



Approach to Managing Climate Risk

Introduction

Climate change could alter the business landscape. Our risk management takes into account the increasing severity and frequency of weather-related natural catastrophes. As an insurer, we will continue to provide our industry expertise in formulating public policy solutions that both mitigate weather-related risks and reduce impacts on those most vulnerable.

Background

Climate change refers to shifts in global average temperature, precipitation and wind patterns and is defined as a “change in the state of the climate that can be identified (e.g., by using statistical tests) by changes in the mean and/or variability of its properties, and that persists for an extended period, typically decades or longer.”¹

Rather than debate the causes or underlying reasons for climate change, Allstate focuses on the fact that increased severity and frequency of weather events and natural catastrophes impacts the cost and frequency of Allstate claims arising from droughts, flooding, hurricanes, forest fires, wildfires, and rising sea levels. Increasing frequency of catastrophic events and associated rate increases can

¹ Intergovernmental Panel on Climate Change, *Climate Change 2013: Physical Science Basis* (Cambridge: Cambridge University Press), 126.

also impact the Allstate customer experience. Our success depends in part on our ability to properly price, model, and underwrite climate-related risks and respond with climate-mitigating products and services. A changing climate also means we must identify risks and opportunities associated with changes in climate policy, technology, and physical risks.¹

Products and Services

Allstate seeks to maintain an understanding of climate risks that directly affect both our insurance products and our assets, and we modify those products and protect those assets accordingly, to protect our shareholders, our customers, and our reputation.

To that end, we provide the Homeowners Policy Green Improvement Reimbursement Endorsement, which allows a customer who purchased this endorsement to replace covered, damaged or destroyed appliances or equipment with more energy-efficient items and be reimbursed the additional cost incurred to replace them.

The additional reimbursement applies to certain categories of Energy Star® products rated as energy-efficient by the Environmental Protection Agency—appliances and equipment such as washers and refrigerators; computers and electronics; heating and cooling equipment, such as air conditioners and fans; and certain plumbing and building products. These products generally save electricity or water, reducing a home’s environmental impact while lowering homeowners’ utility bills. Because of their energy-efficient rating, Energy Star products may help consumers reduce their greenhouse gas emissions associated with their use of home appliances. The Homeowners Policy Green Improvement Reimbursement Endorsement is offered in most states.

Operations

Allstate is conscious of the environmental footprint of our operations and continuously strives to decrease our impact. Efforts include reducing companywide paper use and helping customers do the same, as well as promoting recycling and energy reduction efforts at our facilities.

We consider ways to adopt key environmental priorities into all business functions and departments, and develop goals and corresponding Key Performance Indicators (KPIs). Allstate's Sustainability Council, composed of senior leaders from across the company, reviews the company's operations and other factors to identify key opportunities related to sustainable business practices. The Sustainability Council meets three times annually to guide environmental efforts from an enterprise-wide perspective, encourage and enable employee engagement with the company's sustainability strategy, and identify opportunities associated with environmental responsibility and climate change. The Council is led by Allstate's Senior Vice President of Corporate Responsibility.

To mitigate Allstate's operational contributions to climate change, the Sustainability Council established an absolute emissions reduction goal and narrowed our environmental KPIs in two areas: paper consumption and energy usage.

In 2010, we pledged to reduce our energy use 20% compared to our 2007 baseline. Allstate surpassed this goal in 2014, six years ahead of schedule, and continues to work toward further reductions by consolidating office space; recapturing heat energy as a byproduct of Allstate's data center operations; and optimizing the use of energy-efficient equipment and systems, including HVAC equipment and controls, reduced lighting power density designs and daylight harvesting in Allstate's offices.

Many of our energy reduction efforts focus on Allstate's owned building portfolio, including our headquarters located in Northbrook, IL, which encompasses approximately 1.9 million square feet of office space.

Allstate is a national member of the U.S. Green Building Council (USGBC) and participates in its Leadership in Energy and Environmental Design (LEED®) program. We have three LEED® Accredited Professionals on staff.

Each year, Allstate discloses our companywide carbon footprint to stakeholders, including our GHG emissions and strategy to manage them, via the CDP (Carbon Disclosure Project) voluntary questionnaire. Allstate also discloses our climate risk strategy and mitigation actions, which include carbon emissions reduction efforts, through vehicles like the National Association of Insurance Commissioners' annual Climate Risk Survey.

Governance and Managing Climate Risks

Allstate manages enterprise risk under an integrated Enterprise Risk and Return Management (ERRM) framework with risk-return principles, governance, modeling and analytics, and importantly, transparent management dialogue. This framework provides a comprehensive view of risks and opportunities and is used by senior leaders and business managers to provide risk and return insights, and drive strategic and business decisions. Allstate's risk management strategies adapt to changes in business and market environments and seek to optimize returns.

