

COMMONWEALTH OF PENNSYLVANIA  
COAL AND CLAY MINE SUBSIDENCE FUND  
ANNUAL REPORT

**DRAFT**

**DRAFT**  
STATE FISCAL YEAR  
**2003-2004**

**DRAFT**

This report provides information about the Commonwealth of Pennsylvania's Coal and Clay Mine Subsidence Insurance (MSI) Fund and Program. It is mandated in Section 20 of the Act of August 23, 1961 (P.L.1068 No. 484), as amended, (52 P.S. §§ 3201-3225) (Act), which provides that an annual report be submitted to the Environmental Resources and Energy Committees of the Senate and House of Representatives relative to the MSI Program and its experience with mine subsidence insurance sales through insurance producers (insurance agents, brokers and agencies who are licensed in Pennsylvania to sell property and causality insurance). This reporting requirement was added to the Act as part of the December 9, 2002 amendments that allowed insurance producers to submit the MSI applications of their customers to the MSI Fund and be paid commissions for the applications that become policies. During the course of the MSI Fund's 41-year history prior to the 2002 amendments, applications were only submitted directly to the MSI Fund. Extending the application process to insurance producers is intended to better inform property owners who own structures that are located over old abandoned coal and clay mines of the availability and need for MSI.

There are more than one million structures in Pennsylvania that are located over old abandoned coal and clay mines. The subsidence of those mines causes millions of dollars of property damage each year. The MSI Fund was created in 1961 to provide a reliable source of insurance to compensate for losses caused by the collapse of old abandoned underground coal and clay mines. The legislature created the MSI Fund because, in the late 1950's, mine subsidence coverage became so costly that it was excluded from standard homeowners insurance policies. Premium rates had risen to prohibitively high levels because of the excessive costs associated with the investigation of claims and the subsequent inability of the private industry to manage losses. Mine subsidence is highly unpredictable, and the damage it causes can be very costly to repair. The absence of mine subsidence coverage not only exposed property owners to personal financial losses, it also negatively impacted the economic vitality of the coal regions by exposing the mortgage industry to the risk of uninsurable losses. Such exposure limited the ability of lenders to fund mortgages for properties at risk, which resulted in suppressed property values. The legislature determined that a special proprietary fund, organized within, and utilizing the resources of state government, would allow those at risk to mutually insure against the risk of mine subsidence losses, and do so at premium rates that would be affordable to the policyholders.

As established in the Act, the MSI Board (Board) administers the MSI Fund. The Board consists of the Secretary of the Department of Environmental Protection (DEP) as chair, and the Insurance Commissioner and State Treasurer as members. The Board establishes provisions of the insurance policy, promulgates regulations, and establishes premium rates, which provide reserves sufficient to maintain the solvency of the MSI Fund. The expertise provided by the Board members contributes greatly to the economic and efficient operations of the MSI Fund and Program. The Insurance Department contributes actuarial and insurance policy expertise. The Treasury, the mandated custodian of the MSI Fund, provides sound investment practices that have resulted in reliable returns on investments. DEP, the agency mandated to administer the MSI Program, contributes mining expertise, mine maps,

and mine data. Through the use of these resources, DEP is able to economically manage the cost of claim investigations. That ability, combined with a historically manageable levels of damage caused by mine subsidence, has resulted in reliable coverage at very affordable premium rates. The average cost of coverage is now less than \$1 in premium for every \$1,000 of coverage. DEP has also developed staff, processes, and computer systems specifically for the efficient administration of the MSI Program and to assist insurance producers with the submission of MSI applications. The internet based application systems, which are located at [www.paMSI.org](http://www.paMSI.org), are so efficient that an insurance producer is able to submit an application in a matter of minutes.

The statistical and financial information in this report demonstrates the operational and financial performance of the MSI Program and Fund and documents the contributions made by the insurance producers. All the financial information was provided from the Comptroller's Office. The statistical information was derived directly from the MSI Fund's database. Information is provided for two fiscal periods, State Fiscal Year (FY) 2002-03 and FY 2003-04. FY 2003-04 was the first full year of activity under the amendments to the Act that established the right of insurance producers to submit MSI applications. Data for FY 2002-03 is included because the amendments became effective on June 9, 2003. As a result, FY 2002-2003 reports only 22 days of insurance producer activities. The other items in FY 2002-2003 cover the entire FY.

In summary, the participation of the insurance producers has had positive impacts on the MSI Fund's operations as well as its financial position. Significant numbers of insurance producers have registered and are using the MSI online systems to submit MSI applications. In FY 2003-04, insurance producers submitted more than half of all the MSI applications. As the number of applications submitted by insurance producers has increased and the number of applications taken by the MSI staff has decreased, the MSI staff has moved its focus from taking applications to providing services that will enhance the cooperative efforts between the insurance industry and the MSI Fund. This change to the MSI business model will facilitate the delivery of coverage and the promotion of the availability and need for MSI coverage.

<b>STATISTICAL / FINANCIAL SUMMARY</b>		
<b>DESCRIPTION</b>	<b>STATE FISCAL YEAR 2002-2003</b>	<b>STATE FISCAL YEAR 2003-2004</b>
POLICIES IN FORCE	53,280	53,487
UNDERWRITTEN COVERAGE	\$5,134,790,360	\$5,484,411,597
UNRESERVED FUND EQUITY	\$33,211,797	\$34,935,305
POLICIES CREATED BY MSI PROGRAM	2,943	1,980
REGISTERED INSURANCE PRODUCERS	35 <sup>(1)</sup>	781
POLICIES CREATED BY PRODUCERS	9 <sup>(1)</sup>	1,405
PRODUCER GENERATED PREMIUMS	\$2,381 <sup>(1)</sup>	\$178,582
ESTIMATED LIFETIME PREMIUMS <sup>(2)</sup>	\$11,905 <sup>(1)</sup>	\$892,908
COMMISSIONS PAID <sup>(3)</sup>	\$1,190 <sup>(1)</sup>	\$89,291

**NOTES:** (1) Insurance producer efforts during first 22 days of operations, June 8 through June 30, 2003.

(2) Lifetime premiums are based upon the average life of an MSI policy, which is currently 5 years.

(3) Commissions based upon ½ of the first year's premium, as established by the Board.