

INSURER CLIMATE RISK DISCLOSURE SURVEY
For Calendar Year 2010

Due Date: May 3, 2010

Company Name:	Farmers Group of Companies domiciled in CA (see attachment)			
NAIC No.	(see attachment)	NAIC Group No.	0212	Domiciled State: CA
CA Direct Premiums Written	(see attachment)	Nationwide Direct Premiums Written	(see attachment)	

<u>Survey Questions</u>	<u>Comparable CDP Questions</u>
1. Does the company have a plan to assess, reduce or mitigate its emissions in its operations or organizations? If yes, please summarize.	Performance Question 21
<p><u>Response:</u></p> <p>Our response is provided on behalf of Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and its various subsidiaries and affiliates, including the attorneys-in-fact of the Exchanges (all of which entities are collectively referred to herein as “Farmers”). As an organization, Farmers recognizes that it is essential that we consider the impact we have on the environment, and that we create and foster a culture where all individuals are aware of opportunities to conserve energy and natural resources.</p> <p>We have initiatives in process that reduce our carbon footprint. These include changes in the way we manage our facilities, our fleet, and our travel.</p> <p>Our goal is to purchase energy in an efficient, cost effective and environmentally responsible manner, and to establish and implement effective energy management programs.</p> <p>We have installed solar panels in two locations, and have implemented electrical power conservation programs in multiple operations. In some locations we have installed motion sensitive light switches and energy saving light bulbs, and have implemented programs to remind employees to power down equipment when it is not in use.</p> <p>Depending on the job assignment, employees may be provided with a company fleet vehicle. In 2009, we reduced the number of fleet vehicles nationwide by 697. In 2010, we are providing employees with the option to order vehicles with lower carbon emissions.</p> <p>As many Farmers employees commute to our business locations, we encourage</p>	

<u>Survey Questions</u>	<u>Comparable CDP Questions</u>
<p>1. Does the company have a plan to assess, reduce or mitigate its emissions in its operations or organizations? If yes, please summarize.</p>	<p>Performance Question 21</p>
<p>ridesharing and the use of public transportation. In some locations, we provide incentives including subsidies for train passes, bus passes and vanpools, free shuttle buses from train stations, and preferred carpool parking spaces.</p> <p>In 2009, we reduced air travel. As an alternative to air travel we have installed telepresence technology and high quality HD video conferencing systems in many operations.</p> <p>We are working to reduce the amount of paper and office supplies we use. New ordering processes have lowered the volume of consumable supplies in many locations. Recycling programs have been implemented for paper, plastic and glass. Printer, copier ink and toner cartridges are also recycled, as are cell phones, chargers and obsolete electronic equipment. In our mail rooms, we have begun recycling and reusing packing materials for shipping.</p> <p>We have implemented initiatives that provide customers with environmentally friendly choices that also reduce the organization’s carbon footprint.</p> <p>For example, in some operations, mail sent to agents and customers is delivered in envelopes made of recycled material. A new billing system available in some states and for some products provides increased on-line billing and payment capabilities. In some states and for some products, we are working to provide customers with the option to receive electronic policy forms and notices from us, rather than paper copies. Customers with these electronic policies may also have the option to receive bills, pay bills, and view their billing histories online. Some states prohibit the use of paperless communication with policyholders, which limits our ability to consider paperless options.</p> <p>Our new MultiCar auto policy, available in some states, can cover multiple vehicles on one policy, which would reduce the amount of paper customers receive and our carbon footprint.</p>	

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?

Response:

Farmers Group, Inc., the attorney-in-fact for Farmers Insurance Exchange is a wholly owned subsidiary of Zurich Financial Services (“Zurich”). In January 2008, Zurich launched, in collaboration with Farmers, its market-based Global Climate Initiative. The initiative has multiple objectives including the development of an understanding of the emerging weather, financial, regulatory, and reputational risks associated with climate change and to develop a strategy to address them.

See also the response to Questions 5.

