REPORT ON EXAMINATION

OF THE

FIRE DISTRICTS OF NEW YORK MUTUAL INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2010

DATE OF REPORT	AUGUST 16, 2011
EXAMINER	KAREN GARD, AFE

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

August 16, 2011

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30636 dated January 7, 2011, attached hereto, I have made an examination into the condition and affairs of Fire Districts of New York Mutual Insurance Company, Inc. as of December 31, 2010, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualifications, it should be understood to indicate Fire Districts of New York Mutual Insurance Company, Inc.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's home office located at 777 Chestnut Ridge Road, Chestnut Ridge, New York, 10977.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of Fire Districts of New York Mutual Insurance Company, Inc. The previous examination was conducted as of December 31, 2005. This examination covered the five-year period from January 1, 2006 through December 31, 2010. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Fire Districts of New York Mutual Insurance Company, Inc. was incorporated under the laws of the State of New York on November 2, 1977. It became licensed on November 28, 1978 and commenced business on December 20, 1978. Business originated with the joining together of various fire districts within New York State to form a mutual insurance company to provide volunteer firefighters with the benefits afforded under workers' compensation and employers' liability insurance, including insurances provided under the Volunteer Firefighters' Benefits Law ("VFBL").

The Company was granted tax-exempt status by the Internal Revenue Service on September 23, 1981, pursuant to Section 115(1) of the Internal Revenue Code and by the New York State Department of Taxation and Finance on April 30, 1980, pursuant to Article 33 of Section 1512(a)(1) of the New York State Tax Law. All premiums paid to the Company are derived from tax dollars allocated to the fire districts.

On December 21, 2007, in an effort to achieve more appropriate pricing for its insureds, the Company formed two wholly-owned stock subsidiaries: FDM Preferred Insurance Company, Inc. ("FPI") and Fire Districts Insurance Company, Inc. ("FDI"). Both subsidiaries were licensed on March 16, 2009.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen members. The board meets quarterly during each calendar year. At December 31, 2010, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Joseph L. Cruger Poughkeepsie, NY	Roosevelt Fire District, Dutchess County
Craig P. DeBaun Oceanside, NY	Oceanside Fire District
Michael H. Geoghan Bayport, NY	Bayport Fire District
D. Donald Greene Newburgh, NY	Cronomer Valley Fire District
Thomas E. Herlihy, Jr. Apulia Station, NY	Fabius Fire District
Kenneth Hoffarth Valhalla, NY	Valhalla Fire District
John LoScalzo Huntington, NY	Eaton's Neck Fire District
James J. McCormick East Northport, NY	Retired
Daniel F. McNeil, III Cortland, NY	President, McNeil and Company
Frank A. Nocerino North Massapequa, NY	North Massapequa Fire District
George J. Paul West Seneca, NY	West Seneca Fire District #3
Lawrence Pierce Mendon, NY	Mendon Fire District
Michael L. White Clay, NY	Insurance Marketing, McNeil and Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2010, the principal officers of the Company were as follows:

Name	Title
Daniel F. McNeil, III	President
Kenneth E. Hoffarth	Secretary
Michael H. Geoghan	Treasurer
Frank A. Nocerino	Vice President
Lanny D. Strain*	Executive Vice President and Chief Operating Officer

*Effective June 1, 2011, Mr. Strain resigned; the position is currently vacant.

B. Territory and Plan of Operation

As of December 31, 2010, the Company was licensed to write business in New York only. The license covers workers' compensation and employers' liability insurance as defined in paragraph 15 of Section 1113(a) of the New York Insurance Law including volunteer firefighters' benefit insurance provided pursuant to the volunteer firefighters' benefit law and volunteer ambulance workers' benefit insurance provided pursuant to the volunteer ambulance workers' benefit law. In 2009, the Company ceased writing insurance to volunteer ambulance workers.

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $300,000.

The following schedule shows the direct premiums written by the Company in the State of New York for the period under examination:

Calendar Year	Total Premiums
2006	$15,858,763
2007	$15,394,934
2008	$15,733,696
2009	$14,197,494
2010	$ 7,557,550

Given that the New York Compensation Insurance Rating Board sets the rates, the Company, in order to achieve more equitable pricing for its insureds, created a three-tier pricing format by forming two wholly-owned subsidiaries: FPI and FDI. Preferred risks are written by FPI, substandard risks are written by FDI, and standard risks are written by the Company. This segmentation of the Company's business is the main reason for the drop in premium income in 2010.

The Company is a direct writer and its business is produced through approximately eighty-seven agents.

