



North Carolina
Office of State Fire Marshal
NC Department of Insurance

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OFFICE OF STATE FIRE MARSHAL RISK MANAGEMENT

State Property Fire Insurance Fund
and Public School Fund

Brian Taylor
State Fire Marshal

Rob Roegner
Chief Deputy State Fire Marshal

Key Highlights of State Property Fire Insurance Fund (SPFIF)

- **Property Coverage for State Entities**

- Provided at No Cost
- Comprehensive Protection

- **Additional Coverage Options**

- Excess Coverage or All Other Perils (AOP) available through Risk Management
- Cost: Dollar for Dollar

- **Mandatory Insurance Procurement**

- State entities must purchase insurance through OSFM/Risk Management
- Statutory Compliance

- **Risk Management Coverage**

- All Losses Below Retention (Deductible)
- Ensures Financial Security

- **Insurance Market Landscape**

- Favorable Conditions Until 2018
- Low Renewal Increases
- Market and Portfolio Profitability Contributed

- **Financial Resilience**

- SPFIF Built Substantial Long-term Investments (Reserves)
- Ensured Stability Leading up to 2018

State Property Fire Insurance Fund (SPFIF) Over the Past 20 Years

- **Historical Insurance Landscape (Pre-2000)**

- Single Insurance Carrier for Property Insurance
- Limited Options

- **Transition to Layered Program (2001)**

- Enhanced Coverage Structure
- Increased Flexibility

- **State Retention (Deductible) Changes**

- 2000-2001: Retention at \$1.5M
- 2001-2020: Retention Increased to \$2.5M
- 2020-Present: Significant Rise to \$10M

- **Impact History Above Retention**

- No Impacts Above Retention Until 2018
- Demonstrates Strong Risk Management

The SPFIF Significant Change in 2019 with the Passing of Session law 2019-176

- **Strategic Transfer**

- Public School Insurance Fund Moved - Department of Public Instruction to Department of Insurance's Risk Management Department

- **Financial Impact**

- Combined Values of SPFIF and DPI: Nearly \$70B (Increased Since 2019)
- Demonstrates Substantial Growth

- **Global Standing**

- North Carolina's Insurance Portfolio Ranks 5th Worldwide
- A Remarkable Milestone

Contrasting DPI and SPFIF Catastrophe Capacities

- **Structural Disparities**
 - DPI: Lower Overall Catastrophe (CAT) Capacities
 - SPFIF: Structured Differently, Minimizing Exposure
- **Risk of Significant Loss**
 - DPI Structure Leaves State Exposed to Major Loss in Catastrophic Events
- **Higher Deductible Challenge**
 - DPI: Higher Deductible
 - SPFIF Adjusted to Meet DPI Deductible Upon Inclusion
- **Charging Participants**
 - Public School Fund: Imposes Charges on All Participants
 - Utilizes a Rating System Based on Location
- **Deductible Coverage**
 - Public School Fund: Covers \$10M Deductible from Collected Funds
 - Financial Preparedness for Catastrophic Events
- **Voluntary Participation Concerns**
 - Lack of Mandated Participation Poses Risks
 - Potential Bailout Exposure for Underinsured School Districts
- **Underinsurance Mechanism**
 - Opting for Lower Coverage to Decrease Insurance Costs
 - Self-Held Policies Feature Much Lower Capacities than State-Held Program (\$70B)

Program Dynamics: Key Impacts Over the Last 5 Years

- **Large Losses Over the Past 5 Years**

- Hurricane Florence and Significant Fires (2018-2023)
- Negative Impact on SPFIF

- **Smaller Losses and AOP Coverage**

- AOP Coverage Causes Increase in Smaller Losses
- SPFIF Partial Participation in Non-Fire Losses

- **Hardened Insurance Market**

- Market Hardening Leads to Significant Coverage Cost Increases
- Last Three Years Show Substantial Rise

- **Impact on Renewal Costs**

- Increased Loss Impacts Raise Renewal Costs
- 300% Deductible Increase Adds to Large Loss Occurrences

- **Funding Request: \$20M**

- Request Driven by Renewal Cost and Large Loss Experience
- Addressing Immediate Financial Challenges

- **No Charge for Fire and Lightning Coverage**

- SPFIF Does Not Charge for Core Coverage
- Direct Impact on Program Reserves and Sustainability

