

## Insurance in a Warmer World

**Global warming is likely to have a big impact on the insurance industry, and it might make some types of insurance harder to find and to finance.**

**By Richard Hoops**

Insurance companies sometimes have to pay billions of dollars for repairs after hurricanes and other catastrophic weather events. They might have more of these events to worry about in a warmer world. Changes in the Earth's climate could raise the risk of floods, wildfires and other natural events, and experts say that will seriously affect the insurance industry.

Evan Mills is an expert in climate change risk analysis with the U.S. Department of Energy. Mills says insurance companies might need to make serious changes if extreme weather becomes more common. He says they might raise prices for insurance and they might drop some types of insurance altogether.

Mills says people might expect the federal government to cover these risks the way it now provides some insurance for crop damage and floods.

*"And that will be a challenge because the government doesn't particularly want to be in the insurance business. It's costly -- it's a net cost to the government. Even though they collect premiums, the existing programs are generally not solvent -- that is, they pay out more than they take in in claims."*

Mills says insurance rates are highly regulated today, and regulators might find themselves working without a map in the not-so-distant future.

*"It's the regulators who will decide and approve price increases, and it is by convention strictly based on historical experience. And so we will never see rate increases due to 'expected' climate change; we will only see rate increases, under the current structure, due to experience that we've had and that's actually very unfortunate because that habit is based on a history in which there was no reason to expect that the losses in future would be any different from the losses in the past."*

Mills says pattern of losses in the future will be different. And he says regulators might need to look ahead to set prices for insurance in a warmer world.

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### **Additional Information:**

[Insurance Loss Prevention and Risk Management through Sustainable Energy Technologies and Practices](#), Lawrence Berkeley National Laboratory, U.S. Department of Energy

[Evan Mills profile](#), Environmental Energy Technologies Division, Lawrence Berkeley National Laboratory, U.S. Department of Energy