# PROBLEMS IN RECLAMATION BONDING IN THE UNITED STATES[1]

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Due to the poor performance in the Casualty Insurance market in the past few years, there have been some marked changes in the insurance business, as most of you are aware. Reinsurors have placed restrictions on the size and kind of risk they will reinsure for primary carriers.

There is only so much capacity available that insurance companies have to allocate to the various lines of business they write. After the insurance companies finally get to "bonds" in general, the "capacity" which is to be used for bonds is further broken down. To simplify the process, let's ask, "if you have one dollar, where do you spend it?" Do you use the "dollar" of capacity to write "contract" bonds for road or building construction of for miscellaneous bonds or reclamation bonds? Construction bonds have a definite term (in that completion of the project is limited in the contract itself), limiting time of exposure. Miscellaneous bonds usually do not have a definite term but are cancelable (allowing the bonding company to end its liability). Reclamation bonds are not cancelable (except as respects undisturbed acreage in some jurisdictions) and have no definite term. Where would you spend your dollar? Remember also, insurance companies have stockholders, and management has a responsibility to direct its business to achieve the best "return on shareholders' equity" that it can. As a stockholder, do you want your company writing bonds (and committing its assets) for relatively short term obligations (usually two years or less); cancelable obligations or indefinite term, non-cancelable bonds that are probably from a minimum of seven years in duration to 30 to 40 years? The answer to that is obvious.

Why, then, does any company write reclamation bonds? Some of us feel that, properly underwritten, a company can make money writing reclamation bonds for financially sound, well experienced companies with good coal contracts (in terms of price and number of years) and quality reserves (either owned or controlled). Even if we prove over time that we are indeed right in this assumption, there will always be reluctance to allocate more capacity to indefinite term, non-cancelable obligations.

As we all know, there is a good deal of pressure to increase bond amounts per acre (as expressed in September, 1986 GAO study in Pennsylvania and West Virginia) which will restrict bond capacity even further.

What is the answer? At present, it will do no good to point a finger at anybody as a scapegoat. The answer is that we have to live with what we have. We in the Surety Industry need to allocate what reclamation capacity we have wisely. You, the mining companies have to "manage" the bond capacity you have better than before. The best thing you can do is to get your releases on existing bonds as quickly as you can. Plan ahead, even when designing the mine, so that the reclamation work can be completed in the shortest possible time. Every reduction in a bond, or final release, goes directly back to "available bonding capacity" for new permits. Bonds are a mining company's tools just as machinery is. Proper maintenance is necessary for both to ensure smooth, efficient and profitable operations.

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[1]Paper presented at the combined Fourth Biennial Billings Symposium on Mining and Reclamation in the West and The National Meeting of the American Society for Surface Mining and Reclamation. March 17-19, 1987. Billings, MT.

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