<p>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.</p>	<p>Risks and Opportunities Questions 1-3</p>
<p><u>Response:</u></p> <p>Activities emitting carbon primarily involve office space use and related activities and travel. We are evaluating how best to address our operational and facility exposure with respect to climate change. In some jurisdictions, some Farmers’ offices are engaged in various activities that should have an immediate emissions reduction benefit.</p> <p>As an insurance organization, estimating risk is fundamental to Farmers’ operations. Such risks include carbon emission, operational risk and other climate related risk. We recognize climate change can have a potential financial impact on our operation. We continue to evaluate opportunities to operate facilities more efficiently and decrease our carbon emissions.</p> <p>Changes to the frequency and severity of natural catastrophes, especially hurricanes, pose risk to our business. Farmers uses both internal and external catastrophe models to make its best assessment of prospective catastrophe risk for pricing purposes, subject to regulatory requirements. Our modeling work generates outputs on a deterministic and probabilistic basis which we use to manage our enterprise view of risk.</p> <p>While the modeling data and outputs continue to improve over time, there is still uncertainty around the outputs. Farmers considers this uncertainty in our selection and pricing of risk, and our overall tolerance of catastrophe exposure.</p> <p>See also the responses to Questions 1, 2, 4 and 5.</p>	

<p>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.</p>	<p>Risks and Opportunities Questions 1-3</p>
<p>Response:</p> <p>Farmers has exposure to climate related regulatory risk both with respect to its own operations, and through its products and services which assume certain risks via insurance contracts. Regulatory risks as diverse as insurance regulatory obligations, emissions caps, baseload management requirements, and building code requirements could impact the insurance business. Regulation, as well, can have the unintended consequence of masking risk based price signals and could cause stakeholders to increase climate related risk – rather than manage and reduce such risks. For example, subsidizing property insurance premiums, or flood insurance premiums or providing insurance or agreements to re-build in regularly eroded coastal locations or high risk fire areas could cause increase of building in such locations in a manner economically inconsistent with the physical risks presented by climate change.</p> <p>Regulatory uncertainty and regulation that is not economically well-grounded can create additional risk for both insurers and society. Even where public policies are well grounded in sound economic policy, multi-state and nationally active insurers will likely be required to address potentially disparate and conflicting climate policies and rules and bear the associated costs.</p> <p>These generally complex issues involving the interplay of new requirements within existing legal structures create unique risks; results of the same public policy will likely be different when applied in different jurisdictions - unless the results of interplay are completely and accurately analyzed in the development of such policy.</p> <p>Potential unintended negative consequences of regulatory action could pose a challenge for the industry, such as where the true economic cost of new legislation has not been well thought through or where the new legislation results in a disproportionate allocation of costs of climate related risk. In addition, competing requirements could mean that compliance in one jurisdiction may not satisfy other jurisdictions, thus creating duplicative or additive expenditures in the development of adaptive risk management solutions without demonstrable economic or social benefit.</p> <p>As the insurance industry faces regulatory risk, they face legal risk as well. Climate-related legislation that is not well-crafted may create incentives for law suits in some jurisdictions. Even in the absence of new laws, there have already been and may continue to be attempts to use existing laws to bring more climate change-related litigation against sovereign entities and companies in particular sectors.</p>	

<p>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.</p>	<p>Risks and Opportunities Questions 1-3</p>
<p>With respect to an insurer's own operations and physical facilities, regulatory initiatives relating to emissions limits, transportation, water and energy use could impact office planning, employee commuting patterns and general resource usage. Within Farmers, activities to help respond to these trends have begun, including telecommuting, meetings held via phone, video and webinar, recycling and other environmentally-friendly practices.</p> <p>Farmers also has exposure to physical risks of climate change with respect to its own operations and as a result of exposures of its insureds assumed by Farmers through insurance policies.</p> <p>A growing consensus among climate change experts suggests that changing weather patterns present risks of concern related to climate change. The potential indirect physical and public health impact, such as increased frequency of widespread disease events and localized food and water shortages, may also affect many areas of property and casualty and life insurance. Such physical risks have both obvious and subtle consequences for insurers.</p> <p>With regard to the insurers' own operations or investments, insurers, like their customers, have facilities and operations that are exposed to physical risks of climate change described above.</p> <p>As outlined in the previous section, the physical risks impacting Farmers' customers, as a result of climate change, may generate higher volatility in claims.</p> <p>See also the responses to Question 3 and 5</p>	