C. Reinsurance

Assumed reinsurance accounted for 53.3% of the Company's gross premium written at December 31, 2010, primarily due to its participation in the pooling agreement discussed below. The Company utilizes reinsurance accounting as defined in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

Effective April 1, 2009, the Company entered into an inter-company pooling agreement with its affiliates. The companies pool all insurance risks and participate therein on a fixed percentage basis, as follows:

The Company	75%
FDI	15%
FPI	10%

The Company has structured its ceded reinsurance program as follows:

Type of Treaty	Cession
Casualty	
First layer 100% authorized	$500,000 excess of $500,000 ultimate net loss, each loss occurrence; further subject to an aggregate limit of $5,000,000 each agreement year as respects losses arising from an Act of Terrorism.
Second layer 100% authorized	$1,000,000 excess of $1,000,000 ultimate net loss, each loss occurrence; further subject to an aggregate limit of $1,000,000 each agreement year as respects losses arising from an Act of Terrorism.
Third layer 100% authorized	$3,000,000 excess of $2,000,000 ultimate net loss, each loss occurrence, limit of $6,000,000 ultimate net loss in the aggregate each agreement year; further subject to an aggregate limit of $3,000,000 each agreement year as respects losses arising from an Act of Terrorism.

Type of Treaty	Cession
Fourth layer 100% authorized	$5,000,000 excess of $5,000,000 ultimate net loss, each loss occurrence, limit of $10,000,000 ultimate net loss in the aggregate each agreement year; further subject to an aggregate limit of $5,000,000 each agreement year as respects losses arising from an Act of Terrorism.
Fifth layer 100% authorized	$5,000,000 excess of $10,000,000 ultimate net loss, each loss occurrence, limit of $10,000,000 ultimate net loss in the aggregate each agreement year; further subject to an aggregate limit of $5,000,000 each agreement year as respects losses arising from an Act of Terrorism.

During the examination period, the Company ceded more than 50% of its premiums written. The Company received approval to do so, pursuant to the provisions of Section 1308(e)(1) of the New York Insurance Law.

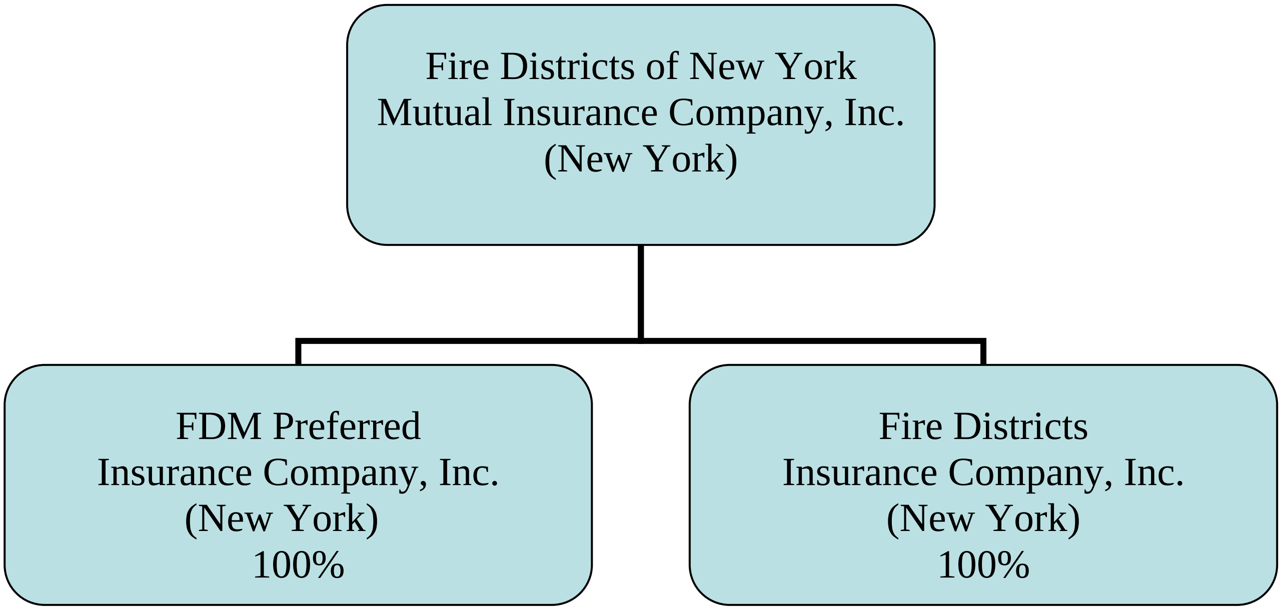
All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

D. Affiliated group

The Company wholly owns FDI and FPI. Since the ultimate controlling party of the affiliated group is the Company, an authorized insurer, it is exempt from the requirements of Article 15 of the New York Insurance Law and Department Regulation 52. The Company is subject to the requirements of Article 16 of the New York Insurance Law; however, it received a waiver for the filing requirements of Department Regulation 53, since all affiliates are insurance companies subject to Articles 3 and 16 of the New York Insurance Law.

