In 2018, the Allstate family of companies and those we serve felt the impact of severe weather. Although our business withstood the effects of elevated natural catastrophes, we understand the need to continue to build adaptability and resiliency to climate change into our business activities.

The increased frequency and severity of weather events and natural catastrophes affect the cost and number of claims submitted by our customers. Associated rate increases can also impact the Allstate customer experience and our reputation. Our success depends, in part, on our ability to properly model, price and manage climate-related risks, as well as develop products and services to address climate change.

A changing climate means we must identify risks and opportunities associated with extreme weather patterns, policy shifts and new technology.

Allstate works to understand climate risks that directly affect our insurance products and assets. Allstate’s Catastrophe Modeling and Analytics Team and pricing groups monitor climate change information and update product leadership. The team uses information from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Global Change Research Program (USGCRP) and the Actuaries Climate Index (ACI). The IPCC and USGCRP evaluate research by climate scientists around the world and conduct robust reviews to provide balanced information to decision-makers. The ACI provides an objective measure of extreme weather and sea levels over time and is updated quarterly.

Typically, Allstate’s rate-making evaluations rely on a 20- to 25-year historical retrospective view and project one to three years into the future, depending on whether the product is auto- or property-based, which aligns with Allstate’s three-year strategic planning cycle. Our analysis focuses on predicting business continuity, resiliency and solvency through a variety of catastrophe scenarios. The Catastrophe Modeling and Analytics Team also partners with our Investments group to model mortgage and real estate portfolios under consideration.
Governance

We manage climate risks within our integrated Enterprise Risk and Return Management (ERRM) framework, which applies risk-return principles, governance, modeling and analytics and transparent management dialogue. These principles are based on three key operating components: maintaining our strong foundation of stakeholder trust and financial strength, building strategic value, and optimizing return per unit of risk.

The ERRM framework provides a comprehensive view of risks and opportunities, Senior leaders and business managers use it 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.

The Enterprise Risk and Return Council (ERRC) is Allstate’s senior risk management committee that directs ERRM by establishing risk and 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, vice chair, area of responsibility (AOR) presidents, chief investment officer, enterprise and AOR risk and financial officers, general counsel and treasurer. Oversight of ERRM is the responsibility of the Board of Directors and the Risk and Return and Audit Committees. The ERRC provides ERRM oversight by reviewing enterprise principles, guidelines and limits for Allstate’s significant risks, and by monitoring the strategies and actions management has taken to control these risks.

We design Allstate’s overall executive compensation program based on performance and do not reward excessive risk-taking. There are short- and long-term incentive components. Monetary incentives for achieving corporate and performance goals include risk and return management, including managing risks affected by climate.

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As a member of the corporate executive team, Allstate’s chief procurement officer (CPO) incorporates sustainability initiatives into Allstate’s purchasing practices. Accordingly, the CPO has spearheaded a sustainability program within Sourcing & Procurement Solutions that will assess the environmental risks and opportunities within Allstate’s supply chain and purchasing operations, including the potential to reduce emissions for Allstate’s purchasing operations. One component of the monetary incentive compensation for the CPO and program development team is based on the successful implementation of this program within the department.
Material risks 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, disaster recovery and investment concentration and insured exposure concentration. Regulatory changes, customer behavior trends and Allstate’s reputation are also considered.

The greatest areas of potential catastrophe losses due to hurricanes are major metropolitan centers along the East and Gulf coasts of the United States. We have addressed our risk of hurricane loss through actions that include:

- Purchasing reinsurance for specific states and countrywide for our personal lines auto and property insurance in areas most exposed to hurricanes.
- Limiting personal homeowners insurance new business writings in coastal areas in Southern and Eastern states.
- Implementing tropical cyclone and/or wind and hail deductibles or exclusions, using facultative reinsurance where appropriate and continuing to not insure flood risk.

To further promote the accountability of Allstate’s material topics, including climate change, Allstate formed a Sustainability Council in 2007 that is composed of senior leaders representing every area of the company. Council members bring their perspectives and knowledge of the company’s operations and customers to identify key risks and opportunities related to sustainable business practices. The Sustainability Council meets three times annually to review existing and emerging environmental and social issues, identify opportunities and strategies to address these issues, and encourage and enable employee engagement with the company’s sustainability strategy. The council is led by Allstate’s vice president in Corporate Relations.

The Board of Directors receives special director education sessions on different topics and types of risk every year. In 2017, the Board requested a special director education session on severe weather and climate risk. Accordingly, we addressed climate risk with both the Board and executive-level leaders through conversations with the ERRC. We have not experienced meaningful changes to our climate change risk since the 2017 presentation.
Products and Services

Allstate continuously evaluates products to ensure our prices adequately reflect risks, including those related to climate change. We believe our management practices give us a strategic advantage in the marketplace.

Based on what we now know about climate change, particularly its slow rate of change from year to year, our current pricing methodologies would not result in more than a negligible amount of bias or error. To be as responsive to changing conditions as possible, we monitor state-specific risks and scientific consensus on climate change impacts, as well as competitor trends and competitor pricing methods. We also continually evaluate our pricing methodology to identify better ways to estimate future expected loss.

To help customers decrease their household carbon footprint, we provide the Homeowners Policy Green Improvement Reimbursement Endorsement, which allows a customer to replace damaged or destroyed appliances or equipment with more energy-efficient items and be reimbursed the additional cost to replace them.

The additional reimbursement applies to certain categories of Energy Star®-rated products — such as washers and refrigerators; computers and electronics; heating and cooling equipment; and certain plumbing and building equipment. These products generally save electricity or water, reducing a home’s environmental impact while lowering homeowners’ utility bills. Allstate offers the Homeowners Policy Green Improvement Reimbursement Endorsement in most states.
Public Advocacy

We use our industry expertise to formulate public policy solutions that address weather-related risks and reduce their impact.

Allstate understands that climate change will likely exacerbate the frequency and severity of natural catastrophes. Consequently, 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 first responders’ ability to help communities recover from catastrophe.

Allstate maintains 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 other tools. 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 through better building practices and stronger codes. By working to increase resiliency, Allstate saves lives and reduces the cost of severe weather and natural disasters.