

OHIO MINE SUBSIDENCE INSURANCE UNDERWRITING ASSOCIATION ANNUAL REPORT

January 2004 Through December 2004

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This report is submitted by the board members of the Ohio Mine Subsidence Insurance Underwriting Association, Samuel W. Speck, Director of Natural Resources, Chairman; Joseph T. Deters, Treasurer of State; Ann Womer Benjamin, Superintendent of Insurance; and Michele Lilly, insurance industry representative from an Ohio domiciled carrier, Nationwide Insurance .

ABANDONED UNDERGROUND MINES

How they impact Ohioans

In the United States, approximately 100,000 underground mines are known to exist, of which 90% are inactive or abandoned. Approximately one-fourth of the total surface area overlying these mines has been affected by subsidence. An estimated 99% of the subsided land overlies underground voids created by coal mining, while the remaining 1% is attributed to the underground extraction of metallic and nonmetallic minerals.

For more than a century and a half, underground mining, mainly for coal, has

been an active industry in Ohio. During this period, over 6,500 underground coal and other mineral mines have been abandoned (see Exhibit 1). These mines range in size from small "doghole" mines utilized by individuals for home heating to huge operations extending for several square miles.

Several generations of mining have left us with both a tradition of mining and a legacy of abandoned mines. Now, with an expanding population and its demand on space, the problems involved with abandoned underground mines are being fully realized. One such problem is that of mine subsidence loss and/or damage caused by the collapse or the lateral or vertical movement of structures resulting from the caving in of underground mines.

Geologic and mining factors that directly affect the extent of subsidence include the following: the mining method; the vertical and lateral dimension of the mine cavity; the depth of the mine void below ground surface; overburden characteristics; size, distribution and nature of support pillars; surface topography; location of ground water; and the method and quantity of backfilling used, if any. Prediction of when and where mine subsidence occurs is in its infancy state of development and research.

Two types of subsidence occur in Ohio. The first type, referred to as room and pillar subsidence occurs when the mine roof (substrata rock) collapses into a void created by the removal of coal. Shaft collapse, the second type of subsidence, takes place when an air or coal haulage shaft, which has been inadequately sealed, collapses. Shaft collapse can occur suddenly and is considered the most hazardous type of subsidence.

MINE SUBSIDENCE INSURANCE

Background

The Mine Subsidence Insurance Program in Ohio has undergone various changes since its inception. This section of the annual report will indicate the evolution of the program since its inception in 1987.

The Ohio Legislature enacted Ohio Revised Code sections 3929.50 to 3929.53 and 3929.55 to 3929.61 in January of 1985. This Act authorized the establishment of the Mine Subsidence Insurance Governing Board, the Mine Subsidence Insurance Fund (MSIF), and the Ohio Mine Subsidence Insurance Underwriting Association (OMSIUA).

The Governing Board consisted of the Director of Natural Resources or designee as chairperson, the Treasurer of State or designee, and one representative from an Ohio domiciled insurance company. The MSIF is administered by the Governing Board and the Treasurer of State is the custodian of the Fund. The MSIF was initially funded with state and federal government appropriations. The premium for mine subsidence insurance coverage was initially established at a level intended to cover all foreseeable claims, normal operating expenses, a reserve for unexpected contingencies, and to provide for repayment of all government funds.

The Governing Board has entered into a contract with the Ohio FAIR Plan Underwriting Association (OFPUA) for administrative duties since the inception of the program. The contract provides for OFPUA to perform administrative and claim services for the OMSIUA. OFPUA personnel are trained to handle necessary administrative duties and mine subsidence insurance claims.

Insurance companies who write basic property or multi-peril policies on a direct basis for 1-4 family dwellings in the 37 eligible counties are required to become members of the OMSIUA and offer the mine subsidence

coverage to all eligible applicants. Companies can be exempted from active participation if approved by the Department of Insurance.

In April of 1992, the Ohio Legislature recognized that the program was not sufficiently populated to provide necessary funds for claims and operating expenses, for appropriate reserves, and for repayment of State and Federal monies. The Ohio Revised Code was amended to provide:

1. The addition of the Superintendent of Insurance or designee to the Mine Subsidence Governing Board.

2. The designation of 26 Ohio counties as counties in which mine subsidence coverage is automatically added to dwelling fire, homeowners, or commercial fire policies for which dwelling/non-commercial/personal lines rates are applicable. The premium for the coverage, since 7/1/99, is \$1.00 for these 26 "mandatory" counties.

