

# FEMA Announces Reinsurance Program to Manage Future Flood Risk in 2021

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**Release Date: January 5, 2021**

WASHINGTON -- FEMA has announced its 2021 traditional reinsurance placement for the National Flood Insurance Program (NFIP), continuing its risk management practice against catastrophic flood losses.

Reinsurance is a financial risk management tool used by private insurance companies and public entities to protect themselves from large financial losses. If a qualifying catastrophic flood event occurs, reinsurance companies cover a portion of the NFIP's losses to enhance FEMA's ability to pay flood insurance claims without borrowing from the U.S. Treasury. FEMA transferred an additional \$1.153 billion of the NFIP's financial risk to the private reinsurance market. This annual reinsurance agreement is effective throughout 2021 with 32 private reinsurance companies.

The 2021 reinsurance placement covers portions of NFIP losses above \$4 billion arising from a single flooding event. FEMA paid a total premium of \$195.8 million for the coverage.

The agreement is structured to cover:

- 9.43% of losses between \$4 billion and \$6 billion.
- 28.084% of losses between \$6 billion and \$8 billion.
- 20.168% of losses between \$8 billion and \$10 billion.

"We value the role of private insurance companies and investors in assuming a portion of the NFIP's flood-risk exposure from catastrophic flood events, which improves long-term financial outcomes for FEMA, the U.S. Treasury and federal taxpayers," said David Maurstad, FEMA's senior executive of the National Flood Insurance Program.

"The NFIP Reinsurance Program helps the NFIP to better prepare financially for potential losses from significant flooding events similar in size to hurricanes



**FEMA**

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Harvey (2017), Sandy (2012) and Katrina (2005), bolsters our claims paying capacity and reduces the reliance on the need to borrow from the U.S. Treasury.”

Combined with the three capital markets reinsurance placements in 2018-20, FEMA has transferred \$2.35 billion of the NFIP’s flood risk to the private sector.

If a named storm flood event is large enough to trigger all reinsurance agreements, FEMA will receive qualifying payments. For named storms resulting in NFIP claims exceeding \$10 billion, FEMA will receive the full \$2.35 billion of reinsurance coverage from the private markets.

FEMA contracted with Guy Carpenter and Company, a subsidiary of Marsh & McLennan Companies and Aon Reinsurance Solutions, to provide broker services to assist in securing the reinsurance placement.

FEMA received authority to secure reinsurance through the Biggert-Waters Flood Insurance Reform Act of 2012 and the Homeowner Flood Insurance Affordability Act of 2014. FEMA’s 2021 reinsurance placement builds upon its previous reinsurance placements as further development toward a stronger financial framework.

