California Department of Insurance

INSURER CLIMATE RISK DISCLOSURE SURVEY
For Calendar Year 2009

Due Date: **May 1, 2010**

Instructions:

i. **Insurers are required to submit the *Climate Risk Disclosure Survey* to the domestic regulator by May 1 each year.** Surveys are intended to be submitted to the domestic regulator of insurer group's lead state (i.e. the regulator overseeing the insurer within the group that reports the largest direct written premium volume.)

ii. Narrative responses are acceptable. Where an insurer's response to other disclosure mechanisms, such as the Carbon Disclosure Project (CDP) or Global Reporting Initiative, explicitly addresses the subject matter of a question in this survey, the insurer may reference and attach their most recent response to that external mechanism in lieu of providing a duplicative response.

iii. Insurers are required to answer all questions in good faith and with meaningful responses. However, there is no requirement to provide information that is immaterial to an assessment of financial soundness (insurers may choose to disclose such information voluntarily, with no implication that such information is in fact material).

iv. Insurers are **not** required to provide quantitative information, provide information that they in good faith believe is commercially sensitive or proprietary, or provide forward-looking information. If an insurer chooses to provide forward-looking information, the insurer may disclaim any responsibility for the accuracy of such forward-looking information. Provided the insurer supplies such information in good faith, it may condition its response with a waiver of any claim under any theory of law based on the inaccuracy of such information.

FAD-204 (12/09)

California Department of Insurance

INSURER CLIMATE RISK DISCLOSURE SURVEY
For Calendar Year 2009

Due Date: **May 1, 2010**

Company Name:	**Interinsurance Exchange of the Automobile Club**				
NAIC No.	15598	**NAIC Group No.**	1318	**Domiciled State:**	CA
CA Direct Premiums Written	$2,007,797,839	**Nationwide Direct Premiums Written**	$2,085,195,517		

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. **Answer**: The Interinsurance Exchange of the Automobile Club (the "Exchange") provides insurance products and services to members of the Automobile Club of Southern California (the "Auto Club"). The Auto Club is an affiliate of the Exchange, with the management services for the Exchange's insurance operations is provided by ACSC Management Services, Inc., which is an affiliate of the Auto Club. The responses included in this survey incorporate activities of both the Exchange and the Auto Club, also referred to as "the Company", "we" and "us", unless otherwise indicated. The Company has implemented a variety of initiatives and policies designed to help control costs and reduce the environmental impact of our operations. These initiatives include the use of Rideshare plans, fleet emission management, and environmental considerations in the selection of vendors and suppliers. We have Rideshare Plans for each office with over 250 employees in the Southern California area. In many instances, the Auto Club and the Exchange share facilities, allowing these plans to cover both entities. These plans are submitted to, reviewed and approved by the South Coast Air Quality Management District. The plans provide strategy, implementation and results of achieving average vehicle ridership goals for employees commuting into those large offices on a regular basis. Some specific segments of the plan include financial and non-financial incentives for those who carpool, vanpool, use public transportation, bicycle or walk to work in lieu of driving a vehicle as a single passenger. The objective of these plans is to decrease the number of vehicles on the roads during the prime morning commute and thus reduce emissions and greenhouse gases. In a separate but related matter, we have a fleet of approximately 360 company vehicles (310 in Southern California) we operate for our Insurance Operations. We have progressively operated more fuel	Performance Question 21

efficient and lower emission vehicles in this fleet. Each year we review a plan including what vehicles we need to continue to operate and/or will be acquiring as older vehicles need replacement. The vehicles have migrated from Low Emission to Ultra Low Emission to Super Ultra Low Emission to Partial Zero Emission over recent years. The objective is to lower costs, use less fossil fuel and reduce emissions and greenhouse gases emitted from these vehicles. Our Facilities and Construction division sets sustainability standards for vendors and products. An example would be our participation in programs such as "Construction by Design". In designing new construction or renovations, we use native plant material that is drought resistant, install energy efficient LED lights and use recycled material in carpeting. Existing materials are then recycled by the vendors to reduce our impact on the environment and landfills. We also work closely with vendors and utility companies to procure and utilize the most energy efficient (low emission) equipment possible and look for ways to reduce the actual consumption. We plan to replace the equipment we believe to be the least efficient based on age and performance. We are also planning on replacing the chillers with more energy efficient equipment that will utilize energy based on the actual load required (variable speed drives). These chillers will be equipped with the most efficient refrigerant (low emission) as well to maximize our carbon reduction. We've engaged an energy study by our local utility company and other outside firms to asses the areas where we can make the most cost effective reductions. We are in the process of surveying all of our owned facilities to benchmark them against energy star ratings. This will tell us which buildings are the most inefficient and allow us to target them for future capital outlay based on improvements we can make to improve efficiency. Information Systems has adopted hardware standards that reduce our need to implement physical equipment. We continue to reduce our physical foot print by embracing newer server technology like virtualization, which reduces our overall power consumption. In addition, Information Systems has adopted practices to efficiently manage cooling requirements within the Data Center. We're adopting the practice of isolating cold isles from hot isles. This enables us to redirect cooling to where it is needed, making cooling more efficient by eliminating the need to cool the entire room.	
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? **Answer**:	