3. The designation of additional Ohio counties as "optional" counties. Owners of eligible properties in these counties must be offered the mine subsidence coverage and decide whether or not to buy the coverage. The premium for these insureds, since 7/1/99, is \$5.00.

This legislative change has provided sufficient revenue for claims and operating expense payments, appropriate reserves, and repayment of government funds.

In December 2004, the Ohio General Assembly passed House Bill 425, legislation initiated by the Ohio Department of Insurance and the Ohio Department of Natural Resources. This legislation was signed by the Governor in early 2005 and provides for changes to the Mine Subsidence Insurance Program in Ohio.

The legislation allows the Mine Subsidence Insurance Governing Board to review and make changes to the coverage amounts, limits, and structure types. Proposed changes will be addressed in 2005 via amendments to the Ohio Administrative Rule 3901-48 and ultimately to the Mine

Subsidence coverage form. January 1, 2006 is the expected date for the new MSI coverages to become effective.

Program Funding

The Controlling Board approved an appropriation of \$200,000 as an initial reserve for the Fund on January 17, 1986. This initial reserve was to be used to pay subsidence claims resulting from active coal mining, from salt or industrial mineral extraction, and from post-August 3, 1977 abandoned coal mines. Repayment of these funds was completed in 1997.

What is Mine Subsidence Insurance?

Mine subsidence insurance provides coverage for loss caused by the collapse or lateral or vertical movement of structures resulting from the caving in of underground mines, including underground coal mines, clay mines, limestone mines and salt mines. It does not include loss caused by earthquake, landslide, volcanic eruption, or collapse of strip mines, any surface mines, or storm and sewer drains, or rapid transit tunnels.

For structures to be eligible for mine subsidence insurance, the following eligibility requirements must be met:

1. The structure must be an occupied 1-4 family dwelling and at least 50% of the total living area must be occupied. Seasonal properties are considered eligible for coverage as are properties under construction (if the property will become a 1-4 family occupied dwelling structure when completed).
2. The structure may have incidental occupancy if the occupancy does not cause the structure to be rated under commercial rating plans and if the structure qualifies for a homeowners, a farm owners, a dwelling fire, or other personal lines policy.
3. The structure must be located in one of the designated "mandatory" or "optional" counties.
4. The structure must be covered by a valid homeowners, farm owners, dwelling

fire, or other personal lines insurance contract.

Additionally, coverage will be denied if a material misrepresentation of facts or circumstances concerning mine subsidence is made and/or if there is any increase in hazard within the control or knowledge of the insured.

What counties are insurable under the program?

Thirty-seven (37) Ohio counties are eligible for mine subsidence coverage under the mine subsidence program. Twenty-six (26) of these counties are mandatorily provided the coverage with their homeowners, farm owners, dwelling fire, or other personal lines insurance policies by attachment of the Mine Subsidence Coverage form. These 26 counties are: Athens, Belmont, Carroll, Columbiana, Coshocton, Gallia, Guernsey, Harrison, Hocking, Holmes, Jackson, Jefferson, Lawrence, Mahoning, Meigs, Monroe, Morgan, Muskingum, Noble, Perry, Scioto, Stark, Trumbull, Tuscarawas, Vinton, and Washington counties.

The optional counties are Delaware, Erie, Geauga, Lake, Licking, Medina, Ottawa, Portage, Preble, Summit, and Wayne counties. Insurance companies must offer coverage in these counties and property owners may purchase the mine subsidence coverage if they choose.

Whether in a "mandatory" or an "optional" county, the mine subsidence insurance coverage cannot be purchased separately. The insurance company providing the coverage will process the coverage attachment, collect the premium, and process any claims notices for OSMIUA. All responsibility for claims rests with OSMIUA and not with any individual member company.

The coverage provided is equal to that of the dwelling only or \$50,000.00, whichever is less. A minimum deductible of \$250.00 and a maximum of \$500.00 will apply

per occurrence. Coverage does not extend to industrial/commercial buildings, various outbuildings or barns, land, trees, crops, plants, or contents/personal property.

