

FEMA Expands its Reinsurance Program by Transferring \$400 Million in Flood Risk to Capital Markets

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FEMA continues to engage reinsurance markets to help strengthen the financial framework of the National Flood Insurance Program and promote private sector participation in flood-risk management.

On, Feb. 21, FEMA entered into the agency's third, three-year reinsurance agreement with Hannover Re (Ireland) Designated Activity Company. The company acting on FEMA's behalf, transferred \$400 million of the program's financial flood risk to qualified investors of capital markets. The company did this by issuing a catastrophe bond.

As part of the agreement, FEMA will pay \$50.28 million in premiums for the first year of reinsurance coverage. Additionally, the agreement will cover 3.33 percent of losses for any single flood event with losses between \$6 and \$9 billion, and 30 percent if that same flood event has losses that rise to \$9 to \$10 billion.

"Reinsurance is a lynchpin to help strengthen the financial framework of the flood insurance program," said FEMA's Deputy Associate Administrator for Insurance and Mitigation David Maurstad, who is the senior executive in charge of the National Flood Insurance Program. "By engaging capital markets, FEMA is able to access alternative capital and grow its reinsurance program in a way that benefits policyholders and taxpayers, and expands the role of the private markets in managing flood risk in the United States."

This placement builds on the existing transfer of the program's flood risk to capital markets investors in August 2018 and April 2019, which transferred \$500 million and \$300 million, respectively, in flood risk for three years each. These capital market placements complement the program's existing traditional reinsurance coverage, allowing FEMA to grow the reinsurance program that protect against



future flood losses. Combined with two capital market placements and the January 2020 traditional reinsurance placements, FEMA has transferred \$2.53 billion of flood risk to the private sector ahead of the 2020 hurricane season.

Congress authorized FEMA to secure reinsurance through the [Biggert-Waters Flood Insurance Reform Act of 2012](#), and the [Homeowner Flood Insurance Affordability Act of 2014](#).

Visit [FEMA.gov](https://www.fema.gov) for more information about the [reinsurance programs](#) for the National Flood Insurance Program.

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