



Highlights of [GAO-03-1033](#), a report to the Chairman, House Committee on Financial Services, the Chairman, Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises, and House Members

Why GAO Did This Study

In addition to potentially costing hundreds or thousands of lives, a natural or terrorist catastrophe in the United States could place enormous financial demands on the insurance industry, businesses, and taxpayers. Given these financial demands, interest has been raised in bonds that are sold in the capital markets and thereby diversify catastrophe funding sources. GAO was asked to update a 2002 report on "catastrophe bonds" and assess (1) their progress in transferring natural catastrophe risks to the capital markets, (2) factors that may affect the issuance of catastrophe bonds by insurance companies, (3) factors that may affect investment in catastrophe bonds, and (4) the potential for and challenges associated with securitizing terrorism-related financial risks.

GAO does not make any recommendations in this report.

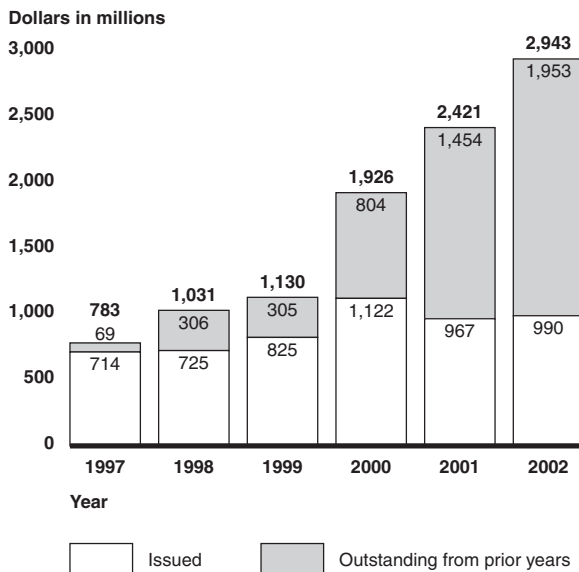
CATASTROPHE INSURANCE RISKS

Status of Efforts to Securitize Natural Catastrophe and Terrorism Risk

What GAO Found

The market for catastrophe bonds, as discussed in our 2002 report, has transferred a small portion of natural catastrophe risk to the capital markets. From 1997 through 2002, a private firm has estimated that a total of 46 catastrophe bonds were issued or about 8 per year. Another firm estimated that the nearly \$3 billion in catastrophe bonds outstanding for 2002 (see figure) represented 2.5 to 3.0 percent of the worldwide catastrophe reinsurance market. Some insurance and reinsurance companies issue catastrophe bonds because they allow for risk transfer and may lower the costs of insuring against the most severe catastrophes. However, other insurers do not issue catastrophe bonds because their costs are higher than transferring risks to other insurers. Although some investors see catastrophe bonds as an attractive investment because they offer high returns and portfolio diversification, others believe that the bonds' risks are too high or too costly to assess. To date, no catastrophe bonds related to terrorism have been issued covering potential targets in the United States, and the general consensus of most experts GAO contacted is that issuing such securities would not be practical at this time due in part to the challenges of predicting the frequency and severity of terrorist attacks.

Catastrophe Bond Issuance and Amount Outstanding (1997-2002)



Source: GAO, based on data provided by Swiss Re Capital Markets.

Note: Totals shown in bold above each bar represent the amount outstanding at end of year.

www.gao.gov/cgi-bin/getrpt?GAO-03-1033.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Davi M. D'Agostino at (202) 512-8678 or dagostinod@gao.gov.