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FISCAL IMPACT REPORT

ORIGINAL DATE 3/7/2007

SPONSOR Nunez LAST UPDATED _____ HJM 74

SHORT TITLE Climate Change Effect on Flood Insurance SB _____

ANALYST McOlash

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Non-Rec | Fund Affected |
|---------------|------|-------------------------|------------------|
| FY07 | FY08 | | |
| | NFI | | |
| | | | |

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Office of the State Engineer (OSE)

SUMMARY

Synopsis of Bill

House Joint Memorial 74 requests the Public Regulatory Commission (PRC) to make a one-year study of the impacts of climate change on the increasing costs of flood-control insurance.

FISCAL IMPLICATIONS

NFI

SIGNIFICANT ISSUES

House Joint Memorial 74 recognizes that New Mexico state agencies, including OSE, have conducted reviews of the possible effects of global warming and associated climate change. These agencies have concluded that both are occurring and will have negative impacts on the state. The situation at the federal level is quite different for political, not scientific, reasons.

Most U.S. insurers operate with a federal government that has continually questioned climate science, and has remained deeply divided on the issues of climate change and global warming.

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Overall, compared to their European counterparts, American insurance companies, and the industry as a whole, have done less to examine and manage the implications of climate change. In Europe, reinsurers and insurers operate in a political and cultural environment that has largely adopted the belief that anthropogenic climate change is not merely a reality, but one with effects that are observable and measurable already.

Property-casualty insurance companies in the U.S. have become extraordinarily sophisticated in understanding, analyzing, and managing their *current* risks due to natural catastrophes. However, current predictive models used by insurance companies do not even include scenarios to examine even the highly certain events (such as continued and accelerating future sea level rise, and continued future polar ice melting).

The industry models, used to set contract prices and inform planning cycles (typically a few years), are based on *current* and *historical* data to predict catastrophic risk. The models do not yet incorporate predicted changes in weather events due to climate change, or the predictions of climate scientists about impacts associated with global warming. U.S. insurance companies' ability to predict future risk is very slim and their ability to set insurance rates for climate change effects is severely limited.

BM/mt