FAD-204 (12/09)

California Department of Insurance

INSURER CLIMATE RISK DISCLOSURE SURVEY
For Calendar Year 2010

Due Date: **May 1, 2011**

Company Name:	AAA Northern California, Nevada and Utah Insurance Exchange				
NAIC No.	15539	**NAIC Group No.**	1278	**Domiciled State:**	CA
CA Direct Premiums Written	$1,811,413,708	**Nationwide Direct Premiums Written**	$1,811,652,936		

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**: Please refer to the attached for responses to all the survey questions.	Performance Question 21
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**:	
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**:	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**:	Risks and Opportunities Questions 1-3

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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**:	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**:	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**:	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**:	Risks and Opportunities Questions 1-3

1. **<u>Does the company have a plan to assess, reduce or mitigate emissions in its operations or organizations? If yes, please summarize.</u>**

   Yes. We are a personal lines property/casualty insurer group primarily writing automobile and homeowners insurance policies, for AAA members, on risks located in 23 states and the District of Columbia, with a concentration of those risks located in Northern California.

   Most of the matters described in the answers to this survey involve activities conducted by us as an insurer-- the California State Auto Group-- referred to herein as the "Company". In some instances, we also describe efforts conducted by the AAA motor clubs for whose members we provide insurance, as those efforts have historically been symbiotic with ours.

   In furtherance of reducing or mitigating emissions, the following summarizes some of the efforts undertaken:

   - We have now completed the move of our company headquarters to a newly-constructed building in Walnut Creek (built to our specifications, and only a few blocks from a major BART public transit hub) which has earned the coveted LEED Gold Certification from the U.S. Green Building Council for energy efficiency, the first and only such award for any building in the county. The building uses 40% less water and 17% less energy than buildings of similar size. Many of the materials used for construction of the interior of the building came, themselves, from recycled or sustainably-grown materials, and our ongoing operations emphasize recycling and the use of post-consumer products.

   - Within the last 2 years we also opened a new Operations Center in Oklahoma City designed to: utilize energy-efficient air conditioning, reduce cold air loss through building openings, employ low-flow plumbing fixtures, and increase the use of natural lighting. In addition, the facility promotes employee use of bicycles and fuel-efficient vehicles. It has earned a Silver Certification from the U.S. Green Building Council's LEED program.

   - The membership magazine, VIA, sent to roughly 3.4 million AAA members, regularly showcases how motorists can reduce gasoline consumption to reduce their own carbon footprint.

- When designed and constructed in partnership with Pacific Gas & Electric Company our Antioch, California, office was hailed by PG&E as "California's most energy-efficient office building".

- Online resources for AAA members and insureds also highlight our "green" endeavors. They help members/insureds understand the differences, and the benefits, of purchasing hybrid fuel vehicles, how best to drive them for fuel efficiency, and the automobile insurance that we make available for owners of such hybrid vehicles.

- In recognition of our own corporate responsibilities, we have converted our entire insurance vehicle fleet to hybrids. According to Automotive Fleet (September 2010), this is the highest percentage of hybrids in any major private U.S. commercial fleet. The conversion saved 93,049 gallons of gasoline and reduces emissions by 827 tons in 2010.

- Throughout, we have also furthered our environmental commitment by annually offsetting our fleet's remaining carbon emissions, through TerraPass, for such leading-edge projects as wind-power and methane-reduction. As a result, our insurance vehicle fleet has been carbon neutral since 2007.

- AAA Emergency Roadside Service has added 8 Toyota Priuses to its fleet of tow trucks. The Priuses are dispatched when stranded motorists only need a jumpstart or other service that does not require a tow. By more efficiently servicing AAA members, each such vehicle is saving up to 140 gallons of fuel per month while still delivering the same level of service.

