

FEMA Will Recover \$1.042 billion in Reinsurance from the Private Reinsurance Markets

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The Federal Emergency Management Agency (FEMA) announced today that it is submitting a claim to recover the full \$1.042 billion in reinsurance coverage under its 2017 Reinsurance Program. This claim is based upon the National Flood Insurance Program (NFIP)'s losses associated with Hurricane Harvey. Those paid losses exceeded the minimum threshold for the NFIP's reinsurance coverage.

Earlier this year, the NFIP transferred \$1.042 billion of the NFIP's financial risk to the private reinsurance markets, marking a key step towards a stronger and more resilient program.

In January 2017, FEMA executed the 2017 Reinsurance Agreement with 25 reinsurance markets representing some of the largest insurance and reinsurance groups around the globe. The 2017 placement of reinsurance will cover a portion of NFIP losses above \$4 billion arising from Hurricane Harvey, saving taxpayers almost \$1 billion.

Under the 2017 Reinsurance Agreement, reinsurers agreed to indemnify FEMA for flood claims on an occurrence basis. It is structured to cover 26 percent of losses between \$4 billion and \$8 billion, up to a maximum of \$1.042 billion. FEMA paid a total premium of \$150 million for the coverage.

On November 6, 2017, FEMA surpassed \$4 billion in paid claims to insured flood survivors of Hurricane Harvey, triggering the NFIP reinsurance placement. While FEMA is working diligently to understand the full extent of losses to the 2017 NFIP, loss estimates range between \$8.5 billion and \$9.5 billion, which would mean that FEMA will recover the entire \$1.042 billion in reinsurance. FEMA sent initial bills to reinsurers today.



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So far, the trifecta of Hurricanes Harvey, Irma and Maria generated more than 120,000 NFIP claims, marking the second largest claims year in NFIP history. NFIP has paid over \$6.687 billion in claims so far, with processing ongoing. Reinsurance will not impact claims payments to insured flood survivors.

FEMA's 2017 reinsurance placement was a cornerstone for a multi-year strategy that promotes private sector participation in flood-risk management. FEMA is in the process of securing a new reinsurance placement for 2018.

FEMA received the authority to secure reinsurance through the Biggert-Waters Flood Insurance Reform Act of 2012, and the Homeowner Flood Insurance Affordability Act of 2014. Hurricane Sandy claims (\$8.3 billion) in October 2012 and Hurricane Katrina claims (\$16.3 billion) in August 2005 resulted in program debt when the cost of flood policy claims far exceeded the NFIP's premium revenues; reinsurance places the NFIP in a better position to manage losses incurred from similar major events.

Title: Impact of Reinsurance on Hurricane Harvey Losses. Texas and Louisiana maps with the t

Source: Federal Emergency Management Agency (FEMA)



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