



Highlights of [GAO-07-820T](#), testimony before the Select Committee on Energy Independence and Global Warming, United States House of Representatives

### Why GAO Did This Study

Weather-related events in the United States have caused tens of billions of dollars in damages annually over the past decade. A major portion of these losses is borne by private insurers and by two federal insurance programs—the Federal Emergency Management Agency’s National Flood Insurance Program (NFIP), which insures properties against flooding, and the Department of Agriculture’s Federal Crop Insurance Corporation (FCIC), which insures crops against drought or other weather disasters.

In this testimony, GAO (1) describes how climate change may affect future weather-related losses, (2) provides information on past insured weather-related losses, and (3) determines what major private insurers and federal insurers are doing to prepare for potential increases in such losses. This testimony is based on a report entitled *Climate Change: Financial Risks to Federal and Private Insurers in Coming Decades are Potentially Significant* (GAO-07-285) released on April 19, 2007.

### What GAO Recommends

In its report, GAO recommended that the Secretaries of Agriculture and Homeland Security analyze the potential long-term fiscal implications of climate change for the FCIC and the NFIP, respectively, and report their findings to the Congress. Both agencies expressed agreement with the recommendation.

[www.gao.gov/cgi-bin/getrpt?GAO-07-820T](http://www.gao.gov/cgi-bin/getrpt?GAO-07-820T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact John Stephenson at (202) 512-3841 or [stephensonj@gao.gov](mailto:stephensonj@gao.gov).

## CLIMATE CHANGE

# Financial Risks to Federal and Private Insurers in Coming Decades Are Potentially Significant

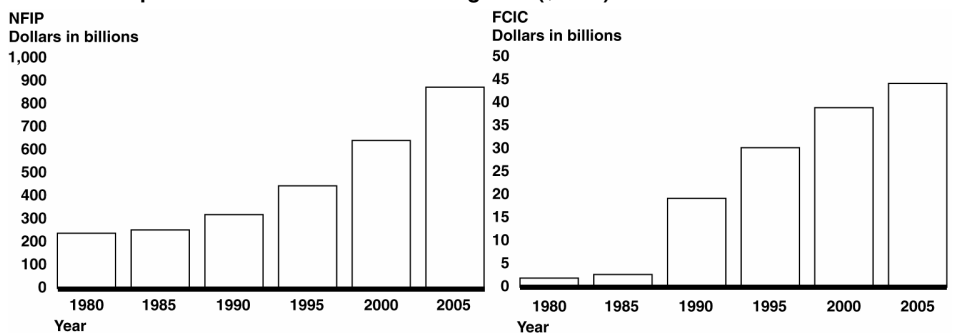
### What GAO Found

Key scientific assessments report that the effects of climate change on weather-related events and, subsequently, insured and uninsured losses, could be significant. The global average surface temperature has increased over the past century and climate models predict even more substantial, perhaps accelerating, increases in temperature in the future. Assessments by key governmental bodies generally found that rising temperatures are expected to increase the frequency and severity of damaging weather-related events, such as flooding or drought, although the timing and magnitude are as yet undetermined. Additional research on the effect of increasing temperatures on weather events is expected in the near future.

Taken together, private and federal insurers paid more than \$320 billion in claims on weather-related losses from 1980 to 2005. Claims varied significantly from year to year—largely due to the effects of catastrophic weather events such as hurricanes and droughts—but have generally increased during this period. The growth in population in hazard-prone areas and resulting real estate development have generally increased liabilities for insurers, and have helped to explain the increase in losses. Due to these and other factors, federal insurers’ exposure has grown substantially. Since 1980, NFIP’s exposure nearly quadrupled to nearly \$1 trillion in 2005, and program expansion increased FCIC’s exposure 26-fold to \$44 billion.

Major private and federal insurers are both exposed to the effects of climate change over coming decades, but are responding differently. Many large private insurers are incorporating climate change into their annual risk management practices, and some are addressing it strategically by analyzing its potential long-term industry-wide impacts. In contrast, federal insurers have not developed and disseminated comparable information on long-term financial impacts. GAO acknowledges that the federal insurance programs are not profit-oriented, like private insurers. Nonetheless, a strategic assessment of the potential implications of climate change for the major federal insurance programs would help the Congress manage an emerging high-risk area with significant implications for the nation’s growing long-term fiscal imbalance.

**Growth in Exposure of Federal Insurance Programs (\$2005)**



Source: GAO.