We consider climate change and weather related perils in our annual Significant Risk Analysis. These are considered in our underwriting guidelines and in the amount and terms of our reinsurance program and in evaluating our risk management program. The impact of climate change is not a significant factor in our investment strategy. The Company uses outside investment managers to manage its investment portfolio and their performance goals are based on outperforming the customized index for the asset class that they manage. They are not provided with any specific direction to consider climate change as an asset selection criterion.	
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. **Answer**: The Company's process for identifying all material risks is through our annual Significant Risk Analysis, which is presented to our Board. In this analysis, we consider the broad spectrum of risks that our company faces. As a large insurer of homes, weather related perils and possible climate change implications are significant risks, and are included in this analysis. Climate change could potentially have implications on capital needs and the cost of catastrophe reinsurance. The Exchange purchases reinsurance to protect against catastrophe risk (primarily hurricanes, earthquakes and wildfires) to ensure that we can meet our obligations to policyholders on maintain our solvency.	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. **Answer**: The primary risk that climate change may pose would be any potential increase in the frequency or intensity of strong thunderstorms, hurricanes or brushfires. This exposure is primarily concentrated in our homeowners product. More severe or more frequent events would increase the number and cost of claims and have an impact on profitability. If the impact was large enough, it could affect our ability to write new or renew business in some catastrophe exposed areas. The Company writes a majority of its business in Southern California, Texas, and Missouri, with additional business in several other states. Policyholders in these areas are exposed to catastrophe risks from earthquake, fire following earthquake, brushfire, strong thunderstorms and hurricanes. To provide protection to our policyholders, we	Risks and Opportunities Questions 1-3

actively manage growth in exposure to these risks through prudent underwriting practices, maintaining a strong surplus position, purchasing appropriate levels of reinsurance, and encouraging risk reduction by our policyholders.	

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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. **Answer**: Our investment management strategy is discussed in response to question #2.	Risks and Opportunities Question 3: "Other Risks" Question 6: "Other Opportunities"
6. Summarize steps the company has taken to encourage policyholders to reduce the losses caused by climate change-influenced events. **Answer**: We believe that one of the most effective ways to encourage risk reduction by our policyholders is to provide them with the real costs associated with their risk exposure through accurate pricing. Examples of this include rating by roof type, home construction type, and deductibles selected. Once our policyholders understand the true cost differentials associated with choices that they make, they can then decide for themselves what steps to take to mitigate possible losses from future events. We also inform policyholders of any issues found during inspections of homes. This helps the policyholder by informing them of ways that they can improve their home's resistance to losses, including those caused by climate change-influenced event. We inspect all homes when they are first insured with us, and reinspect a portion of renewing policies each year as they come up for renewal.	Risks and Opportunities Questions 4-6
7. Discuss steps, if any, the company has taken to engage key constituencies on the topic of climate change. **Answer**: In California, the Exchange launched a new Homeowners product in June of 2009 that provides the option for the insured to obtain "Green Coverage". Green Coverage provides a limit of up to $25,000 for the additional cost to repair or replace certain classes of property that are	Governance Questions 24, 26, 27