- Data centers are energy-intensive, so we have consolidated centers and boosted their energy-conservation characteristics. As part of this data center consolidation effort, we have built two energy efficient data centers that occupy a low carbon footprint. One data center is built in a co-location facility, which boasts the following:
    - Solar power – for noncritical facilities
    - Thermal cooling – supplements cooling
    - Is in the process of being “Green Grid” certified

  The other data center is built in a AAA facility, which delivers the following capabilities:
    - Hot air containment – generates 25-35% power savings by containing the hot air and improving the cooling ratio of the cooling units
    - In-row cooling – focus cooling only where and when it is needed
    - Modular growth (pods) – only build out what is needed, not all at once

- Variable fans on newer hardware – spins up and down based upon processing requirements

2. **<u>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?</u>**

   Yes. Our risk management and investment management are aware of the NAIC's endeavors in this regard, and have followed the development of this survey for some years. Throughout, and to the present, company policy has not changed. We have always viewed it as our responsibility, as an insurer, to monitor any changes that may affect our obligations to our customers and our exposure to loss, whether property loss or investment loss. The possibility of climate change and its potential consequences is merely one element in that continuing process and analysis

3. **<u>Describe your company's process for identifying climate change related risks and assessing the degree that they could affect your business, including financial implications.</u>**

   Please see our answer to Question 2. above. Beyond that, we offer the following observations:

   - The extent to which we are affected by climate change risks is minimized by our geographic distribution over 24 jurisdictions, with no direct written premium derived from Gulf-Coast or lower-Atlantic states, though a quota share reinsurance program does involve such states to some degree. The essential element of insurance is the spreading of risk, and by being geographically-diverse, but without concentration in windstorm-prone states, we have selected against that degree of adverse risk.

   - We have not yet observed any significant customer-demand-shift for products in the automobile or homeowners markets which we serve. However, we are always assessing how best to offer products that are relevant to the insuring situations and needs of our customers and, to the extent that climate change may require product and/or process changes we will be alert to such needs and prompt in our reaction. We have introduced a usage-based automobile program in Nevada, and an enhanced condominium owners policy in California which allows repair or rebuilding to be done to "green" standards.

- For the foreseeable future, we do not anticipate any material impact that potential climate change may have on our liquidity or capital needs. We robustly reinsure our operations to minimize the potential for surplus or cash flow impact as a result of catastrophic events, and our ample surplus can absorb an upward trending of losses, should that occur.

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 risks.**

   As a personal lines homeowners insurer, and to a lesser degree as a personal lines automobile insurer, our book of business has always been exposed to climate or weather-related losses of a potentially changing or catastrophic nature. As a result, product offerings, pricing and reinsurance, to name just a few factors, have always been undertaken with an understanding of and an eye toward the potential for large and multiple losses caused by weather or climate.

   Insurers in some other lines of business may, only now, be starting to consider how weather-related and climate change risks might affect coverages and losses under the policies they issue, but these issues are not new to us and have been continually factored into our operations.

   Nonetheless, we do recognize that if climate change is occurring it may require more frequent evaluation of available data in projecting and preparing for future losses to the properties and automobiles we insure.

   Weather and climate-related losses can also occur to our own property and personnel, and it is important that we be able to continue operations following such losses, in order to meet our contractual obligations to those customers we insure. To that end, we maintain geographically-separated and redundant capabilities, backed up by disaster-contingency plans, and have a large workforce that can be redeployed to affected areas as needed.

   Geographically, we are exposed to weather or climate-related risks in all the jurisdictions in which we are doing business, but the majority of our direct writings are in Northern California and the western United States. As noted earlier, we do not directly write in Gulf Coast or lower-Atlantic states and therefore have a significantly lower windstorm exposure than many other homeowner and automobile insurers.

The Company has full-time management for catastrophe exposure, and is constantly reassessing its catastrophe business plans in light of available data and technology.

5. **<u>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.</u>**

   The Company's investment policy balances competing objectives in a manner appropriate for funding our liabilities. We seek an optimal total return and income for an appropriate level of risk. Diversification of risk across asset class, security type, industry, geography, credit quality, duration, etc., is a key tool we use to accomplish our objectives. The effect of climate change across these characteristics is just one of the myriad of risks that may affect investments. At this time we have not altered our investment policy to address climate change as a separate risk factor.

6. **<u>Summarize steps the company has taken to encourage policyholders to reduce the losses caused by climate change-influenced events.</u>**

   Encouraging automobile drivers to reduce their emissions is one way to help reduce the accumulation of greenhouse gases that may contribute to climate change.

   Depending on the state, our automobile insureds can utilize:

   - Tips and videos on how to make all vehicles more fuel efficient.
   - Classes to train hybrid vehicle owners how to optimize their fuel efficiency.
   - Automobile insurance savings designed to encourage the purchase and use of hybrid and alternative-fuel vehicles.
   - New insurance programs that are usage-based, which encourage people to drive less.
   - Discounts on carbon offset purchases through TerraPass and other Green Show Your Card and Save Partners.

