2024

Task Force on Climate-related Financial Disclosures Index

Palomar®

Task Force on Climate-Related Financial Disclosures (TCFD) Index

Palomar acknowledges that climate change represents one of the most intricate risks confronting society today. As a specialty insurance company providing earthquake, hurricane, and flood coverage, climate change directly influences both Palomar's business operations and its insured clients. In corporate reporting concerning climate change, the company adheres to and implements the recommendations set forth by the Task Force on Climate-Related Financial Disclosures (TCFD). The TCFD's framework, based on four pillars, offers valuable guidance for climate-committed entities like Palomar in disclosing and managing risks and opportunities within the evolving climate landscape.

Governance

Palomar's Board of Directors, directly and through our committees, oversees risk management policies and practices, including climate-related risks. In 2020, the Board of Directors established a Sustainability Committee (formally named Environmental, Social, and Corporate Governance Committee) that consists of Daina Middleton (Chairperson), Mac Armstrong, Daryl Bradley, and Martha Notaras. The Sustainability Committee oversees and provides guidance on the company's strategies related to a number of factors, including environment, health and safety, corporate social responsibility, governance, sustainability, and public policy matters relevant to Palomar's core business.

Specific duties include:

- Assisting the management team in setting general strategy relating to sustainability matters
- Developing, implementing, and monitoring initiatives and policies based on that strategy
- Overseeing communications with employees, investors, and shareholders with respect to sustainability matters

In 2023, Palomar established an Enterprise Risk Management (ERM) Committee, which meets twice annually at a minimum. The committee currently consists of Daryl Bradley (Chairperson), Mac Armstrong, Thomas Bradley, Martha Notaras, and the company's President and Chief Risk Officer, who act as management participants.

The ERM Committee is responsible for the following duties:

- Assisting in setting general strategy with respect to enterprise risk management, and to consider and recommend policies and practices that conform with the strategy
- Assisting in overseeing internal and external material communications regarding the company's position or approach to enterprise risk management
- Assessing and monitoring the risk management framework employed to manage enterprise risks

Palomar's President and Chief Risk Officer oversee risk management policies and practices, including those related to climate risk. These executives consult climate data and other pertinent information to direct the company's product development and business strategy. Additionally, the Chief Executive Officer, Chief Legal Officer, and Chief of Staff lead the company's sustainability strategy and supervise the implementation of ESG-related initiatives.

Strategy

Palomar acknowledges the impact of climate change on the frequency, severity, and geographical distribution of extreme weather events, a trend documented by organizations such as the World Meteorological Organization (WMO) and the National Oceanographic and Atmospheric Administration (NOAA). The company closely examines research from these organizations to inform its business strategies. Utilizing climate models like the International Panel on Climate Change (IPCC) model, Palomar assesses the increasing risk of physical climate change, particularly in the next two decades if left unaddressed. As a specialty insurer specializing in coverage for hurricane and flood damage, Palomar is particularly concerned about the long-term continuation of these trends. While recognizing that short-term natural climate variability may have a more immediate impact on natural catastrophe losses, the company remains attentive to both short-term (three-to-five years) and long-term (five-to-ten years) time horizons. The long-term perspective serves as the foundation for developing mitigation strategies. Palomar views near-term climate-change-related risks as manageable and foreseeable, while recognizing that long-term risks are elevated and marked by significant uncertainty. The potential expansion of disaster footprints could influence the company's decisions regarding product offerings and features.

Palomar is exposed to the physical risks of climate change through the underwriting of personal and commercial property risks. While assessing and managing the impact of extreme weather events is part of its core business competency, changes in the frequency and severity of events caused by climate change add to the challenges in accurately measuring expected impacts. There is also a risk that physical events may reduce the profitability of investments across asset classes (e.g., equities or corporate bonds), though analysis suggests that significant impairments would be required for Palomar's portfolio to be materially impacted. Palomar considers the risk to its own operations from climate risk as less material, as it is generally not located in highly exposed areas, and business continuity plans are in place to react to relevant extreme weather events. As an innovative insurer, Palomar is positioned to provide climate change-informed products and services that enable existing and prospective customers to better understand and manage their exposure to climate risks. The company also invests in community resilience through both the provision of property insurance and investments in nongovernmental organizations such as Team Rubicon, which assists communities in rebuilding in the immediate aftermath of catastrophic events. As a leading provider of insurance solutions for earthquakes, hurricanes, floods, and other perils exacerbated by climate change, Palomar sees an opportunity to lead its industry and partner with private and public stakeholders to build a more sustainable, secure future.

Each major economy is likely to respond to transition risks in specific ways, and within different time periods. Shifts toward a low-carbon economy carried out in specific sectors are likely to affect not only those individual sectors, but other parts of the economy as well. There are at least three aspects to consider within this transition process: effect on technologies, economies, and society. The insurable risks related to these transitions could develop in many ways. Achieving a transition to a low-carbon economy requires fundamental changes to all parts of the economy. While limiting climate change to 2°C or below will lower physical climate risk, the technological and policy changes required to achieve this create their own sets of risks. Independent of the precise pathway, the transition could be disruptive, as significant asset price moves are required to shift resources to low-carbon technology on a global scale. Changes in public perception and the regulatory landscape could reshape legal and reputational risks. Transition risks are more uncertain than physical risks. We use a climate scorecard to measure transition risk-related indicators, with the assessment indicating that a physical risk path currently is significantly more likely than a transition path. However, transition risks and physical risks are not mutually exclusive and can potentially coexist, depending on the timing, speed, and effectiveness of the path followed.