damaged or destroyed with equivalent property that meets environmentally responsible and energy efficient standards. This coverage could apply to appliances, lighting fixtures and bulbs, windows, doors and skylights, roofing products, insulation, and heating and ventilation fans. The Exchange has also encouraged our policyholders to pay online to reduce paper mailing, reducing waste and carbon emissions. Additionally, the Exchange's affiliation with the Auto Club means that there are a number of other steps taken to engage key constituencies. The Auto Club both provides information to the public and advocates for public policies and funding related to climate change. We publicize these issues and our efforts in Club publications (Westways / Journey magazines) that go to about half of all households in our Southern California service area (and other states as well). Our regular articles on these topics are intended to increase members' awareness of climate change, environmental, transportation, automotive, and related topics. The following articles are some examples: - The Green Car Guide - March/April 2010 - The Good Earth-Discussion on earth day - March/April 2010 - Traveling Green - March/April 2010 - Hybrids Galore - November/December 2009 The Auto Club's Automotive Research Center (ARC) develops and distributes materials educating members how to conserve fuel in the way they drive, maintain, and operate their vehicles. In addition, ARC management has been active (on the Auto Club's behalf) at organizing technical sessions on Global Climate Change for the Society of Automotive Engineers at their Future Transportation Technology Conferences. The ARC just published the Green Car Guide in CA, TX, NM, HI, and AL. These materials are distributed through our AAA Branches, used as content for our Website, and included frequently in outbound eNewsletters to our members. The Auto Club is co-sponsoring construction and operation of a hydrogen production and distribution facility at California State University Los Angeles (scheduled to open summer 2010). The facility will be powered by 100% renewable energy (solar and wind) and will electrolyze water into hydrogen. The following documents are available on-line and provide more information on the Auto Club's support for balanced, safe, environmentally sound, and responsible transportation improvements, and for the wise and effective use of taxes and fees paid by motorists and others for transportation projects and services. ▪ The Quiet Crisis (our comprehensive, and continuing, transportation policy effort from 2002) – http://www.aaa-calif.com/corpinfo/guides/quietcrisis.aspx	

▪ Going Public (a Westways article on public transit) – http://www.aaa-calif.com/westways/0501/transit1.aspx ▪ The Road Ahead (our latest effort to provide transportation information and advocacy tools to members and others) – www.AAA.com/roadahead ▪ Mobility 21 (a Southern California coalition we co-founded and help lead to promote mobility, public transit, and road improvements) – http://www.mobility21coalition.com/index.html	
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. **Answer**: We use the latest catastrophe models from three different modelers in the evaluation of our portfolio on a semi-annual basis to monitor changes in our exposure to catastrophes. We will then make adjustments to our business processes as necessary to keep our exposure at an appropriate level. We are able to manage our overall exposure to risk by modifying our underwriting guidelines, purchasing reinsurance, maintaining an adequate surplus, and working with our policyholders to ensure that they have the appropriate amount of insurance on their policies. As knowledge of the factors that influence exposure to loss improves, we are able to better refine our underwriting guidelines to ensure that we understand the risks posed by the exposures being written. Factors such as roof type, distance to brush, hurricane shutters and distance to the coast are all risk factors that differentiate the total exposure to loss. The Exchange purchases reinsurance to ensure that we can meet the needs of our policyholders in the event of a major catastrophe. A strong surplus position is another way that we have managed the risks posed by potential climate change. Requiring that policyholders purchase adequate policy limits for their homes ensures not only that the company receives the correct amount of premium, but also that the policyholder can rebuild their home in the event of a total loss. We have not included speculation about future trends deviating substantially from historical observations in our catastrophe risk management at this time.	Risks and Opportunities Questions 1-3

California Department of Insurance

Climate Risk Disclosure Survey Guidance

Discussion

This document offers guidance to insurers responding to the annual mandatory Insurer Climate Risk Disclosure Survey (hereafter referred to as the "Survey"). Those questions contained in this guidance document which are not part of the official set of Survey questions are intended only to guide respondents as they craft their responses to the Survey and are not compulsory.

Guidance Notes

Survey Application and Instructions

i. Response Submissions

Mandatory disclosure will depend on the premium amounts reported for the most immediate prior financial reporting year. If an insurance group reports over **$500,000,000** for **2009**, it must complete the survey and submit it to its domestic regulator on or before **May 1, 2010**. However, if an insurance group reports less that that, it will not be required to complete and file the survey, but it may do so voluntarily. For subsequent financial reporting years, disclosure will be mandatory for all insurance groups with premiums that exceed **$300,000,000** for the most immediate prior financial reporting year.

ii. Quantitative and Forward-Looking Information

Insurers are not required to submit quantitative information but may do so without implying materiality. Insurers are encouraged to provide quantitative information where it offers additional clarity on trends in the intensity or attenuation of natural hazards, insured losses, investment portfolio composition, policyholder risk reduction or improvements in computer modeling. As climate science improves (i.e. when there is greater agreement between observed data and models or when there is integration of catastrophe and climate models), insurers should be able to provide quantitative information with less uncertainty.