- **Impact on State Entities**

- Inability to Cover Increased Costs for Entities with Limited Coverage
- Charging Entities with Excess Coverage Does Not Adequately Offset Shortfall

- **Shift to All Other Peril (AOP) Coverage**

- Migration by Universities and Some State Entities
- Improved Coverage, but Increased Deductible Occurrence

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High Loss Event: Sampson Correctional Laundry Building (2021-2023)

- **Major Fire Loss (2021)**

- Incident: Large Fire at Sampson Correctional Laundry Building

- **Delayed Response**

- No Activity by Sampson Correctional Until Early 2023
- Implications on Loss Recovery Timeline

- **Challenges in Recovery**

- Asbestos Contamination Complicates Recovery Efforts
- Factors Affecting Progression

- **Full Deductible Requirement**

- Loss Will Consume Entire Deductible of \$10M
- Significant Financial Impact

- **Estimated Total Loss**

- Loss Projected to Total \$11.5M to \$12M
- Ongoing Assessment of Damages

- **Unclosed Status**

- Loss Not Yet Closed
- Potential for Further Extensions and Impacts

Moderate Loss Event: NCSU Substation Fire (2022)

- **Substantial Fire Loss (2022)**

- Incident: Substation Fire at NCSU

- **Projected Loss**

- Loss Currently Projected to Range Between \$5M to \$6M
 - Significant Financial Impact

- **Restoration Efforts**

- Ongoing Restoration Activities
 - Efforts to Mitigate and Recover

- **Unclosed Status**

- Loss Not Yet Closed
 - Potential for Higher Losses

Moderate Loss Event: UNC Chapel Hill Marsico Hall Water Damage (2023)

- **Significant Water Loss (2023)**
 - Incident: Water Loss at UNC Chapel Hill Marsico Hall
- **Projected Loss**
 - Loss Projected to Range Between \$8M to \$9M
 - Significant Financial Impact
- **Potential for Total Loss**
 - Total Loss May Extend Above Retention
 - Determination Pending Impact Assessment on MRI Machine
- **Restoration in Progress**
 - Ongoing Restoration Activities
 - Efforts to Mitigate and Recover
- **Unclosed Status**
 - Loss Not Yet Closed
 - Potential for Higher Losses

Moderate Loss Event: NC A&T Boiler Explosion (2023)

- **Boiler Explosion Incident (2023)**
 - Incident: NC A&T Boiler Explosion
- **Projected Loss**
 - Loss C
 - Currently Projected to Range Between \$4M to \$5M
 - Significant Financial Impact
- **Weather Considerations**
 - Cold Weather May Influence the Extension of this Loss
 - Additional Factors Affecting Restoration
- **Ongoing Restoration**
 - Restoration Efforts in Progress
 - Additional Impacts May Surface as Restoration Continues
- **Unclosed Status**
 - Loss Not Yet Closed
 - Potential for Higher Losses

Program Challenges: Loss Impact and Unsettled Claims

- **Compounded Impact of Moderate Losses**
 - Losses Between \$5M and \$10M
Compounded Due to Delayed Settlements
 - Accumulated Financial Strain Over Time
- **Unsettled 2023 Losses**
 - Two Significant 2023 Losses Yet to Settle
 - Adding to Program Uncertainties
- **CAFR Report Highlights**
 - CAFR Report Indicates \$30M to \$40M in Unsettled Losses
 - Additional Financial Burden on the Program
- **Outstanding UNC Wilmington Claim**
 - Not Included in CAFR Figures
 - \$10M Outstanding to UNC Wilmington
- **Lack of Recent Major Storm Impact**
 - No Major Storm Impact in the Past 5 Years
 - Program Faces Challenges Beyond Natural Disasters
- **AOP Coverage Extension Impact**
 - Extension of All Other Peril (AOP) Coverage
 - Contributing to Increased Frequency of Smaller Losses

SPFIF Premiums and Losses 2021-2022

Premiums			Losses		
Collected	Owed	Total	Paid	Scheduled	Total
\$43,399,673	\$0.00	\$43,399,673	\$6,318,555	\$9,269	\$6,327,824

Property Renewal Cost
\$48,755,100



SPFIF Premiums and Losses 2022-2023

Premiums			Losses		
Collected	Owed	Total	Paid	Scheduled	Total
\$35,218,617	\$0.00	\$35,218,617	\$3,211,255	\$1,615,130	\$4,826,385

