Public Notice of FEMA’s Intended Procurement of Reinsurance February 2020

Release date:

May 2, 2020

AGENCY: FEDERAL EMERGENCY MANAGEMENT AGENCY, U.S. DEPARTMENT OF HOMELAND SECURITY

ACTION: NOTICE REPORTING ON FEMA’S PROCUREMENT OF REINSURANCE FOR THE NATIONAL FLOOD INSURANCE PROGRAM PURSUANT TO THE REVISED AGREEMENT ON GOVERNMENT PROCUREMENT (April 6, 2014) .

SUMMARY NOTICE:
The Federal Emergency Management Agency (“FEMA”) has obtained collateralized reinsurance for the National Flood Insurance Program (“NFIP”) effective on February 21, 2020 through February 20, 2023 from its transformer reinsurer, Hannover-Re (Ireland) DAC (“Hannover Re”). Following on FEMA’s April 16, 2019 insurance-linked securities (ILS) reinsurance placement , FEMA’s original supplier, Hannover Re used its special purpose insurer (SPI), FloodSmart Re Ltd. (“FloodSmart”) to issue a third series of catastrophe bonds to 144A investors, transferring additional federal flood risk to the capital markets.
FOR FURTHER INFORMATION CONTACT: FEMA’s Reinsurance Broker, Guy Carpenter and Company, LLC, or GC Securities, a division of MMC Securities LLC, at FEMA.GC@guycarp.com; or a FEMA representative at FEMA-NFIP-REINSURANCE@fema.dhs.gov.

NOTICE:
Pursuant to the Revised Agreement on Government Procurement (April 6, 2014) (herein “GPA”), Articles XIII (2) and XVI (2), and the National Flood Insurance Act

of 1968, 42 U.S.C. 4001 et seq., FEMA hereby provides notice of its additional placement of collateralized reinsurance for NFIP flood risk from its original supplier, Hannover Re (Ireland) DAC. The following information is provided pursuant to GPA, Articles XIII and XVI (April 6, 2014):

(a) Description of the goods or services procured: FEMA has obtained $400 million in collateralized reinsurance transferring additional NFIP flood risk to the capital markets (144A investors) via its transformer reinsurer effective February 21, 2020 – February 20, 2023;

(b) The name and address of the procuring entity: The Federal Emergency Management Agency, a component of the U.S. Department of Homeland Security, on behalf of the National Flood Insurance Program, 500 C St. SW, Washington D.C. 20472;

(c) The original supplier: Hannover Re (Ireland) DAC, No. 4 Custom House Plaza, I.F.S.C, Dublin I Ireland, a transformer reinsurer utilizing the special purpose insurer, FloodSmart Re Ltd, established for the purpose of transferring NFIP flood risk to the capital markets;

(d) The value of the successful tender: $400 million of collateralized reinsurance from Hannover Re, transferred through the special purpose insurer, FloodSmart Re Ltd. to the capital markets;

(e) The date of the award: February 20, 2020;

(f) Statement on the type of procurement method used and a description of the circumstances: Limited Tendering. FEMA used its existing supplier because FEMA could not use a new supplier for economic and technical reasons. If FEMA had used a new supplier, this would have caused significant inconvenience and substantial duplication of costs for FEMA. This is because FloodSmart Re's Series 2018-1 issuance was the first 144A catastrophe bond ever issued for the single peril of flood risk in the United States involving federal flood insurance. By obtaining additional reinsurance coverage through the same supplier as FEMA did with its second reinsurance procurement, FEMA is able to minimize duplication of efforts for ongoing contract maintenance responsibilities. FEMA's placement of insurance-linked-securities reinsurance involved complex and novel establishment of services developed for transforming NFIP flood risk. By utilizing its original supplier to transfer additional NFIP flood risk through FloodSmart Re Ltd., FEMA benefited from the use of existing resources developed to transfer NFIP flood risk, resulting in significant costs savings. Particularly, the additional reinsurance services reduced costs and time by optimizing the use of the existing SPI established for NFIP flood risk transfer, and enabling the use of existing third-party contracts, limiting the significant inconvenience and inefficiency of duplicating the efforts to recreate the reinsurance placement process and establishment of an SPI needed to transfer additional flood risk.

By extending a limited tendering to its original supplier, FEMA ensured its placement of additional collateralized reinsurance prior to the onset of the 2020 hurricane season and minimized impacts associated with the uncertainty that might otherwise have affected the project's success.

See GPA Articles XIII and XVI (2). Article XIII allows limited tendering provided it is not used to avoid competition among suppliers or in a manner that discriminates against suppliers of any other Party or protects domestic suppliers. A procuring entity using limited tendering may choose not to apply GPA Articles VII through IX, X (paragraphs 7 through 11), XI, XII, XIV and XV under certain circumstances. See GPA Article XIII. Circumstances for limited tender under Article XIII include but are not limited to "for additional deliveries by the original supplier of goods or services that were not included in the initial procurement may be used where a change in supplier for such additional goods or services: (i) cannot be made for economic or technical reasons such as requirements of interchangeability or interoperability with existing equipment, software, services or installations procured under the initial procurement; and (ii) would cause significant inconvenience or substantial duplication of costs for the procuring entity." Id. at Article XIII (c).

This reinsurance placement was conducted pursuant to the National Flood Insurance Act of 1968, 42 U.S.C. 4001 et seq.; see also 42 U.S.C. 4081. FEMA obtained collateralized reinsurance for NFIP flood risk on August 1, 2018 through its original supplier, transformer reinsurer Hannover Re (Ireland) DAC ("Hanover Re"), utilizing the original supplier for the additional 2019 and 2020 reinsurance procurements. Hannover Re collateralized the flood risk for each reinsurance placement by retroceding it to the special purpose insurer, FloodSmart Re Ltd. ("FloodSmart Re"), established by Hannover Re solely to collateralize the NFIP flood risk by issuing catastrophe bonds to 144A capital market investors.

For other information on FEMA's ILS Reinsurance Program, see https://www.fema.gov/nfip-reinsurance-program.

END OF NOTICE