FEMA Expands its Reinsurance Program, Transfers $450 Million in Flood Risk to Capital Markets

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

For a fifth time, on Feb. 22, FEMA entered into a three-year reinsurance agreement with Hannover Re (Ireland) Designated Activity Company. In turn, Hannover transferred $450 million of the program’s financial flood risk to qualified investors of capital markets by sponsoring catastrophe bonds.

As part of the agreement, FEMA will pay $61.23 million in premiums for the first year of reinsurance coverage. Additionally, the agreement will cover the following losses for any single flood event:

- 2.5% of losses between $6 and $7 billion.
- 5% of losses between $7 and $9 billion.
- 32.5% of losses between $9 and $10 billion.

“The growing intensity and frequency of weather patterns brought on by climate change is essential to FEMA’s ongoing commitment to use reinsurance as an integral tool to help strengthen the financial framework of the NFIP,” said David Maurstad, senior executive of FEMA’s National Flood Insurance Program. “Accessing reinsurance from the capital and traditional markets spreads risk and in turn helps to stabilize and supplement the NFIP’s claims paying capacity in the event of catastrophic flooding. Using all facets of the risk-transfer market also makes FEMA good stewards of taxpayer dollars.”

This placement builds on FEMA’s transfer of the program’s flood risk to capital markets investors since 2018. Each placement is a three-year term:

- $575 million in February 2021.
- $400 million in February 2020.
- $300 million in April 2019.

Combined with the other outstanding bonds (FloodSmart 2019-1, FloodSmart 2020-1 and FloodSmart 2021-1) and the January 2022 traditional reinsurance placement, FEMA has transferred $2.664 billion of the NFIP's flood risk to the private sector ahead of the 2022 hurricane season. The FloodSmart 2018-1 reinsurance coverage terminated without a covered event occurring prior to the expiration of the third and last annual risk period ending July 31, 2021. The FloodSmart 2019-1 with $300 million in coverage will expire in March 2022.

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 for more information about the reinsurance programs for the National Flood Insurance Program.