<p>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.</p>	<p>Risks and Opportunities Question 3: “Other Risks” Question 6: “Other Opportunities”</p>
<p>Response: Our commitment to sustainable value creation in our investment portfolios, which support the promises we make to our insured customers, underpins Farmers’ investment strategy and decision-making. As a long-term investor focused on managing assets to liabilities, we believe that investors taking both financial and non-financial considerations into account when making investment decisions will be the most successful in the long term. Issues such as corporate governance, climate change, use of natural resources, health and safety, labor relations, and human rights can be important drivers of investment risk and reward.</p> <p>However, we do not believe that dedicating specific investment portfolios to climate issues creates sustainable value for our stakeholders. Our investment philosophy is centered on the key belief that capital markets generally do work. Therefore, climate factors which drive long-term economic value for society and the environment will ultimately be reflected in the value of investments available in capital markets.</p> <p>Our investments are primarily managed by third-party asset managers, and it is at this level that individual security selection decisions are made. These asset managers operate within agreed portfolio guidelines set by Farmers and take all aspects into account, both financial and non-financial, when managing Farmers’ individual portfolios to ensure maximum value creation. Our investment mandates are not explicitly structured to reflect environmental and social criteria. Such factors are not yet consistently priced into asset values as they are not yet discretely identifiable or measurable market risks.</p> <p>However, through a deeper appreciation and understanding of climate risks and opportunities, one can potentially generate significant skill-based returns going forward. The skill will be to identify which climate factors will directly impact the value of investment assets, and we have begun investigating ways to systematically incorporate the need for this skill into our selection of asset managers. We expect our asset managers to continue to develop these skills to sustain ongoing outperformance. Our core competency is selecting the right asset managers and evaluating them based on their superior investment processes.</p> <p>Farmers’ Chief Investment Officer is responsible for managing the funds generated by the Farmers insurance businesses, maximizing risk-adjusted returns while meeting regulatory requirements on its assets and other financial constraints. In constructing and managing our investment portfolio, we consider directly, and through our external asset managers, a very broad range of risks and opportunities. Irrespective of whether such risks are priced, it is prudent management to be aware of a wide variety of risk exposures which could affect the underlying values of our invested assets.</p>	

<p>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.</p>	<p>Risks and Opportunities Question 3: “Other Risks” Question 6: “Other Opportunities”</p>
<p>Just as it is our responsibility to our stakeholders to deliver long-term value creation by managing our business responsibly, it is also our responsibility to employ economically sound investment strategies and to demonstrate that we remain well versed of market developments. We engage in regular and ongoing dialogue with both internal and external experts, utilizing the expertise of our partners to review our investment strategy and policies and to arrive at a more thorough understanding of the broad range of factors that carry potential risk and opportunity in order to ensure the integrity of our investments. We will continue to integrate this knowledge into investment decisions to generate enhanced long-term value.</p>	

<p>6. Summarize steps the company has taken to encourage policyholders to reduce the losses caused by climate change-influenced events.</p>	<p>Risks and Opportunities Questions 4-6</p>
<p><u>Answer:</u></p> <p>In some states and for some products, Farmers offers a fortified home discount and a gas shut off valve discount. We publish materials for agents and customers that provide information about tornado and hurricane safety, fire safety and disaster recovery. We also make home inventory materials available, which customers may use to establish a record of their belongings. Some of these publications are available in other languages.</p> <p>We are working to implement a process that will allow us to contact some policyholders electronically when there is an approaching hurricane, and advise them of precautions that may be taken.</p> <p>Some of our officers are involved with organizations that have interests that intersect, or overlap with, the interests of organizations that focus on climate change. Examples are the Institute for Business and Home Safety (IBHS), the Insurance Institute for Highway Safety, and the Advocates for Highway and Auto Safety. For example, IBHS works to reduce the social and economic effects of natural disasters and other property losses by conducting research and advocating improved construction, maintenance and preparation practices.</p> <p>Some experts believe that climate changes have the potential to affect the frequency and severity of wildfire. Fire, by emitting greenhouse gases and aerosols, is also thought to contribute to overall global warming. Some researchers predict that in temperate regions, including the western United States, higher temperatures will extend wildfire seasons, with more occurring earlier and later in any given year. Farmers is active in multiple fire safety, prevention and training boards. These include the California State Board of Fire Services, which provides a forum for addressing fire protection and prevention issues. We also participate in the Fire Safe Council, which provides resources for establishing and maintaining local Councils, and the Fire Safety Institute, which focuses on providing quality firefighter training and promoting firefighter safety.</p>	

