FAD-204 (12/09)

California Department of Insurance

# INSURER CLIMATE RISK DISCLOSURE SURVEY
# For Calendar Year 2010

Due Date: **May 1, 2011**

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|---|---|---|---|---|---|
| **Company Name:** | **Mercury Casualty Company** | | | | |
| **NAIC No.** | 11908 | **NAIC Group No.** | 0660 | **Domiciled State:** | CA |
| **CA Direct Premiums Written** | $604,556,310 | **Nationwide Direct Premiums Written** | $695,299,857 | | |

| **Survey Questions** | **Comparable CDP Questions** |
|---|---|
| 1. Does the company have a plan to assess, reduce or mitigate its emissions in its operations or organizations? If yes, please summarize.<br>**Answer**: No. | Performance Question 21 |
| 2. Does the company have a climate change policy with respect to risk management and investment management? If yes, please summarize. If no, how do you account for climate change in your risk management?<br>**Answer**: The only climate change risk that Mercury Insurance Group considers currently has to do with hurricane frequency. Because of the predicted increase in hurricane frequency, Mercury is taking numerous steps to monitor, control or even reduce exposure to catastrophic losses caused by hurricanes. Mercury does not have an investment climate change policy. | |
| 3. Describe your company's process for identifying climate change-related risks and assessing the degree that they could affect your business, including financial implications.<br>**Answer**: None | Risks and Opportunities Questions 1-3 |
| 4. Summarize the current or anticipated risks that climate change poses to your company. Explain the ways that these risks could affect your business. Include identification of the geographical areas affected by these risks.<br>**Answer**: The main climate change risk that Mercury Insurance Group faces has to do with hurricanes and property losses caused by those hurricanes. There is a predication of increasing hurricane frequency and severity that would be caused by climate change. For Mercury, this exposure to loss is greatest in Florida, with lesser exposures in Texas, Georgia, Virginia, New Jersey and New York. A catastrophic hurricane would affect Mercury in several ways. First, Mercury could have exceptionally high demands on the claims staff. Next Mercury could experience a severe drain on capital. Third, Mercury might have to sell investment assets to generate cash at a time when the value of those assets is depressed. | Risks and Opportunities Questions 1-3 |

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| 5. Has the company considered the impact of climate change on its investment portfolio? Has it altered its investment strategy in response to these considerations? If so, please summarize steps you have taken.<br>**Answer**: No. Climate change is not a risk consideration for evaluating investment risk. | Risks and Opportunities<br>Question 3: “Other Risks”<br>Question 6: “Other Opportunities” |
| 6. Summarize steps the company has taken to encourage policyholders to reduce the losses caused by climate change-influenced events.<br>**Answer**: The homeowner product is not aligned and varies from state to state. But there are two general principles in effect in all states that encourage policyholders to reduce losses from climate change influenced events. First, Mercury offers a number of credits for utilization of better building materials. Common examples would be credits for the installation of storm shutters or roofing material that offer superior wind resistance. Second, Mercury surcharges areas that are prone to weather related events thus encouraging home building in less risky locations. | Risks and Opportunities<br>Questions 4-6 |
| 7. Discuss steps, if any, the company has taken to engage key constituencies on the topic of climate change.<br>**Answer**: None | Governance<br>Questions 24, 26, 27 |
| 8. Describe actions your company is taking to manage the risks climate change poses to your business including, in general terms, the use of computer modeling.<br>**Answer**: Mercury models its exposure to catastrophic loss at least annually, using at least two computer models in order to get a better indication of exposure to catastrophic losses. Mercury monitors the accumulations of insured value by zip code, and Mercury shuts off new business, when permitted, in areas where insured value has surpassed Mercury’s tolerance for loss. Mercury may even terminate policies in order to maintain a prudent exposure to catastrophic losses. This management of insured values is primarily focused on hurricane losses, and thus geographically, occurs in the coastal areas of the eastern United States. Florida is Mercury’s most heavily managed state in this regard. | Risks and Opportunities<br>Questions 1-3 |

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