

MINE SUBSIDENCE INSURANCE FUND
BOARD MEETING
MINUTES
DECEMBER 14, 2000

A regular meeting of the Mine Subsidence Insurance Board was called to order at 10:00 a.m. on December 14, 2000 in the Department of Environmental Protection's Conference Room located on the 10th Floor of the Rachel Carson State Office Building, Harrisburg, Pa. Board members present at the meeting were: Jay Scott Roberts, Director, Bureau of Mining and Reclamation, Designated Chairman for James M. Seif, Secretary of the Department of Environmental Protection (DEP); Michael Burkett, Actuary, Designated Representative for Board Member M. Diane Koken, Commissioner of Insurance; and Kathleen C. Peterson, Assistant General Counsel, Designated Board Member for Barbara Hafer, State Treasurer. Also attending were Ann Wildeman, Chief, General Accounting, Comptroller's Office, and James Potteiger, Chief Accounting Control Unit, Comptroller's Office. Additionally, the following DEP employees were in attendance: Joseph Sieber, Policy Specialist, Policy Office; Marc Roda, Assistant Counsel; Robert W. Agnew, Acting Chief, Division of Environmental Analysis and Support; Ed Motycki, Chief, Subsidence Section, District Mining Operations; Lawrence Ruane, MSI Program Administrator, and Mary Ann Ingreem, Administrative Assistant, Bureau of Mining and Reclamation.

The following is a summary of the issues discussed and the actions taken at the meeting:

I. Approval of the Minutes of the Previous Meeting

The minutes of the October 8, 1999 Board meeting were unanimously approved.

II. Update of the Mine Subsidence Insurance (MSI) Marketing Campaign

DEP staff provided a summary of the marketing efforts from May of 1998, when the marketing contract with the Barry Group was initiated, through October of 2000. The marketing efforts began with the development of a marketing strategy that centered on a marketing tactic the Barry Group described as "guerilla marketing." That tactic employs a mass media marketing campaign immediately after the occurrence of a subsidence event. A preliminary analysis of the first campaign was provided to Board. Due to the lack of a subsidence event, the first marketing campaign was not a guerrilla campaign. The report was based on an estimate of the number of policies generated during the first marketing campaign. The actual data was not available because the heavy volume of work that resulted from the marketing campaign precluded the entry of new insurance policy information into the database. Actions will be taken by the DEP to improve the ability of the MSI Program to process increased volumes of applications that result from marketing efforts. The analysis indicates that mass marketing is cost effective. Based upon the estimates, every dollar spent in media placement results in upwards of 2 dollars in new premium income. Mr. Motycki provided an overview of recently completed marketing campaigns that did employ guerilla-marketing tactics. A high number of requests did result from those campaigns and a high number of policies is also expected. A motion was made by Mr. Burkett that next year specific exhibits be provided to the Board that will estimate the profitability of the marketing efforts. Those exhibits will identify premium income

generated by the marketing efforts, the cost of the marketing, and also include an estimate of increased claim costs. Ms. Peterson seconded the motion, which was then unanimously approved.

III. Review of Operational and Financial Performance

The Board reviewed documents prepared by the DEP that demonstrate trends in the operational and financial performance of the MSI Fund from FY 1998 through FY 1999. It then reviewed the Annual Financial Statements prepared by the Comptroller's Office that provide detailed information about the Fund's financial performance from FY 1996-1997 through FY 1999-2000. The Board asked the DEP staff to provide at the next Board Meeting the number of policies that expire and the number of policies that are increased during the next fiscal year.