   Through the membership magazine, homeowner insureds regularly receive information and loss-prevention tips regarding such things as:

- How to help reduce the risk of loss from wildfires, which many believe may be affected by climate change in terms of increased frequency and severity.

- The availability of flood coverage through the National Flood Insurance Program. This does not directly help prevent loss, but it does help prevent uninsured losses.

Certain of our homeowner insurance policies provide coverage for building code upgrades, which means that, following a loss, a property may be repaired or rebuilt to more exacting and more loss-resistant standards.

Home inspections on new homeowner business can identify hazards of the property that could lead to or increase the magnitude of loss. In many cases, applicants can be made aware of property improvements that would make the property both insurable and less prone to future loss from weather-related events.

And, as noted above, a new and enhanced condominium owners policy in California allows repair or rebuilding to be done to "green" standards.

7. **<u>Discuss steps, if any, the company has taken to engage key constituencies on the topic of climate change.</u>**

Clearly, a key constituency in this process is our customer base of insureds. Our responses above to survey questions 1, 5 and 6 set forth the educational and other efforts undertaken with regard to that constituency.

Over the years AAA has actively supported the Clean Air Act, policies around clean vehicles and clean fuels, and the development of public transit systems, both in matters before Congress and in matters before state legislatures.

AAA worked with the California, Nevada and Utah legislatures to declare November as Alternative Fuels Awareness Month in all three states in 2010. Each state resolution highlights how a consumer's choice in vehicle can significantly impact the environment and air quality, and highlights state leadership's efforts to reduce greenhouse gas emissions. To support the resolutions, AAA plans activities throughout the month to raise awareness about emerging clean fuel and vehicle options for consumers.

AAA has a long-standing partnership with the Institute of Transportation Studies at the University of California at Davis, a world leader in alternative fuel and vehicle research, sponsoring one of the first studies on the environmental impact of hybrid vehicles.

AAA also launched and helps fund the AAA Greenlight Fellowship at the UC Davis Institute of Transportation Studies, to assist minority students in the academic study of clean vehicles and fuels.

We have no individual shareholders and are not publicly-traded. However, as mentioned in earlier responses above, we provide insurance to members of AAA motor clubs, and those members are an additional key constituency for the environmental education efforts that are extensively described above.

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.**

As more fully set forth in our response to survey question 4, as a personal lines automobile and homeowners insurer we have a long history of assessing weather and climate-related risks, and of underwriting, pricing and reinsuring those risks in contemplation of both ongoing "normal" losses and the less frequent but potentially catastrophic loss or losses. Our ample surplus also serves as protection against an upward trending of losses, should that occur.

Because of our geographic distribution of risk, we are less exposed than many insurers to severe windstorm or wildfire losses, both of which could be affected by climate change in terms of frequency and severity. Nonetheless, we do recognize that if climate change is occurring, it could have many different temperature and weather-related manifestations that require that insurers, including ourselves, more frequently review and analyze the available data, as well as the methodologies (including models) used to analyze that data.

We utilize the catastrophe models of two major third-party modeling vendors to assist in determining our reinsurance program structure, and we purchase to a very conservative return period so that, in the event of increased catastrophic activity, we have a strong reinsurance program in place, sufficient to address multiple catastrophic events, if necessary.

While we are not overly exposed to windstorm loss from hurricanes, the catastrophe models we employ are, themselves, now utilizing conservative assumptions--a "medium-term" hurricane event set, representing the next five years of expected activity, as opposed to the historical record of activity, and a "warm sea-surface temperature" event set. Such event sets are also often called "near-term".

In summary, we will continue to do what we have always done--address emerging insuring issues and needs using sound underwriting, pricing and loss control methodologies. We will be alert to proper levels of concentration of risk and the types of risk involved. We will continue to have our own business continuity plans and disaster-preparedness contingency plans. Surplus adequacy, proper reserving, intelligent investing, attention to developments in predictive modeling and data, and ample reinsurance will be maintained. As climate change risk continues to be studied, measured and understood, it will be a factor to be considered in all of these basic insurance endeavors.

We will continue to conduct our own business operations in an environmentally-aware manner, and will continue to educate and work with AAA members, our insureds, regulators, legislators, academicians and the media to both understand and address any challenges that climate change may present.