Insurers are encouraged but not required to provide forward-looking information that will indicate the risks and opportunities insurers may face in the future; when provided, insurers may disclaim any responsibility for the accuracy of such forward-looking information. Forward-looking information is assumed to have some degree of uncertainty; if provided, insurers should offer explanation on the degree and sources of uncertainty as well as assumptions employed.

iii. Response Required

Insurers in all segments of the industry are required to respond to all eight questions. An insurer may state that a question is not relevant to its business practice, operations or investments. However, if it does so, it must also explain why the question is not relevant.

Survey Questions

Question One: ***Does the company have a plan to assess, reduce or mitigate its emissions in its operations or organizations? If yes, please summarize.***

Insurers who are unfamiliar with frameworks for greenhouse gas emission measurement and management are encouraged to review the principles of "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)" developed by the World Resources Institute and the World Business Council for Sustainable Development ("the GHG Protocol").

Each insurer is encouraged to clarify whether its plan for measuring and management of its emissions in operations and/or its subsidiary organizations' operations includes emissions related to energy use for data storage or other computing-intensive processes.[1]

Question Two: ***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?***

Questions to consider include:

- Where in the structure of the company is climate risk addressed?
- Does the company approach climate change as an Enterprise Risk Management (ERM) issue?
- Does the company have a dedicated point-person or team within the company that is responsible for managing its climate change strategy?
- What is the role of the board of directors in governing climate risk management?
- Does the company consider potentially correlated risks affecting asset management and underwriting?
- Has the company issued a public statement on its climate policy?

Question Three: ***Describe your company's process for identifying climate change related risks and assessing the degree that they could affect your business, including financial implications.***

Questions to consider include:

- How may climate change shift customer demand for products?
- What implications may climate change have on liquidity and capital needs?
- How might climate change affect limits, cost and terms of catastrophe reinsurance, including reinstatement provisions?
- Has the insurer considered creative methods of risk distribution such as contingency plans to reduce financial leverage and resolve any liquidity issues in the event of a sudden loss in surplus and cash outflows as a result of a catastrophic event?

[1] Data centers consume more energy than any other area of an organization because they contain both IT equipment and the infrastructure that is needed to cool that equipment. The Environmental Protection Agency found that data centers consumed about 60 billion kilowatt-hours (kWh) in 2006, roughly 1.5 percent of total U.S. electricity consumption. Nancy Faig, Insurance & Technology "The Greening of Data Centers" Mar 07, 2008 URL: http://www.insurancetech.com/showArticle.jhtml?articleID=206902492.

- How are these impacts likely to evolve over time? Does the company have plans to regularly reassess climate change related risks and its responses to those risks?

Question Four: ***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 risks.***

Questions to consider include:

- Which business segments or products are most exposed to climate-related risks?
- Has the company considered its potential exposure to climate liability through its D&O or CGL policies?
- Are there geographic locations, perils or coverages for which the company has increased rates, limited sales, or limited or eliminated coverages because of catastrophic events? How do those actions relate to assessments of climate change impacts made by the company?
- Has the company examined the geographic spread of property exposures relative to the expected impacts of climate change, including a review of the controls in place to assure that the insurer is adequately addressing its net exposure to catastrophic risk?

Question Five: ***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.***

Questions to consider include:

- Does the company consider regulatory, physical, litigation, and competitiveness-related climate risks, among others, when assessing investments?
- Has the company considered the implications of climate change for all of its investment classes, e.g. equities, fixed income, infrastructure, real estate?
- Does the insurer use a shadow price for carbon when considering investments in heavy emitting industries in markets where carbon is either currently regulated or is likely to be regulated in the future?
- Does the insurer factor the physical risks of climate change (water scarcity, extreme events, weather variability) into security analysis or portfolio construction? If so, for what asset classes and issuers (corporate, sovereign, municipal)?
- How does climate change rank compared to other risk drivers, given the insurer's asset liability matching strategy and investment duration?
- Does the insurer have a system in place to manage correlated climate risks between its underwriting and investments?

Question Six: ***Summarize steps the company has taken to encourage policyholders to reduce the losses caused by climate change-influenced events.***

Questions to consider include:

- How has the company employed price incentives, new products or financial assistance to promote policyholder loss mitigation? In what lines have these efforts been attempted,

and can the outcome of such efforts be quantified in terms of properties retrofitted, losses avoided, etc.?

- For insurers underwriting D&O, CGL and professional liability policies, what steps has the company taken to educate clients on climate liability risks or to screen potential policyholders based on climate liability risk? How does the company define climate risk for these lines?