Our risk-return principles define how we operate and guide decision-making around risk and return. These principles are built around three key operating components: maintaining our strong foundation of stakeholder trust and financial strength, building strategic value and optimizing return per unit of risk.

ERRM governance includes board oversight, an executive management committee structure, and chief risk officers. The Enterprise Risk & Return Council (ERRC) is Allstate's senior risk management committee that directs ERRM by establishing risk-return targets, determining economic capital levels and directing integrated strategies and actions from an enterprise perspective. The ERRC consists of Allstate's chief executive officer, president, business unit presidents, chief investment officers, enterprise and business unit chief risk officers and chief financial officers, general counsel and treasurer. Allstate's Board of Directors, Risk and Return Committee and Audit Committee provide ERRM oversight by reviewing enterprise principles, guidelines and limits for Allstate's significant risks, and by monitoring strategies and actions management has taken to control these risks.

Material risks, including those affected by climate, are regularly identified, measured, managed, monitored and reported to senior management and the Board. These risks include catastrophes and severe weather events, auto and property insurance underwriting, business continuity, and disaster recovery and investment concentration. Regulatory changes, customer behavior trends, and Allstate's public reputation are also considered.

Allstate manages and addresses risks on a short-term basis by continued development of the Sustainability Council. The Council ensures that risks and opportunities confronting company assets are considered when evaluating climate change-related risks at the enterprise level.

In addition, the company maintains a partnership with Ceres, a leading nonprofit organization that advocates for global sustainability leadership. Allstate also considers environmentally-friendly investment opportunities with attractive

risk/reward trade-offs, and the company's investment portfolio includes debt investments in renewable energy projects.

Allstate's long-term strategy includes managing the risk of hurricane loss by, among other actions, purchasing reinsurance for specific states and on a countrywide basis for our personal lines property insurance in areas most exposed to hurricanes, limiting personal homeowners, landlord package policy and manufactured home new business writings in coastal areas in southern and eastern states, implementing tropical cyclone deductibles where appropriate, and not offering continuing coverage on certain policies in coastal counties in certain states.

Sustainable Investments

While our investment portfolio is primarily invested to generate competitive returns while keeping risk to appropriate levels, we are proud to also incorporate social responsibility into our overall approach.

The company's investment portfolio includes support of environmentally-friendly and socially-responsible investment opportunities with attractive risk/reward trade-offs. The portfolio includes debt investments in wind, hydro, solar, and geothermal projects. In 2015, our investments included a low-income-housing tax credit (LIHTC) portfolio of \$491 million, a renewable energy portfolio of \$230 million, and a socially-responsible investment portfolio of \$51 million.

Public Advocacy for Climate Change Resilience

Climate change will likely exacerbate the frequency and severity of natural catastrophes.² Allstate recognizes the important role it plays in helping customers and communities prepare for and protect themselves from risks associated with climate change. That's why we partner with national and local organizations to better prepare and protect communities, strengthen the country's financial infrastructure to deal with major events, promote better loss prevention and mitigation through stronger building codes and sensible land use policies, and develop programs to strengthen the ability of first responders to help communities recover from catastrophe. To that end, Allstate has maintained critical partnerships aimed at building resilient communities.

The Allstate Foundation partners with agency owners and their local nonprofits to prepare communities for disasters by providing emergency kits and additional tools for creating resilient communities. These collaborative efforts increase awareness of weather-related risks and help people better protect themselves and loved ones.

Allstate is an active member and financial supporter of the Insurance Institute for Business & Home Safety (IBHS). The IBHS mission is to conduct objective, scientific research to identify and promote effective actions that strengthen homes, businesses, and communities against natural catastrophes and other causes of loss. Allstate partners with IBHS to promote more durable homes and commercial buildings by improving building practices and by strengthening building codes so our communities are more resilient against natural catastrophes.

² Intergovernmental Panel on Climate Change, *Climate Change 2013: Physical Science Basis* (Cambridge: Cambridge University Press), 126.

Closing

As stakeholders become increasingly interested in companies' environmental stewardship efforts and susceptibility to climate change, Allstate has embraced this opportunity to demonstrate leadership by committing to limit or reduce its impacts. In 2015, *Newsweek* magazine named Allstate one of the World's Greenest Companies (#81) for the sixth time. Allstate has also reduced resource use in its customer interactions. Allstate's paperless billing option, for example, is popular with customers who want to do their part to reduce their impact on the environment. Allstate believes its sustainability initiatives are intrinsically tied to its corporate citizenship and help strengthen employee and customer pride.