OUTREACH PROGRAM

Since 1997, the Ohio FAIR Plan, with the approval of the Mine Subsidence Insurance Governing Board has partnered with the ODNR Mineral Resource Management's AML Section to undertake an outreach program that addresses the hazards of constructing residential housing above abandoned underground mines in the counties where mine subsidence coverage is available.

In 2002, ODNR expanded the outreach initiative to include all types of abandoned mine land problems. Mineral Resource Management is conducting a comprehensive outreach effort to all coal bearing counties by mailing an AML Development Guide to local officials every two years. In addition, MRM has partnered with the Division of Soil & Water and the SWCD's resulting in local distribution of the guides to the public at the county level. Since 2002 over 4800 copies of the guides have been made available to legislators, township trustees, county commissioners, county engineers and the SWCDs in 37 counties. The Ohio FAIR Plan is referenced in the guide as a resource to the public for information on past subsidence complaints.

To continue this outreach effort, the Ohio FAIR Plan and ODNR collaborated on a web based abandoned underground mine locator to assist the public and local officials in identifying the underground mines before development begins. In addition, a 17-minute video was released in 2004, which has been made available along with the AML Development Guide to educate perspective developers, contractors and other local government agencies on the dangers of building over abandoned mines. In 2004, 1250 AML Development Guides and 245 videos have been made available to local government agencies.

CLAIM HANDLING

Mine Subsidence is different from any other catastrophe that damages structures. A fire to a building is usually extinguished in minutes and repairs can be started shortly after settlement with the insurance company. A mine subsidence event causes ground movement and this process can last for several weeks, months, or years. Because of the ongoing movement, structures damaged by subsidence cannot be repaired until this movement ceases.

Reporting of a Claim

Property owners, who have mine subsidence coverage and suspect that their structure has been damaged by mine subsidence, are to notify their insurance agent or company as soon as possible. The agent or company will then send written notification to the OMSIUA informing them of the date of loss, the date that the mine subsidence coverage was effective for the property owner, and the location suffering the loss. OMSIUA will assign an adjuster to perform the initial investigation.

Investigation of Cause

The adjuster's initial inspection consists of an interview of the property owner and examination of damage. Typical suspected subsidence damage might be:

- Cracks in basement walls, floor, and foundation.
- Separation of porches, patios, and chimneys from the main structure.
- Doors and windows that are "jammed" shut.
- Cracks in the exterior walls.
- Tilting of the structure.

OMSIUA's adjusters work in close cooperation with the Ohio Department of Natural Resources to investigate a suspected mine subsidence claim. State mine maps, maintained by the Division of Geological Survey, are carefully reviewed to determine if

the property in question is undermined. The Division of Mines and Reclamation - Abandoned Mine Lands Program - is consulted to secure any additional mining information. Unfortunately, in many cases, there are no mining company records that indicate prior mining activity.

If the structure is in an area of Ohio known for its coal resources and if subsidence is suspected as a possible cause of loss by the adjuster, OMSIUA will utilize the services of trained geologists and engineers to further aid the investigation. These experts are familiar with the "finger print" of subsidence damage and have extensive knowledge of Ohio's geology.

Stabilization of the Abandoned Mine

If the investigators believe there is an emergency situation with respect to the structure being damaged by ongoing mine subsidence, the Ohio Department of Natural Resources, Division of Mines and Reclamation (DOMR), is informed so that their office can take the appropriate action. The DOMR administers the Abandoned Mine Lands (AML) Program, which includes the stabilization of mine subsidence areas. The AML Program also oversees the Emergency Program, which allows for the immediate response to a subsidence event that poses a direct threat to the safety of the public. The subsidence can be halted in some cases through the "grouting" of underground mine voids. Grouting is the injection of concrete into specific areas of the abandoned underground mine to halt the subsidence.

Temporary Repairs to the Structure

OMSIUA will make temporary repairs to damaged structures if warranted. In some cases, it is necessary for extensive shoring procedures to be performed so that the building will not collapse. Extensive shoring efforts to protect the structure from collapse can cost several thousands of dollars.

Surveying

In certain cases of suspected mine subsidence, OMSIUA monitors the ground movement by surveying the structure. This technique involves establishing a survey line with monitoring points on the structure and the surrounding neighborhood. Initial benchmark measurements are taken with additional measurements occurring at intervals ranging from two to six months.