The following is a chart of the affiliated group at December 31, 2010:



In addition to the inter-company pooling agreement, the Company was party to the following agreement with the other members of the affiliated group at December 31, 2010:

Inter-Company Cost Allocation Agreement

Effective January 30, 2009, the Company entered into a service and cost allocation agreement with FDI and FPI whereby the Company agrees to provide personnel services, and makes available its property, equipment and facilities. Pursuant to the agreement, FDI and FPI agree to reimburse the Company in accordance with the requirements of Department Regulation No. 30. This agreement was filed with this Department pursuant to Article 16 of the New York Insurance Law and was non-disapproved.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2010, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	87%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	80%
Premiums in course of collection to surplus as regards policyholders	5%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$49,846,274	88.71%
Other underwriting expenses incurred	9,591,248	17.07
Net underwriting loss	(3,248,243)	(5.78)
Premiums earned	$56,189,279	100.00%

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2010, as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$33,951,248	$ 0	$33,951,248
Common stocks	7,374,489		7,374,489
Cash, cash equivalents and short-term investments	2,563,359		2,563,359
Investment income due and accrued	358,225		358,225
Uncollected premiums and agents' balances in the course of collection	578,336		578,336
Deferred premiums, agents' balances and installments booked but deferred and not yet due	161,817		161,817
Amounts recoverable from reinsurers	169,719		169,719
Electronic data processing equipment and software	91,948	82,386	9,562
Furniture and equipment, including health care delivery assets	54,571	54,571	0
Receivables from parent, subsidiaries and affiliates	174,639		174,639
Aggregate write-ins for other than invested assets	217,864	62,354	155,509
Total assets	$45,696,215	$199,311	$45,496,903

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses		$27,811,269
Reinsurance payable on paid losses and loss adjustment expenses		136,476
Commissions payable, contingent commissions and other similar charges		446,531
Other expenses (excluding taxes, licenses and fees)		84,521
Taxes, licenses and fees (excluding federal and foreign income taxes)		384,316
Unearned premiums		3,258,533
Advance premium		379,609
Ceded reinsurance premiums payable (net of ceding commissions)		392,871
Aggregate write-ins for liabilities		129,991
Total liabilities		$33,024,117
Surplus and Other Funds		
Additional special contingent surplus	$ 300,000	
Unassigned funds (surplus)	12,172,785	
Surplus as regards policyholders		12,472,785
Total liabilities, surplus and other funds		$45,496,902

B. Statement of Income

Surplus as regards policyholders increased $4,413,873 during the five-year examination period January 1, 2006 through December 31, 2010, detailed as follows:

Underwriting Income		
Premiums earned		$56,189,279
Deductions:		
Losses and loss adjustment expenses incurred	$49,441,274	
Other underwriting expenses incurred	9,591,248	
Total underwriting deductions		59,032,522
Net underwriting gain or (loss)		$(2,843,243)
Investment Income		
Net investment income earned	$ 7,270,719	
Net realized capital gain	(612,684)	
Net investment gain or (loss)		6,658,035
Other Income		
Net loss from agents' or premium balances charged off	$ (14,866)	
Total other income		(14,866)
Net income		$ 3,799,926

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2005			$ 8,058,912
Net income	$3,799,926		
Net unrealized capital gains	408,080		
Change in non-admitted assets	205,867	$ 0	
Total gains and losses	$4,413,873	$ 0	
Net increase (decrease) in surplus			4,413,873
Surplus as regards policyholders per report on examination as of December 31, 2010			$12,472,785

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $27,811,269 is the same as reported by the Company as of December 31, 2010. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained six recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Management	
i.	It is recommended that the Company comply with Section 325(a) of the New York Insurance Law by having its committees keep and maintain minutes of their meetings.	4
	The Company has complied with this recommendation.	
B.	Reinsurance	
i..	It is recommended that the Company exercise greater care to ensure that it correctly identifies reinsurers listed in Schedule F.	5
	The Company has complied with this recommendation.	
ii.	It is recommended that the Company keep complete and signed copies of all agreements relevant to the examination in accordance with the provisions of Section 310(a)(2) of the New York Insurance Law.	6
	The Company has complied with this recommendation.	
C.	Accounts and Records	
i.	It is recommended that the Company include the safeguard provisions in any custodial agreement it enters into as required by Part 1 Section IV-J of the NAIC Financial Condition Examiners Handbook.	7
	The Company has complied with this recommendation.	
ii.	It is recommended that the Company comply with the requirements of Section 1411(a) of the New York Insurance Law by having all of its investments authorized or approved as indicated in such section.	8
	The Company has complied with this recommendation.	
iii.	It is recommended that the Company in the future report Schedule E Part 3 Special Deposits in the column of “Deposits with the State of Domicile for the Benefit of All Policyholders”.	8
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

_____________/s/___________
Karen Gard, AFE
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

KAREN GARD, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____________/s/___________
Karen Gard

Subscribed and sworn to before me

this__________ day of ___________________, 2012.

Appointment No. 30636

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, James J. Wrynn *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Karen Gard

as proper person to examine into the affairs of the

FIRE DISTRICTS OF NEW YORK MUTUAL INSURANCE COMPANY, INC.

and to make a report to me in writing of the condition of the said

Company

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 7th *day of* January, *2011*

STATE OF NEW YORK ★ SUPERINTENDENT OF INSURANCE ★

EXCELSIOR

JAMES J. WRYNN
Superintendent of Insurance