CARLTON FIELDS

Carlton Fields and FEMA Catapult NFIP to $2.12 Billion of Reinsurance Protection With New CAT Bond

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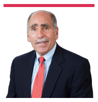
Robert B. Shapiro


Jessica Bennett

The Federal Emergency Management Agency (FEMA) recently secured a $300 million reinsurance placement for its National Flood Insurance Program (NFIP) through the issuance of its second catastrophe bond with global reinsurance firm Hannover Re. This placement builds on FEMA's first venture into the insurance-linked securities (ILS) market last summer, and a traditional reinsurance placement earlier this year, giving FEMA more than $2 billion of in-force reinsurance protection. Carlton Fields represented FEMA in both capital market placements.

Catastrophe bonds are risk-linked securities used to transfer major natural disaster risk to investors. They emerged in the mid-1990s, after the damage caused by Hurricane Andrew left insurance companies and the reinsurance market high and dry. Since then, natural disasters have become more frequent, and more costly, forcing insurers and reinsurers to re-evaluate their risk exposure and find new sources of capital. For investors looking to diversify risk, catastrophe bonds were seen as a gift from Mother Nature as one of the few asset classes uncorrelated to the global financial markets.

With more than 35 years of reinsurance experience, Carlton Fields attorney Robert Shapiro is capitalizing on this niche asset class. In addition to advising on traditional reinsurance placements, Shapiro has represented Citizens Property Insurance Corp. in the issuance by Everglades Re of six catastrophe bonds since 2012, including a $1.5 billion bond, the largest catastrophe bond ever issued. In August 2018, Shapiro advised FEMA in a landmark transaction — the first U.S. flood only catastrophe bond — that secured $500 million of capital markets-backed reinsurance for the NFIP.

Less than a year later, and following positive reception from ILS investors, FEMA again turned to Shapiro for its return to the capital markets. The $300 million three-year reinsurance agreement, effective April 16, 2019, is structured to cover 2.5 percent of losses between $6 billion and $8 billion, and 12.5 percent of losses between $8 billion and $10 billion.

Shapiro's approach is steered by his commitment to client service, a core value of the firm. Catastrophe bonds require detailed analysis and are inherently document-intensive. Shapiro reviewed reams of documents and flood policies and worked with FEMA officials and investment bankers to ensure accuracy and compliance with securities laws and regulations. In addition, he made himself available 24/7 to address agency employee questions and concerns, advise on compliance with relevant laws, and propose revisions to documents to advance FEMA's goals.

"At the end of the day, being responsive was the most important factor in my relationship with FEMA and in making this transaction successful," Shapiro said. Understanding the client's business can't be overstated either, Shapiro added, as his dedication to a transaction is often mirrored in his clients. "Seeing what FEMA did and how hard they worked, I give them great credit for that."

Shapiro's legal strategy involved balancing risk-management and loyalty to the client. "When advising on an issue, I presented both sides to FEMA to help them decide, and then I would advise 'here's what would be in your best interest and here's why.' I didn't just give them one side of the story." And, as with the weather or the market, Shapiro isn't deterred by circumstances outside his control, focusing instead on what is: doing the work and doing it right, always in the favor of the client.