California Department of Insurance

INSURER CLIMATE RISK DISCLOSURE SURVEY
For Calendar Year 2009

Due Date: **May 1, 2010**

Company Name:	State Compensation Insurance Fund				
NAIC No.	35076	**NAIC Group No.**	0000	**Domiciled State:**	CA
CA Direct Premiums Written	1,287,041,223	**Nationwide Direct Premiums Written**	1,287,041,223		

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**: State Fund has established a sustainability program ("go Green") designed to reduce our emissions/carbon footprint related to daily operations. The program has made extensive changes to the operating procedures at State Fund facilities and has engaged in an extensive outreach/education program to our staff. State Fund also maintains a strong rideshare/public transit incentive program for all staff, including transit-friendly placement of some of our largest offices. State Fund is one of the top participants overall with PG&E and their rebate and energy efficiency programs. The go Green program has generated cost savings and utility rebates. Some examples of State Fund activities under go Green that have significantly reduced our environmental impact: • LEED Gold certified campus including a data center, and use of LEED standards in all new construction projects, including diversion of construction waste • Server virtualization project, reducing 900 servers to 90, reducing our real estate footprint, energy consumption, and carbon emissions. • Solar power has been installed at our LEED Gold Campus and primary data center • Re-lamping our facilities with energy efficient bulbs. • Automated shut-down of computers and peripherals after work hours. • Scheduling shut down of lights, HVAC, and other building systems during non-business hours • Participation in the utility's demand response program, curtailing use at peak demand where geographically	Performance Question 21

desirable. • Consolidation of staff within existing facilities to minimize HVAC and lighting needs, and consolidation of office locations to reduce real estate footprint.	
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**: No. Overall enterprise risk management is centered in a Risk Committee, a subcommittee of our Executive Committee. The Risk Committee is supported by a Governance, Risk and Compliance Committee composed of middle managers.	
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**: Such risks would be identified and discussed with respect to mitigation in the normal course of our Risk Committee's and Governance, Risk & Compliance Committee's Discussions. The Board of Directors exercises ultimate responsibility for enterprise risk management for the organization and oversees the work of the Risk Committee. We have not issued a statement on our climate policy.	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**: As a California workers compensation company, our catastrophe risk exposures are principally earthquake and terrorism, not considered climate related. We would also be increasingly exposed to wildfire related injures, although these are not of a magnitude approaching the above catastrophic risks, principally because wildfires typically start in more rural areas and people usually have enough warning to evacuate exposed areas. We are however exposed to increasing heat related illnesses in our agricultural and construction accounts. Typical illnesses would include acute cases of dehydration, heat rash, heat stroke, respiratory irritation, eye irritation and asthma, and cumulative exposure cases of cataracts and skin cancer. From a financial standpoint we would expect increases in these illnesses to be incremental over time and manageable. Our Safety & Health	Risks and Opportunities Questions 1-3

Services Department has primary responsibility for client education and loss control, as discussed below.

Increasing temperatures could have significant impact on our California agricultural business, which amounts to about 10% of our overall business.

We have taken no action to limit geographic locations or industries because of climate related issues. Nor have we changed our pricing because of climate related issues.

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. We have not yet considered the impact of climate change on our investment portfolio, and will begin considering this once we have authority to invest in corporate bonds.

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:

Our Safety & Health Services Department in collaboration with CalOSHA and the California Farm Bureau Federation has a very active Heat Illness education program. We have attached a copy of this year's scheduled seminars, being given in both English and Spanish. We have also attached a sampling of safety newsletters sent to our agriculture and construction accounts addressing the issue of Heat Illness.

Risks and Opportunities
Questions 4-6

Underwriters have discretion in Merit Rating accounts of over $25,000 in premium. The existence and quality of an employer's safety program would typically be a consideration in such judgmental underwriting decisions.

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

Our efforts at policyholder education were discussed above. While we support industry research groups such as the California Workers Compensation Institute and the Workers Compensation Research Institute, these organizations don't focus on climate research.

Governance
Questions 24, 26, 27

8. Describe actions your company is taking to manage the risks

Risks and Opportunities

climate change poses to your business including, in general terms, the use of computer modeling. **Answer**: We are not using computer modeling to manage the risks climate changes poses to our business.	Questions 1-3

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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?

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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.