Risk Management

Palomar's economic model is intricately linked to its coverage for natural disasters and catastrophes. The company acknowledges the prevailing scientific consensus attributing man-made changes, to climate conditions, to increases in sea levels, and global temperatures. Moreover, it recognizes that the severity and frequency of weather-related natural disasters may escalate relative to historical experiences. Palomar perceives this escalation, combined with projected demographic trends in catastrophe-exposed regions, as factors likely to raise the average economic value of expected losses and the number of people exposed annually to natural disasters, thereby exacerbating disaster risk. This heightened risk extends to infrastructure, global supply chains, and agricultural production. Beyond the direct impacts of environmental incidents on its operations, Palomar anticipates that changes to laws and regulations related to climate change could also directly affect its business. This includes potential shifts in state insurance regulations that might affect its ability to manage property exposures in vulnerable areas, as well as possible new requirements for insurers to integrate the financial risk of climate change into their business operations and governance. Additionally, the ERM Committee, guided by the Own Risk and Solvency Assessment (ORSA) model developed by the National Association of Insurance Commissioners, assumes responsibility for assessing and monitoring Palomar's risk management strategy and framework. From an underwriting perspective, Palomar prudently evaluates the development and deployment of insurance products in coastal areas susceptible to rising sea levels. The company integrates scenarios involving elevated sea surface temperatures and other relevant data into its catastrophe modeling. As part of its risk management practices, Palomar utilizes third-party vendor catastrophe modeling tools to estimate its exposure to weather risk across various lines of business, both on a per occurrence and aggregate basis. Its modeling process generates exceedance probability curves, against which it evaluates its modeled net retained weather risk concerning specific probable maximum loss (PML) return periods.

Palomar acknowledges the potential impact of climate change on the frequency and severity of weather-related events in the regions where it provides hurricane and flood coverage. In response to these risks, the company has implemented specific underwriting guidelines and criteria to mitigate its exposure. Palomar has also established a robust reinsurance program aimed at addressing and mitigating the risk of significant climate change affecting its business operations. Collaborating with catastrophe modeling firms such as AIR Worldwide (AIR) and Risk Management Services (RMS), both of which utilize the latest IPCC models, Palomar evaluates climate-related risks to its core underwriting portfolio. Moreover, the company utilizes data from authoritative sources like the National Weather Service and the National Hurricane

Center to ensure comprehensive risk assessment in its respective markets. While Palomar takes pride in offering insurance products that support resilience post-disaster by aiding policyholders in rebuilding their properties, it also recognizes the importance of mitigating the severity of such events through responsible climate management. Thus, in its own operational activities, including office functions, mobile combustion, and business travel, Palomar is committed to reducing its environmental footprint. The company provides its team with a hybrid work environment, catering to changing needs while concurrently reducing its carbon emissions. Furthermore, for a portion of its residential inspections, Palomar employs a leading photo and video verification platform, thereby minimizing its carbon footprint by eliminating the necessity for physical site visits by inspectors.

Palomar conducts regular and ongoing reviews, monitoring, and assessments of catastrophe model literature, papers, and publications to evaluate their potential impact on the company's operations. Through computer simulations, tests are conducted to gauge the effects of climate changes on Palomar's business and its policyholders. Utilizing weather-related computer models, the company assesses its risk concentration, claims frequency, and product pricing, thereby ensuring consumer confidence in its ability to respond effectively to catastrophes as they arise. Additionally, Palomar's reinsurance brokers play a role in evaluating how climate change might influence the company's business operations.

Metrics and Targets

Palomar is in the process of identifying key performance indicators (KPIs) to track and ensure improvement in the mitigation of operational and investment-related risks. In a push towards creating a greener workspace, Palomar is actively adopting practices and policies that promote sustainability and environmental responsibility. The company encourages a hybrid work model that offers team members increased flexibility while also reducing the environmental impact of daily commuting and gas consumption. Within its California and Minnesota office spaces, Palomar has implemented several eco-conscious measures, including the installation of refillable water stations to encourage a shift away from single-use plastic bottles. The company is also committed to energy efficiency, having installed LED and compact fluorescent lamps in both locations. Motion sensors strategically placed in offices and hallways automatically turn off lights when no movement is detected, further reducing energy consumption. Additionally, Palomar has provided team members with reused dual computer monitors to minimize the need for paper and printing.

Scope 1, 2, and 3 greenhouse gas (GHG) emissions and the related risks:

- Scope 1 GHG Emissions 222 tCO_2e
- Scope 2 GHG Emissions 704 tCO_2e
- Scope 3 GHG Emissions 14,666 tCO_2e
- Total GHG Emissions 15,593 tCO_2e

Palomar regularly consults predictive studies and analyzes disaster patterns after disaster events, allowing us to make the appropriate changes to our underwriting portfolio and business strategy.

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