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.
California Department of Insurance

INSURER CLIMATE RISK DISCLOSURE SURVEY
For Calendar Year 2009

Due Date: May 1, 2010

<table>
<thead>
<tr>
<th>Company Name: MERCURY CASUALTY COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAIC No. 11908</td>
</tr>
<tr>
<td>CA Direct Premiums Written $619,284,628</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Survey Questions</th>
<th>Comparable CDP Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Does the company have a plan to assess, reduce or mitigate its emissions in its operations or organizations? If yes, please summarize. <strong>Answer:</strong> No.</td>
<td></td>
</tr>
<tr>
<td>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? <strong>Answer:</strong> The only climate change risk that we consider currently has to do with hurricane frequency. Because of the predicted increase in hurricane frequency, we are taking numerous steps to monitor, control or even reduce exposure to catastrophic losses caused by hurricanes. The company does not have an Investment climate change policy.</td>
<td></td>
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<tr>
<td>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. <strong>Answer:</strong> None</td>
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</tr>
<tr>
<td>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. <strong>Answer:</strong> The main climate change risk that we face has to do with hurricanes and property losses caused by those hurricanes. There is a prediction 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, we would have exceptionally high demands on our claims staff. Next, we could experience a severe drain on capital. Third, we might have to sell investment assets to generate cash at a time when the value of those assets is depressed.</td>
<td></td>
</tr>
</tbody>
</table>

**Risks and Opportunities Questions 1-3**
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:** No. Climate change is not a risk consideration for evaluating investment risk.

| Questions 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:** Our homeowners 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, we offer a number of credits for utilization of better building materials. Common examples would be credits for the installation of storm shutters or roofing materials that offer superior wind resistance. Second, we surcharge areas that are prone to weather related events thus encouraging home building in less risky locations.

| 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:** None

| Governance 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.  
**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. We monitor our accumulations of insured value by zip code, and we shut off new business, when permitted, in areas where our insured value has surpassed our tolerance for loss. We 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 our most heavily managed state in this regard.
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 than 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.
California Department of Insurance

- 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**

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


**Life and Health Insurers and Climate Change**


**Climate Change Disclosure**


**Climate Change Science**