<p>7. Discuss steps, if any, the company has taken to engage key constituencies on the topic of climate change</p>	<p>Governance Questions 24, 26, 27</p>
<p>Answer:</p> <p>In some states, Farmers offers a hybrid and alternative fuel vehicle discount to our auto customers.</p> <p>For the homeowner’s market, in some states and for some products, we offer the Eco Rebuild endorsement. This provides additional coverage for the cost to rebuild, repair, or replace a home with “green” building materials. If the home is Energy Star Qualified, the endorsement covers the cost to upgrade damaged property to meet new minimum standards for Energy Star homes. Additionally, if the customer’s home is equipped with alternative power generating equipment, Eco Rebuild pays for additional costs to purchase power from a utility company, and compensates the insured for the loss of public utility credits or rebates.</p> <p>As indicated in our response to Question 6 above, some of our officers are involved with organizations that have interests that intersect, or overlap with, the interests of organizations that focus on climate change. These include the Institute for Business and Home Safety (IBHS), the Insurance Institute for Highway Safety, and the Advocates for Highway and Auto Safety. For example, IBHS works to reduce the social and economic effects of natural disasters and other property losses by conducting research and advocating improved construction, maintenance and preparation practices. We are also involved with organizations in Michigan that promote an environmentally conscious approach to business in that state. These are the Land Conservancy of Western Michigan and the Western Michigan Sustainable Business Forum.</p> <p>And, as mentioned earlier, Farmers is active in multiple fire safety, prevention and training boards. These include the California State Board of Fire Services, which provides a forum for addressing fire protection and prevention issues. We also participate in the Fire Safe Council, which provides resources for establishing and maintaining local Councils, and the Fire Safety Institute, which focuses on providing quality firefighter training and promoting firefighter safety.</p>	

<p>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.</p>	<p>Risks and Opportunities Questions 1-3</p>
<p><u>Answer:</u></p> <p>Changes to the frequency and severity of natural catastrophes, especially hurricanes, pose significant risk to our business. Farmers uses both internal and external catastrophe models to make its best assessment of prospective catastrophe risk for pricing purposes, subject to regulatory requirements. Our modeling work generates outputs on a deterministic and probabilistic basis which we use to manage our enterprise view of risk. While the modeling data and outputs continue to improve over time, there is still uncertainty around the outputs. Farmers views this uncertainty as a reason to be cautious and conservative in our selection and pricing of risk, and our overall tolerance of catastrophe exposure.</p> <p>We use tools to model our potential risks and have robust business continuity management and disaster recovery plans in place in the event a risk, or risks, materialize.</p> <p>See also the response to Question 3.</p>	

Attachment

<u>Company</u>	<u>NAIC Number</u>	<u>CA Direct Premiums Written</u>	<u>Nationwide Direct Premiums Written</u>
Farmers Insurance Exchange	21652	\$827,090,690	\$3,007,037,315
Truck Insurance Exchange	21709	\$339,714,259	\$792,522,481
Fire Insurance Exchange	21660	\$867,875,504	\$1,555,129,973
Mid-Century Insurance Company	21687	\$1,899,705,613	\$2,564,918,310
Civic Property & Casualty Company	10315	\$8,360,443	\$25,467,543
Exact Property & Casualty Company	10318	\$8,795,960	\$8,882,368
Neighborhood Spirit Property & Casualty Company	10317	\$22,230,672	\$24,322,955
Farmers Reinsurance Company	10873		
Coast National Insurance Company	25089	\$26,113,136	\$471,137,307
21st Century Superior Insurance Company	43761	\$(1,572,643)	\$(1,572,643)
21st Century Insurance Company	12963	\$656,493,156	\$713,367,269
21st Century Casualty Company	36404	\$12,705,078	\$23,126,395
TOTALS		\$4,967,511,868	\$9,184,339,273