



TO: STEVE SMITH
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SUBJECT: RESPONSE TO QUESTION REGARDING IMPACT OF FEMA REINSURANCE

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On Friday, January 26, 2024, Chairman Smith asked us the following question: “In talks with several North Carolina insurance experts they indicated that the driving force behind the recent Insurance Rate Bureau rate request is that the cost of reinsurance has increased dramatically. Does the recent actions by FEMA Reinsurance position cause the increase in reinsurance cost for North Carolina?” We answered this question to the best of our ability below.

FEMA has been securing reinsurance every year since 2016.¹ On January 4, 2024, FEMA announced its 2024 traditional reinsurance placement for the National Flood Insurance Program (NFIP), transferring an additional \$619.5 million of the NFIP’s financial risk to the private reinsurance market. The 2024 reinsurance placement covers portions of NFIP losses above \$7 billion arising from a single qualifying flood event. FEMA paid a total premium of \$121.1 million for the coverage.²

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.³

FEMA purchased well over \$1 billion in reinsurance every year from 2017 through 2022. In 2023, FEMA shrunk the NFIP reinsurance program by over 50 percent (\$502.5 million) amid “hard market conditions.”⁴ FEMA’s 2024 reinsurance purchase is more reflective of the 2023 purchase, coming in just under \$620 million. Combined with the three capital markets reinsurance placements

¹ [Congressional Research Service NFIP Report \(2024\)](#)

² [FEMA Announces Reinsurance Program to Manage Future Flood Risk in 2024](#)

³ [FEMA Announces Reinsurance Program to Manage Future Flood Risk in 2024](#)

⁴ [FEMA Adds \\$619.5 Million in Flood Reinsurance at Renewal, Takes NFIP Protection to \\$1.92 Billion and Congressional Research Service NFIP Report \(2024\)](#)

through 2021-2023, FEMA has transferred \$1.9195 billion of the NFIP's flood risk to the private reinsurance sector.⁵

By transferring a portion of the NFIP's financial risk to the private reinsurance market, FEMA may be able to better manage the future exposure of the NFIP and promote private sector participation in flood-risk management.⁶ This could potentially lead to more stability in the pricing of federal insurance programs. However, according to the Congressional Research Service, since FEMA is withdrawing funds from the Reserve Fund to pay for this reinsurance, it subsequently increases the cost of insurance to NFIP policyholders.⁷ The impact of FEMA's reinsurance costs that might be passed on to homeowners participating in other insurance programs is not explicitly stated in the sources we reviewed.

However, in recent testimony to the Senate Banking Committee, the Consumer Federation of America (CFA) said that although “reinsurance undoubtedly enhances the ability of insurance companies to provide coverage, [reliance] on the private reinsurance market can lead to a systemic affordability and availability crisis, as we are currently seeing.”⁸

CFA testified that the “two primary drivers of premium increases and regional availability crises are the interacting effects of climate change and the exploding cost of risk transfer in the unregulated, global reinsurance market,”⁹ reasons we saw cited in several other sources. However, CFA also said that “the increasing use of drone imagery, scoring algorithms, and predictive models are giving insurers a magnified and, in some cases, exaggerated picture of existing and prospective customers’ risk profiles,” which is also contributing to the increased cost of premiums and reinsurance.¹⁰

Some coastal counties were specifically targeted with an almost 100 percent potential increase in homeowner insurance rates.¹¹ These increases are attributed to factors like inflation, extreme weather,¹² and the global reinsurance market;¹³ it is not explicitly stated that FEMA's reinsurance program is a direct cause. In fact, one source we reviewed (from the Coalition for Sustainable Flood Insurance) suggested that *global* reinsurance challenges are putting pressure *on* the NFIP.¹⁴

It is also important to note that various factors can influence insurance rates, and the impact of any single factor can vary. Therefore, while FEMA's reinsurance program could potentially influence reinsurance costs, it is not the sole determinant. In addition, as of now, we could not find specific information linking FEMA's recent actions to an increase in reinsurance costs in North Carolina.

⁵ [FEMA Adds \\$619.5 Million in Flood Reinsurance at Renewal, Takes NFIP Protection to \\$1.92 Billion](#)

⁶ [FEMA Announces Reinsurance Program to Manage Future Flood Risk in 2024](#)

⁷ [Congressional Research Service NFIP Report \(2024\)](#)

⁸ [Consumer Federation of America Testimony to Senate Banking Committee \(September 2023\)](#)

⁹ [Consumer Federation of America Testimony to Senate Banking Committee \(September 2023\)](#)

¹⁰ [Consumer Federation of America Testimony to Senate Banking Committee \(September 2023\)](#)

¹¹ [North Carolina Homeowners Push Back in Hearing on Request to Hike Insurance Rates](#)

¹² [North Carolina Homeowners Respond with Shock and Anger at Proposed Homeowners Insurance Rate Hikes](#)

¹³ [Consumer Federation of America Testimony to Senate Banking Committee \(September 2023\)](#)

¹⁴ [Coalition for Sustainable Flood Insurance Testimony for Senate Banking Committee \(January 2024\)](#)

Sources

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[North Carolina Homeowners Push Back in Hearing on Request to Hike Insurance Rates](#)

[North Carolina Homeowners Respond with Shock and Anger at Proposed Homeowners Insurance Rate Hikes](#)

[What to Expect in the 2024 1/1 US Property Reinsurance Renewals](#)

[Why FEMA is Changing Rules for Disaster Aid](#)