The Beacon Mutual Insurance Co.
Amy C. Vitale, Esq.
Executive Vice President,
Chief Legal Officer & Assistant Secretary

August 5, 2024

Elizabeth Dwyer, Superintendent of Insurance
State of Rhode Island
Department of Business Regulation
1511 Pontiac Avenue, Bldg 69-2
Cranston, Rhode Island 02920

Dear Ms. Dwyer:

Please accept the enclosed response to the Climate Risk Disclosure Survey for Reporting Year 2023 by The Beacon Mutual Insurance Company (the "Company").

For several years, the Company has considered climate risk as part of its enterprise risk management in order to determine whether recently observed changing weather patterns could indicate a greater likelihood of a risk event with resulting financial and/or operational implications for the Company. In addition, the Company has implemented certain measures in order to respond to such potential risks. It has also made operational changes in order to address its own impact on climate change. Finally, the Company has assisted its policyholders with loss prevention training and guidance in response to the increased threat which climate change poses to certain workforce populations.

Please feel free to contact us with any questions you may have regarding our responses. We are happy to discuss the items contained within this report.

Regards,

Amy C. Vitale

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Executive Vice President & Chief Legal Officer

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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.

The Company is a monoline workers' compensation carrier insuring employers with risk exposure mainly in Rhode Island and nearby northeastern states. The Company recognizes the threat of climate change to the overall economy and sustainability across the world, including the potential financial consequences as the severity and frequency of weather-related events continue to rapidly increase. The Company also recognizes opportunities exist around climate change initiatives and considers these when making business decisions, setting operating budgets, and strategic plans.

The Company's Board of Directors is ultimately responsible for oversight of all risks, monitoring business strategies and approving operating budgets set forth by senior management. This top-down approach provides appropriate oversight and guidance.

The Company maintains an Enterprise Risk Management framework that contemplates all risks the Company faces, including climate related risks and exposures to its business. As further described herein, the Company's management continuously assesses and updates enterprise risk and presents the updated framework to the Board of Directors each June.

On an ongoing basis, the Company uses underwriting standards, loss prevention programs, reinsurance coverage, business continuity/disaster recovery planning and advice from its investment advisors to help manage climate change risks. The Company also considers climate related opportunities when setting business plans and strategies.

The Company does not currently have any publicly stated goals on climate-related risks and opportunities. However, the Company's awareness of climate change risks and opportunities is reflected in its operations, business decisions and community involvement. The Company has also acted to reduce and/or mitigate its carbon footprint through implementation of a variety of operational and facilities changes which are discussed further herein.

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.*[i]
- 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 1-5years 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.*
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.*

The Company is mainly exposed to natural disasters occurring in the northeast, since in addition to its main Rhode Island market, the majority of its out-of-state policy coverage is in Massachusetts and Connecticut. There is minimal exposure outside of New England.

The Company maintains strong business continuity and disaster recovery plans which are regularly tested to ensure they remain current and are well practiced. The Company maintains a data center in New England and data backups in the Southwest in order to mitigate the risk exposure of regional weather-related closures and ensure continuity of operations.

Significant worldwide weather events, including active hurricane seasons for the United States, could impact the reinsurance market. Although not directly related to the Company's business as a monoline workers' compensation carrier, such impacts could result in collective price increases in the reinsurance market. The Company maintains a strong reinsurance program and works proactively with its broker to maintain appropriate and cost-effective coverage.

Climate change also presents morbidity and mortality impacts on the Company's workers' compensation loss exposures for outdoor workers, including from increased exposure to extreme temperature conditions and tick-borne diseases due to warmer weather patterns. The Company addresses such risks through underwriting analysis, schedule credits for sound loss mitigation programs, and loss prevention training.

In addition to engaging policyholders on the topic of climate change through loss prevention training and guidance, the Company has developed perspective on certain environmental, social and governance (ESG) issues through dialogue with other state workers' compensation funds, insurance carriers, auditors and stakeholders in order to incorporate sustainability considerations in its decision-making activities and processes. The Company recently sponsored the Greater Providence Chamber of Commerce's education program on ESG Sustainability Initiatives and had several managers and senior managers participate in an ESG certification program.

The Company utilizes the services of New England Asset Management (NEAM) for investment advisory services and asset management. NEAM evaluates and integrates climate change risk as a risk factor within their investment process. Climate change risk is considered at both the sector and individual credit level. Industries within the corporate and municipal sectors are classified into separate risk buckets and the most impacted industries are identified. A more thorough analysis is then conducted at the issuer level to estimate the severity of the potential impact of transition and/or physical risk. This analysis is conducted on an ongoing basis and forms the basis for decisions to mitigate climate change risk within investment portfolios.

The Company is mindful of the importance of incorporating sustainability into its employee engagement efforts. In addition to its charitable support of organizations focused on environmental stewardship, the Company's employees have participated in volunteer activities to raise awareness and mitigate the impact of climate change.

Also, the Company has implemented several operational improvements which help with the transition to a low carbon economy. For example, the Company maintains a hybrid work environment whereby employees generally work remotely three days per week. Such flexibility results in reduced commuting by its employees, and as a result, contributes to the reduction of greenhouse gas emissions from employee transportation. In addition, the Company's carbon footprint is reduced by fewer employees working in its office, which results in less opening/closing of doors, reduced heat load from body temperature, and diminished use of electricity within the office building. Other measures taken by the Company include participation in an energy efficiency lighting assessment and conversion to high efficiency LED lighting for all interior and exterior lighting sources at its facility; utilization of energy efficient window treatments to reduce heating and cooling resources; transition to paperless operations and reduced printer use; support of recycling activities; and ongoing participation by facilities management in energy efficiency training. The Company is in the process of replacing existing boilers with high efficiency condensing boilers. A future capital project plan considers items such as improvements to the HVAC system, including potentially more energy-efficient equipment. Beacon recognizes the opportunities presented by these initiatives and incorporates them into strategic planning to meet stakeholder expectations.

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.
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 maintains an Enterprise Risk Management framework that contemplates all risks the Company faces, which includes climate related risks and exposures to its business. Each risk is measured by bottom-line impact, likelihood of occurrence, and velocity. This framework is updated annually with input from all senior managers and the internal actuary. The Director of Internal Audit presents the updated framework to the Board of Directors each June.

The Company engages in discussion with its reinsurers and brokers in order to gain perspective on climate change risks which may impact the Company's business exposures. The Company evaluates its potential exposure to losses from such risks through underwriting standards, loss prevention programs, its reinsurance program and its fronting arrangement partner which provides certain out-of-state coverage.

As a monoline workers' compensation carrier, the Company manages the impact of climate risk on its loss exposure through underwriting analysis of work hazards impacted by climate risk. It offers schedule credits to policyholders which have implemented sound loss mitigation efforts. The Company's loss prevention staff regularly conducts policyholder outreach and support through educational materials and training, including with regard to extreme weather events and tick-borne disease exposures which may be exacerbated in frequency or severity due to climate change.

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.

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 Company uses underwriting standards, loss prevention programs, reinsurance coverage, business continuity/disaster recovery planning and advice from its investment advisors to help manage climate change risks. The Company uses computer modeling to assist with identification and management of loss exposure, and although the Company does not specifically incorporate climate risk factors in its computer modeling, it does identify seasonality which would account for extraordinary weather events in its underwriting and loss analysis.