

FEMA Expands Flood Reinsurance Program with Private Reinsurers for 2018

Insurance Journal

The Federal Emergency Management Agency (FEMA) has completed a reinsurance placement with 28 private reinsurers to help the National Flood Insurance Program (NFIP) recover losses it may have to pay in 2018. Expanding on its first private reinsurance placement last year of \$1.042 billion, the 2018 deal calls for FEMA to transfer up to \$1.46 billion of the NFIP's financial risk to the private reinsurance market. This new reinsurance agreement is effective from January 1, 2018, to January 1, 2019. The 2018 reinsurance plan covers portions of NFIP losses above \$4 billion arising from a single flooding event. According to FEMA, the agreement is structured to cover 18.6 percent of losses between \$4 billion and \$6 billion, and 54.3 percent of losses between \$6 billion and \$8 billion. FEMA paid a total premium of \$235 million for the 2018 coverage. In January 2017, FEMA paid a total premium of \$150 million for its 2017 reinsurance agreement with 25 reinsurance markets. Under the 2017 reinsurance agreement, reinsurers agreed to indemnify FEMA for flood claims on an occurrence basis. It was structured to cover 26 percent of losses between \$4 billion and \$8 billion, up to a maximum of \$1.042 billion. On Nov. 6, 2017, FEMA said it surpassed \$4 billion in paid claims to insured flood survivors of Hurricane Harvey, triggering the 2017 NFIP reinsurance. According to FEMA, as of Jan. 1, 2018, it had paid more than \$7.6 billion in losses to policyholders affected by Harvey. NFIP total loss estimates range between \$8.5 billion and \$9.5 billion, which means FEMA is in a position to recover the entire \$1.042 billion in 2017 reinsurance. "Recent flooding disasters make even clearer the need for FEMA to share more of the financial risk from flood insurance with the private markets. Congress provided us the authority, and FEMA is committed to expanding the use of these risk transfer tools," said NFIP Director Roy E. Wright in a statement on the 2018 placement. "Expanding the role of the private markets in sharing the nation's flood risk remains a central tenant of FEMA's move toward a sustainable financial framework for the NFIP," Wright said. Historically, the NFIP was limited to using flood insurance premiums, available surplus, borrowing capacity from the U.S. Treasury, and in some cases direct appropriations from Congress to pay flood claims. FEMA received the authority to secure reinsurance through the Biggert-Waters Flood Insurance Reform Act of 2012, and the

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Homeowner Flood Insurance Affordability Act of 2014. To assist in securing the reinsurance placement, FEMA said it contracted with reinsurance broker Guy Carpenter, FEMA said it also contracted with Aon Benfield for financial advisory services for the placement. Right before its Christmas break, Congress approved a temporary funding measure to keep the government, including the federal flood insurance program, running. That authorization runs until Jan. 19 and Congress will have to approve a new measure for the NFIP to remain in operation. There have been calls in Washington to do more than just extend the current program. Various reform proposals would seek to curtail repeat claims and allow for more private insurance involvement. The Trump Administration has proposed ending federal flood insurance for new construction in areas most at risk of flooding. Related: U.S. Flood Program to Collect \$1 Billion in Reinsurance for Hurricane Harvey Claims Disasters Affected 8% of U.S. Population in 2017, FEMA Notes in Review of Historic Year National Flood Insurance Program Secures \$1 Billion in Reinsurance for 2017; 25 Reinsurers Participate As Congress Eyes Flood Insurance Renewal, Private Markets Get Ready Why Federal Flood Program Is Sinking Deeper Into Debt: CBO Report Growing Climate Risks May Be 'Impossible to Model' – and Ultimately Uninsurable

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