This investigation technique serves two purposes. First, if there is consistent and significant downward movement of the structure, it is probable that a subsidence event is ongoing. Secondly, when that downward movement has stopped for an acceptable period of time, permanent repairs can be made to the structure.

Claims Payments

OMSIUA makes partial payments of claims to enable the property owner to have adequate funds for temporary repairs.

All claims are settled on an actual cash value basis (the replacement cost of damage less depreciation or betterment). Coverage is limited to the amount of insurance being provided on the primary structure, or \$50,000.00, whichever is less.

Ohio Mine Subsidence Claims

In 2004, 93 claims were reported while in 2003, 77 claims were reported. In 2004, 72 claims were closed with payments of \$218,567.04 in paid losses and adjustment expenses. Reserves totaled \$100,914 at the end of 2004. In 2003, 105 claims were closed with payments of \$273,066.91 in paid losses and adjustment expenses. Reserves totaled \$213,581 at 2003's year-end. Exhibit 2 details the 2004 claims activity by county.

FINANCIAL STATEMENTS AND STATISTICAL INFORMATION

**OHIO MINE SUBSIDENCE INSURANCE FUND STATEMENT OF RECEIPTS,
DISBURSEMENTS, AND FUND BALANCE ACTUAL FOR 2003 AND 2004**

<i>Fund Balance (12/31/02)</i>	<i>\$11,624,618.58</i>
2003 Income (Premiums et al)	911,649.89
2003 Disbursements	<u>518,856.61</u>
<i>Fund Balance (12/31/03)</i>	<i>\$12,017,411.86</i>
2004 Income (Premiums et al)	866,304.95
2004 Disbursements	<u>654,553.56</u>
<i>Fund Balance (12/31/04)</i>	<i>\$12,229,163.25</i>

EXHIBIT 1

NUMBER OF ABANDONED AND ACTIVE MINES

COUNTY	ABANDONED MINES	ACTIVE MINES-2004
ATHENS	335	1
BELMONT	533	2
CARROLL	219	1
COLOMBIANA	311	0
COSHOCTON	285	0
CUYAHOGA	0	1
DELAWARE	1	0
ERIE	1	0
GALLIA	169	0
GEAUGA	1	0
GUERNSEY	171	0
HARRISON	149	1
HOCKING	215	0
HOLMES	105	0
JACKSON	332	0
JEFFERSON	357	2
LAKE	0	1
LAWRENCE	192	0
LICKING	3	0
MAHONING	168	1
MEDINA	39	0
MEIGS	195	0
MONROE	3	0
MORGAN	114	0
MUSKINGUM	425	0
NOBLE	157	0
OTTAWA	6	0
PERRY	412	0
PIKE	14	0
PORTAGE	16	0
PREBLE	1	0
SCIOTO	76	0
STARK	359	0
SUMMIT	73	0
TRUMBULL	95	0
TUSCARAWAS	561	2
VINTON	247	0
WASHINGTON	84	0
WAYNE	95	0
TOTAL	6,519	12

Source of Mine information: Ohio Department of Natural Resources Division of Geological Survey

EXHIBIT 2

OMSIUA CLAIM ACTIVITY-2004

COUNTY	REPORTED CLAIMS	CLOSED CLAIMS	OPEN CLAIMS	RESERVES	CLAIM PAYMENTS	LOSS ADJ. EXP.
ATHENS	1	1	0	0	0	\$1,271.26
BELMONT	21	15	14	0	\$21,624.70	\$18,995.41
CARROLL	5	2	3	0	0	\$761.00
COLUMBIANA	3	5	0	0	\$9,187.56	\$4,231.40
COSHOCTON	1	1	0	0	0	\$743.90
DELAWARE	0	0	0	0	0	0
ERIE	0	0	0	0	0	0
GALLIA	1	1	0	0	0	\$126.00
GEAUGA	0	0	0	0	0	0
GUERNSEY	5	4	4	\$333	\$20,666.57	\$8,902.91
HARRISON	5	3	3	\$27,721	0	\$1,921.37
HOCKING	0	0	0	0	0	0
HOLMES	0	0	0	0	0	0
JACKSON	5	7	2	\$50,360	\$34,123.00	\$6,429.10
JEFFERSON	20	9	14	0	0	\$6,394.38
LAKE	0	0	0	0	0	0
LAWRENCE	2	0	3	0	0	\$702.92
LICKING	0	0	0	0	0	0
MAHONING	3	5	2	0	0	\$9,086.92
MEDINA	0	0	0	0	0	0
MEIGS	3	3	1	0	0	\$10,793.86
MONROE	2	2	0	0	\$4,648.75	\$8,282.35
MORGAN	0	0	0	0	0	0
MUSKINGUM	2	1	1	0	0	\$565.75
NOBLE	0	1	0	0	0	\$1,266.16
OTTAWA	0	0	0	0	0	0
PERRY	1	1	4	\$22,500	0	\$7,859.64
PORTAGE	0	0	0	0	0	\$565.35
PREBLE	0	0	0	0	0	0
SCIOTO	0	0	0	0	0	0
STARK	5	5	2	0	\$19,264.53	\$11,066.63
SUMMIT	3	1	3	0	0	\$3,283.91
TRUMBULL	1	3	0	0	0	\$2,357.25
TUSCARAWAS	3	2	1	0	0	\$3,444.46
VINTON	0	0	0	0	0	0
WASHINGTON	1	0	1	0	0	0
WAYNE	0	0	0	0	0	0
TOTALS	93	72	58	\$100,914	\$109,515.11	\$109,051.93

