# NAIC CLIMATE RISK DISCLOSURE SURVEY
# TCFD-ALIGNED QUESTIONS
# UPDATED 2022

## 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.*

*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.*

With oversight from its Board of Directors, PEMCO's Enterprise Risk Management Committee governs its Enterprise Risk Management (ERM) program. As a Pacific Northwest insurer, climate risk (as reflected in increasing uncertainty around wildfire and windstorm events) is considered an underlying factor in assessing the company's enterprise risks.

While PEMCO does not have formalized publicly stated goals on climate-related risks and opportunities, PEMCO management incorporates catastrophe modeling and regular assessment of actual loss experience to develop and report to executive management and the Board of Directors planned response strategies, including underwriting, reinsurance, and other measures.

## 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.*

*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.

*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.

*C. Describe the resilience of the insurer's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario.*

Climate-related risks within the company's geographic area of operations are monitored and managed as part of the ERM program. Climate-related assessments, and specifically wildfire risk, are taken into consideration as part of underwriting decision-making and product offerings. The company has also provided general guidance to customers to mitigate wildfire risk. The company participates in meetings with elected officials to discuss legislative initiatives that can strengthen resiliency against climate-related weather conditions, such as enhanced building code standards and wildfire prevention and mitigation strategies.

The company has a hybrid automobile fleet and offer electric car charging on site. Our work environment is hybrid with employees working from home about 75% of the time reducing commuter traffic and carbon production. Our office building features low consumption lighting, high efficiency VRF HVAC systems and low water flow systems.

Company-based strategic planning and related risk assessment, that considers climate-related risks and opportunities, is limited to within 1 – 5 year time frames and aligned with the company's size, scale, nature, and complexity of operations. Longer-term, climate-related scenarios are too remote to be meaningful to the company's business planning. Climate-related risk management supporting business strategy and financial planning includes regular review and adjustment to the company's reinsurance program. This effort includes attention to modeling refinements used in developing the program and adjusting catastrophe loss protections over time.

The company offers a telematics user-based insurance program that can provide a discount based on driver behavior, which could ultimately make driving more efficient and less impactful on the environment.

Through its investment advisor, the company has begun to evaluate its investment portfolio and external portfolio managers for ESG factors, which considers environment.

The company does not specifically evaluate a 2 degree Celsius or lower scenario.

## 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. *

*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.

The company's ERM framework considers climate risk as an influencing driver of catastrophic (CAT) and concentration risks. Geographically, CAT loss to the company usually means many property losses caused by a single event, like a windstorm or a wildfire, which may be linked to climate change risk. The increased frequency and severity of damaging winter storms or windstorms with accompanying flooding events, or wildfire is the most likely manifestation of climate change in the Pacific Northwest. Direct aggregate event loss exposure is estimated to be within the company's financial capacity without significantly eroding surplus by utilizing CAT claim handling practices, CAT reinsurance (coverage evaluated regularly), and upfront underwriting. PEMCO's process to manage these risks includes:

Using geographic mapping of property risk distributions in the company's market area to estimate CAT loss, storm response strategies and work force planning. PEMCO has been adversely impacted by wildfire in our policy portfolio and sees increasing risk for future events. Management continues to take actions to mitigate this type of risk, including underwriting and pricing actions.

In collaboration with the company's reinsurance broker, risk-specific modeling by peril is used to rank multiple CAT contingencies and help define optimal response. This aids in annual review of reinsurance treaties to assure that the company maintains an appropriate CAT-risk-to-capital exposure.

We leverage several modeling tools to effectively manage our wildfire aggregations and improve risk selection. We have identified areas that we believe are most susceptible to aggregated losses and emerging wildfire risk. We have developed enhanced property mapping tools to provide a visual of current wildfire exposure and concentrations. As wildfire risk continues to emerge so does wildfire science. We are committed to evaluating new technology to improve our wildfire exposure management, identifying tools that best fit our region.

The company's underwriting analysis of wildfire risk assists in managing the company's property lines of business. In addition, leveraging aerial imagery and location-derived data in risk selection can contribute to mitigating the impact of catastrophe events such as wildfire and windstorms, among others. This has enhanced the understanding of property risks, allowing for more effective evaluation and potential mitigation before catastrophe occurs, as well as improving the overall policyholder risk profile.

The company's wholly owned subsidiary, PEMCO Insurance Agency, provides alternative insurance products that can support consumers and address transition of risk. Using information from organizations such as the Federal Emergency Management Agency, local and regional fire departments, the United States Department of Agriculture, and the Insurance Institute for Business and Home Safety, the company has disseminated newsletters to its customers and published articles and shared posts through social media sites and the company's website about steps that can be taken to mitigate loss from specific perils such as windstorm, flood, and wildfire.

The company has business continuity and disaster recovery plans in place.

## 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.

*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.

*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.*

The Executive Leadership Team is responsible to monitor targets and opportunities.

Though the company has not adopted formal metrics or targets specific to climate-related change, the company's reinsurance broker determines Probable Maximum Loss (PML) through modeling to assess the company's property exposures for the most common weather-related catastrophes in the company's geographic area – wildfire and windstorm. The models are used to determine how much reinsurance is needed which reduces the financial impact by transferring some of the financial risk. Models focus on multiple scenarios (e.g. 1 event in 100 years exposure, etc.).

The company is a personal lines insurer and therefore does not insure companies that produce greenhouse emissions. Through the nature of the company's hybrid work model, we have reduced the measurable impact on the environment through reduced employee commutes.

* Asterisks represent questions derived from the original Climate Risk Disclosure Survey.