Question Seven: ***Discuss steps, if any, the company has taken to engage key constituencies on the topic of climate change.***

Questions to consider include:

- How has the company supported improved research and/or risk analysis on the impacts of climate change?
- What resources has it invested to improve climate awareness among its customers in regulated and unregulated lines?
- What steps has it taken to educate shareholders on potential climate change risks the company faces?

Question Eight: ***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.***

Questions to consider include:

- For what perils does the company believe that future trends may deviate substantially from historical trends due to changes in the hazard? Similarly, for what perils, if any, does the company believe that a catastrophe model extrapolating observed trends would be insufficient to plan for maximum possible loss or yearly average loss? What steps has the company taken to model or analyze perils associated with non-stationary hazards?
- Has the company used catastrophe models to conduct hypothetical "stress tests" to determine the implications of a wide range of plausible climate change scenarios? If so, over what timescale, in what geographies and for what perils?
- Has the company conducted, commissioned or participated in scenario modeling for climate trends beyond the 1-5 year timescale? If so, what conclusions did the company reach on the potential implications for insurability under these scenarios?

California Department of Insurance

Climate Change Resources for Insurers

There are many publications and websites that can provide insurers with a useful overview of the potential impacts of climate change on the insurance sector. The following resource list is not comprehensive but offers a good starting point for insurers seeking more information on the scientific basis of climate change, risks to insurers, catastrophe modeling, public policy, liability, risk management and impacts on insurer investments.

Impacts of Climate Change on the Insurance Sector

Geneva Association, Climate Change and its Economic Impact on Insurance URL: http://www.genevaassociation.org/Home/Climate_Change.aspx.

Insurance Information Institute, Climate Change, Insurance Issues URL: http://www.iii.org/disasters/ClimateChange.

Hecht, Sean. 2008. "Climate Change and the Transformation of Risk: Insurance Matters," UCLA Law Review, Vol. 55: 1559-1620. URL: http://ssrn.com/abstract=1159853

Mills, Evan. 2008. "From Risk to Opportunity: 2008 Insurer Responses to Climate Change." URL: http://www.ceres.org/Document.Doc?id=417.

NAIC Climate Change and Global Warming (EX) Task Force. 2008. "The Potential Impact of Climate Change on Insurance Regulation." URL: http://www.naic.org/store_pub_whitepapers.htm#climate_change.

Ross, C., E. Mills, and S. Hecht. 2007. "Limiting Liability in the Greenhouse: Insurance Risk-Management in the Context of Global Climate Change." Stanford Environmental Law Journal and the Stanford Journal of International Law, Symposium on Climate Change Risk, Vol. 26A/43A:251-334. URL: http://eetd.lbl.gov/EMills/PUBS/PDF/Liability-in-the-Greenhouse.pdf.

Life and Health Insurers and Climate Change

Harvard Medical School, Center for Health and the Global Environment, "Climate Change Futures: Health, Ecological, and Economic Dimensions." URL: http://chge.med.harvard.edu/programs/ccf/index.html.

Health Canada, "Climate Change: Preparing for the Health Impacts, Health in a Changing Climate." URL: http://www.hc-sc.gc.ca/sr-sr/pubs/hpr-rpms/bull/2005-climat/2005-climat-5-eng.php.

McGeehin, M. A. and M. Mirabelli. 2001. "The potential impacts of climate variability and change on temperature-related morbidity and mortality in the United States," Environmental Health Perspectives. May, Vol. 109, Suppl. 2: 185–189. URL: http://www.ncbi.nlm.nih.gov/pmc/articles/PMC1240665/pdf/ehp109s-000185.pdf

Ebi, Kristie L. and Glenn McGregor. 2008. "Climate Change, Tropospheric Ozone and Particulate Matter, and Health Impacts," Environmental Health Perspectives. November, Vol. 116, Suppl. 11: 1449–1455. URL: http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2592262/

Climate Change Disclosure

World Resources Institute and the World Business Council for Sustainable Development, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)." URL: http://www.ghgprotocol.org/standards/corporate-standard.

Carbon Disclosure Project ("CDP") URL: http://www.cdproject.net/.

Global Reporting Initiative ("GRI") URL: http://www.globalreporting.org/Home.

Climate Change Science

Intergovernmental Panel on Climate Change (IPCC). 2007. "Climate Change 2007: The

Physical Science Basis." For a summary of the IPCC's 2007 reports, see IPCC, "Climate Change 2007: Synthesis Report – Summary for Policymakers," IPCC**.** URL: http://www.ipcc.ch/ipccreports/ar4-wg1.htm.