IV. Investment Review

Ms. Peterson introduced a chart prepared by the Treasury that demonstrated the income earned and average balances of the MSI Fund investments that are managed by the Treasury. The chart also demonstrated the composition of the short-term investments as of 6/30/2000. During the discussion of the financial information, DEP staff noted that a bill had been introduced that, if enacted, would effect the investments of the MSI Fund. That bill would amend the MSI Act to provide loans to fund repairs of uninsured losses caused by mine subsidence and to provide grants for emergency relocations. That bill would also require lenders to notify borrowers of the availability and need for MSI and require MSI for certain mortgages. Since individuals with mortgages are, in general, at significant financial risk from losses caused by mine subsidence, the notification provisions are prudent. The DEP concluded that the benefit of the notification provisions outweighed any negative effects from the loan and grant provisions and, therefore did not oppose the bill. At the next Board Meeting, DEP staff will provide an update of the bill. There was a general discussion about the effect that changes like those proposed in the bill, as well as others, would have on the Fund's operations and finances. Comparisons were made to the operations and finances of MSI programs in other states. States that mandate MSI coverage have hundreds of thousands of policyholder and very low premium rates, about \$.25 per \$1,000 of coverage compared to about \$1 for every \$1,000 of coverage in Pennsylvania. However, the freedom of property owners to choose coverage is lost or curtailed. Licensed insurance agents in Ohio, a state with more than 500,000 MSI policies, offer coverage as a rider to standard homeowners insurance policies. Insurance agents licensed in Ohio are paid a fee when they write such coverage. Although a property owner can decline MSI coverage, the cost of coverage is so affordable that few choose not to purchase coverage. The discussion concluded with the Board agreeing to consider resolutions to support the DEP's position on future bills should the DEP circulate such resolutions to the Board.

V. Premium Rate Review

In addition to the premium rate formulas and premium charts that are presented annually to the Board, the DEP provided information the Board requested about catastrophic risks that could jeopardize the solvency of the MSI Fund and impact potential rate reductions. The DEP identified that earthquakes have the potential to create wide scale mine subsidence. If such an event were to occur in Pittsburgh or Scranton, hundreds of losses could result and the Fund's reserves could be depleted. DEP staff contacted John Harper, an expert on earthquakes with the Pennsylvania Geologic Survey, who stated the likelihood of an earthquake happening in or affecting Pennsylvania is so remote that it is immeasurable. DEP staff also contacted reinsurance companies and was told the first \$5-\$10 million of reinsurance coverage would likely cost 2 or 3 million annually. After further discussion, the Board decided to continue with the current rating structure.

VI. Review of Proposed Budget and Consideration of FY 2001-2002 Authorization to Expend Resolution

Documents containing estimates of costs associated with the administration of the MSI Program in FY 2001-2002 were presented to the Board. It was noted that the 2 vacant positions shown on a budget document had just been filled. DEP staff explained that a line item titled "ACDS/AMIS Activity" contained that budget document reflects an amount needed to reimburse the DEP for time its employees provide to the MSI program that is in excess of the time MSI employees provide to the DEP. The amount is based on amounts paid in previous years. The payment or receipt of funds is dependent upon the actual balance of time given or taken. To assure that programs accurately pay for the work effort they receive, the DEP uses an accounting system known as AMIS to track time and code it to the appropriate program. ACDS is the computer system that applies costs to the AMIS information.

A resolution authorizing the MSI Fund to reimburse the DEP up to \$2,765,725 for the administration of the MSI Program in FY 2001-2002 was modified to replace Greg Martino with Randy Rohrbaugh as the Acting Deputy Insurance Commissioner for the Office of Rate and Policy. It was then approved unanimously and then circulated for signatures.

VII. Inflation Factor Calculation

A demonstration of the calculation used to determine the annual inflation factor was provided to the Board. The actual inflation rate will be calculated just prior to the close of the calendar year. It will be derived from the most recent data available and loaded into the MSI computing systems on 12/31/00.

VIII. New Business

There was no new addition issues considered by the Board.

IX. Adjournment

A motion to adjourn the meeting was made, seconded, and passed unanimously.

SUMMARY OF ACTIONS TAKEN BY THE BOARD:

1. Unanimously approved the October 8, 1999 Board Meeting Minutes.
2. Unanimously agreed to keep the current premium structure.
3. Unanimously agreed to authorize expenditures from the MSI Fund for administrative costs.
4. Unanimously approved adjournment.

KEY OBLIGATIONS:

1. DEP will track the results of marketing campaigns and provide the Board with information regarding the cost effectiveness of marketing.
2. The Board asked the DEP staff to provide at the next Board Meeting the number of policies that expire and the number of policies that are increased during the next fiscal year.
3. The new inflation factor will be entered into the computer systems on December 31, 2000.