Property Renewal Cost
\$55,888,213

SPFIF Premiums and Losses YTD

Premiums			Losses		
Collected	Owed	Total	Paid	Scheduled	Total
\$3,296,415	\$23,556,364	\$26,852,779	\$24,944,823	\$2,880,084	\$27,824,907

**Property Renewal Cost
Undetermined**

Program Dynamics: Impacts Over the Past 5 Years

- **Hardened Insurance Market**
 - Insurance Market in a Hardened Condition for the Last 5 Years
 - Influenced by External Factors/Conditions Beyond North Carolina
- **Reinsurance Market Challenges**
 - Reinsurance Market Most Affected by Hardened Conditions
 - Heavy Impact on the State's Insurance Portfolio
- **State Portfolio Impact**
 - State's Insurance Portfolio Heavily Impacted by Reinsurance Market
 - Navigating Challenges in Risk Management
- **Renewal Trends**
 - Last Year's Renewal Reflected a 23.5% Increase
 - Demonstrates the Strain on the State's Insurance Portfolio

Program Dynamics: Impact on Renewal Costs

- **Increased Loss Impacts**
 - Escalation in Loss Impacts Over the Past 5 Years
 - Direct Effect on Program's Renewal Costs
- **Company Loss Experience**
 - Companies in the Program Have Incurred Some Loss Experience
 - Impact, While Present, is Comparatively Limited
- **SPFIF Retention Impact**
 - Loss Experience Significantly Affects SPFIF Retention
 - Notable Impact on Financial Resilience
- **Renewal Quote Considerations**
 - Any Loss Experience Influences the Renewal Quote
 - Companies' Loss History a Key Factor in Renewal Process

What is on the Horizon?

- **Immediate Funding Need**
 - Program Anticipates Needing an Infusion this Year
 - Estimated Minimum: \$20M, Potential for Higher
- **Change in Business Approach**
 - A Shift in Operating Paradigm for SPFIF and Public School Fund
 - Adaptation to Evolving Financial Landscape
- **Annual Appropriation Necessity**
 - Essential for Program Sustainability
 - Annual Appropriation Required to Continue Service and Coverage for State Entities
- **Statute Modification Options**
 - Exploring Options to Change Statutes
 - Aim: Enable SPFIF to Achieve Self-Sufficiency
- **Critical Timing**
 - Urgency in Addressing Funding and Operational Changes
 - Time Sensitivity in Implementing Strategic Shifts

SPFIF Operational Options: Shaping the Future

- **Option 1: SPFIF as an Insurance Provider**
 - No Free Coverage Offered
 - Co-Deductibles Implemented for All Entities
 - Appropriate Ratings Based on Building Type and Location
- **Option 2: Mandate All Other Peril Coverage**
 - Elimination of Free Coverage
 - Administrative Fee to Build SPFIF Reserves
 - Co-Deductibles Based on Coverage Type
 - Enhanced Insurance Coverage for All State Entities
- **Option 3: Continue Current Operation with Emergency Fund**
 - One-Time \$50M Deposit Establishes Emergency Fund
 - Defined Terms for SPFIF Access to Funds (Exceeding \$10M Retention and Catastrophic Incidents)
- **Option 4: Continue Current Operation with Annual Appropriation**
 - Annual \$20M Non-Reverting Appropriation
 - Provides Stability Unless Conditions Demand Higher Funding

Public School Fund: Exploring Operational Changes

- **Option 1: Continue Current Operations**
 - Counties and Community Colleges Obtain Independent Coverage
 - Lack of Quality Control Over Coverage Viability
 - Exposure to Legislative Funding Requests in Catastrophes
- **Option 2: Mandate Coverage through Public School Fund**
 - Significant Increase in Covered Values and Coverage Costs
 - Ensures Alignment of Capacity and Adequate Coverage
 - Eliminates Potential Funding Requests Impacting State Funds in Catastrophic Events
- **Option 3: Maintain Current Operation with Funding Limitations**
 - Eliminates Ability to Request Funding from Legislature without Program Participation
 - Mitigates Exposure to State Funding Impact
 - Mandates Risk Management Pass Renewal Increases to Fund Participants