

Guiding FEMA Through Groundbreaking CAT Bond Reinsurance Transaction

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The Federal Emergency Management Agency (FEMA) recently announced that it successfully closed a \$500 million reinsurance placement for the National Flood Insurance Program (NFIP) backed by a catastrophe (CAT) bond. Carlton Fields is pleased to announce that it represented FEMA on this transaction. The bond is a first-of-its-kind for the federal government; it is the first flood-only CAT bond and the only CAT bond issued on behalf of the NFIP. The transaction, which was originally targeted to be a \$275 million placement, grew to \$500 million based on strong investor demand.

“Transferring risk of this type to capital markets is a growing area of reinsurance and it’s easy to see why,” said Robert Shapiro, an attorney in the Carlton Fields’ Washington D.C. office and lead attorney advising FEMA on the transaction, working with D.C. attorney Roland Goss. “It’s a win for every stakeholder. The insurance and reinsurance industries are free to deploy their capital in more meaningful ways and the government can better manage its financial risk which, at the end of the day, is the taxpayers’ risk.”

To facilitate the transaction, FEMA entered into a three-year reinsurance agreement with Hannover Re (Ireland) Designated Activity Company (DAC), a reinsurance company. Hannover Re acted as a “transformer,” transferring \$500 million of the NFIP’s financial risk to capital markets investors by sponsoring the issuance of a catastrophe bond through a special purpose reinsurer.

Under the agreement, Hannover Re will indemnify FEMA for a portion of flood claims that result from qualifying flood events that occur between August 1, 2018 and July 31, 2021. The agreement is structured to cover, for a given flood event, 3.5 percent of losses between \$5 billion and \$10 billion, and 13 percent of losses between \$7.5 billion and \$10 billion.

“Reinsurance is a lynchpin to help strengthen the financial framework of the NFIP,” said David Maurstad, chief executive of the National Flood Insurance Program. “Engaging capital markets was the logical next step in maturing the NFIP Reinsurance Program in a way that benefits policyholders and taxpayers and expands the role of the private markets in managing flood risk in the United States.”

Carlton Fields has also represented Citizens Insurance Corporation in the issuance by Everglades Re of six CAT Bonds since 2012, including a \$1.5 billion bond, the largest CAT Bond ever issued. Carlton Fields also represents Citizens in its purchase of traditional reinsurance.

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