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations? (Y/N) 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.\*

*A. Describe the insurers' processes for identifying and assessing climate-related risks.*

- 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.

**SFM Response:** See response 1 and 2 above.

SFM provides the Board Investment committee with ESG (environmental, social and governance) education. We analyze the impact on the investment portfolio by rating each security with Sustainalytics. SFM also has a responsible investing section in the investment policy, and the climate reference states: “Our asset managers evaluate the long-term risk of stranded assets given technology and regulatory shifts toward climate resiliency. Specific securities are not screened based on their issuer or sector, but instead require that the asset managers consider the end use of capital in a holistic manner across the mandate. “

**No change from YE2022 Report.**

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

- Does the insurer have a process for identifying climate-related risks? (Y/N) Y If yes, are climate-related risks addressed through the insurer’s general enterprise-risk management process? (Y/N) Y
- Does the insurer have a process for assessing climate-related risks? (Y/N) Y If yes, does the process include an assessment of financial implications? (Y/N) Y
- Does the insurer have a process for managing climate-related risks? (Y/N) N
- Has the insurer considered the impact of climate-related risks on its underwriting portfolio? ? (Y/N)Y
- Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks? (Y/N)\* Y
- • Has the insurer considered the impact of climate-related risks on its investment portfolio? (Y/N)\* Y
- • Has the insurer utilized climate scenarios to analyze their underwriting risk? (Y/N) Y
- • Has the insurer utilized climate scenarios to analyze their investment risk? (Y/N) Y

**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.*

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

**SFM Response:** See response 1 above. SFM has no material climate-related risk impacting its solvency. SFM utilizes a capital model that assesses underwriting/pricing, investment, investment and catastrophe risk. Climate risk primarily resides in the catastrophe modeling component, of which the impact is de minimis to SFM given geography and line of business.

**No change from YE2022 Response.**

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