EXHIBIT 3

OMSIUA POLICIES AND PREMIUM WRITTEN-2004

COUNTY	POLICIES 2003	POLICIES 2004	PREMIUM 2003	PREMIUM 2004
ATHENS	16,993	16,103	\$16,992.43	\$16,103.31
BELMONT	22,738	22,809	\$22,737.25	\$22,854.00
CARROLL	9,499	11,091	\$ 9,498.63	\$11,091.58
COLUMBIANA	35,265	34,628	\$35,265.68	\$34,627.20
COSHOCTON	12,199	11,914	\$12,198.89	\$11,913.63
DELAWARE	2,668	2,683	\$9,339.24	\$9,393.68
ERIE	560	520	\$1,957.62	\$1,820.90
GALLIA	9,850	9,673	\$9,849.97	\$9,673.48
GEAUGA	1,468	1,463	\$5,135.89	\$5,123.34
GUERNSEY	13,826	13,963	\$13,826.06	\$13,963.97
HARRISON	5,842	5,671	\$5,841.98	\$5,671.12
HOCKING	9,511	8,967	\$9,510.30	\$8,967.63
HOLMES	8,040	7,864	\$8,039.43	\$7,863.50
JACKSON	9,833	10,051	\$9,832.86	\$10,051.41
JEFFERSON	23,646	23,077	\$23,646.32	\$23,077.19
LAKE	2,823	2,780	\$9,880.64	\$9,729.88
LAWRENCE	19,573	19,598	\$19,572.03	\$19,598.60
LICKING	1,648	1,630	\$5,764.87	\$5,700.61
MAHONING	80,066	80,079	\$80,065.16	\$80,078.81
MEDINA	3,586	3,756	\$12,550.15	\$13,147.54
MEIGS	7,032	6,923	\$7,032.85	\$6,922.42
MONROE	5,829	5,551	\$5,828.26	\$5,551.47
MORGAN	5,618	4,093	\$5,618.19	\$4,093.55
MUSKINGUM	26,783	25,402	\$26,782.89	\$25,401.35
NOBLE	3,919	3,891	\$3,919.29	\$3,891.56
OTTAWA	666	657	\$2,332.87	\$2,299.75
PERRY	12,674	9,302	\$12,673.66	\$9,301.94
PORTAGE	2,382	2,304	\$8,336.89	\$8,061.17
PREBLE	413	455	\$1,444.15	\$1,594.87
SCIOTO	22,105	21,874	\$22,104.29	\$21,873.62
STARK	124,506	126,444	\$124,505.84	\$126,443.39
SUMMIT	12,231	12,101	\$42,809.99	\$42,353.76
TRUMBULL	71,065	71,432	\$71,064.01	\$71,432.01
TUSCARAWAS	30,385	30,610	\$30,385.79	\$30,609.76
VINTON	3,459	3,874	\$3,457.71	\$3,874.72
WASHINGTON	20,980	20,751	\$20,980.88	\$20,750.88
WAYNE	5,228	4,907	\$18,298.46	\$17,172.55
TOTALS	644,909	638,891	\$729,081.42	\$722,080.15