

REPORT ON EXAMINATION
OF THE
FIRE DISTRICTS OF NEW YORK
MUTUAL INSURANCE COMPANY, INC.
AS OF
DECEMBER 31, 2001

DATE OF REPORT:

MAY 31, 2002

EXAMINER:

JAMES MURPHY

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

May 31, 2002

Honorable Gregory Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment No. 21349, dated March 7, 2002 and attached hereto, I have made an examination of the conditions and affairs of Fire Districts of New York Mutual Insurance Company, Inc. as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Company's home office located at 501 South Main Street, Spring Valley, New York 10977.

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

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. This examination covers the period from January 1, 1997 through December 31, 2001 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: cash and invested assets, agents' balances, reinsurance recoverables, loss and loss adjustment expense reserves, taxes, licenses and fees and unearned premium reserves. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of the Company
- Management and control
- Company records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of the Company
- Business in force
- Loss experience
- Reinsurance
- Market conduct activities
- Accounts and records
- Financial statements

A review was 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 which involve departures from laws, regulations, or rules or which require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on November 2, 1977, was 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' Benefit Law and the Volunteer Ambulance Workers' Benefit Law.

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, 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.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of at least thirteen directors. The Company holds its annual meeting in January. Meetings of the board are held quarterly.

The directors as of December 31, 2001, were as follows:

<u>Name and Residence</u>	<u>Fire District Affiliation</u>
Joseph L. Cruger Poughkeepsie, NY	Roosevelt
Craig P. Debaun Oceanside, NY	Oceanside
John F. Dolezal Mastic, NY	Mastic
Michael H. Geoghan Bayport, NY	Bayport
Donald D. Greene Newburgh, NY	Cronomer Valley
Kenneth Hoffarth Valhalla, NY	Valhalla
William C. Johnson Rochester, NY	Ridge Culver
John Loscalzo Huntington, NY	Eaton's Neck
Daniel F. McNeil Cortland, NY	Unaffiliated
Frank A. Nocerino North Massapequa, NY	North Massapequa
George J. Paul West Seneca, NY	West Seneca
Robert N. Potter Cicero, NY	Unaffiliated
Seymour J. Weiss Woodbourne, NY	Unaffiliated

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended.

As of December 31, 2001, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
William C. Johnson	President
Ralph A. Cannito	Executive Vice-President
Michael H. Geoghan	Treasurer
John F. Dolezal	Secretary

The daily operations of the Company are overseen by Ralph A. Cannito, executive vice-president.

B. Territory and Plan of Operation

As of December 31, 2001, the Company was licensed in New York State to transact 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 Law (V.F.B.L.) insurance and Volunteer Ambulance Workers' Benefit Law insurance.

The Company's business is produced through approximately 90 independent agents and through direct mail.

Based upon the requirements of Section 4107 of the New York Insurance Law, the Company must maintain a minimum surplus to policyholders of \$300,000.

The Company is primarily a direct writer. Seventy-seven percent of the Company's net premiums written are derived from direct business. The remaining twenty-three percent of net premiums written are derived from a single assumed reinsurance contract.

C. Reinsurance

The examiners reviewed all ceded reinsurance contracts in effect during the examination period. The contract contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Company had the following reinsurance coverage in effect at December 31, 2001:

<u>Type of Contract</u>	<u>Cession</u>
<u>Excess of Loss</u>	
First excess of loss 100% authorized	\$850,000 excess of \$150,000, any one loss occurrence.
Second excess of loss 100% authorized	\$4,000,000 excess of \$1,000,000, any one loss occurrence.
Third excess of loss 100% authorized	\$5,000,000 excess of \$5,000,000, any one loss occurrence.
Fourth excess of loss 100% authorized	\$10,000,000 excess of \$10,000,000, any one loss occurrence.

D. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001, based upon the results of this examination:

Net premiums written in 2001 to surplus as regards policyholders	.93:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	68%
Premiums in course of collection to surplus as regards policyholders	10%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners (“NAIC”).

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

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$16,773,353	55.12%
Loss adjustment expenses incurred	7,584,781	24.93
Other underwriting expenses incurred	5,235,642	17.21
Net underwriting gain	<u>834,267</u>	<u>2.74</u>
Premiums earned	<u>\$30,428,042</u>	<u>100.00%</u>

E. Accounts and Records

(1) Annual Statement Balances

In its filed 2001 annual statement, the Company reported an asset of \$110,111 as equities and deposits in pools and associations. Upon review it was determined that this asset was actually funds deposited with a reinsurer pursuant to the terms of a reinsurance agreement.

It is recommended that the Company classify assets correctly on all future filed financial statements.

(2) Custodian Agreement

The Department and the NAIC require that all custodian agreements contain certain safeguards considered to be good business practice. A review of the Company’s custodian agreement with PNC

Bank revealed that the agreement did not contain the following provisions, which are deemed indicative of good business practices:

1. The Bank shall have in force, for its own protection, the Bankers Blanket Bond Insurance of the broadest form available for commercial banks and will continue to maintain such insurance. The bank will give insurer 60 days written notice of any material change in the form or amount of such insurance or termination of coverage.
2. Custodian will at all times give the securities held the same care given the custodian's own property of a similar nature.
3. The custodian shall maintain records sufficient to verify information required to be reported in Schedule D of the Annual Statement blank of the Insurance Department of the State of New York.
4. Custodian shall furnish the insurer with the appropriate affidavits in the form as may be acceptable to the custodian and to the Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the company.
5. Access shall be during regular banking hours and specifying those persons who shall be entitled to examine on the custodian's premises and records regarding securities held but only upon furnishing custodian with written instructions to that effect from any specified authorized officer.
6. Written instructions shall be signed by any two of the insurer's authorized officers specified in a separate list for this purpose which shall be furnished to the custodian from time to time signed by the treasurer or an assistant treasurer and certified under the corporate seal by the secretary or assistant secretary.
7. In connection with any situation involving registration of securities in the name of a nominee bank custodian, the custodian agreement shall empower the bank to take such action.
8. There should be a provision in the agreement that would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls pertaining to custodian record keeping issued by internal or independent auditors.

It is recommended that the Company revise its custodian agreement with PNC Bank to include the necessary safeguards considered to be good business practice by the Department and the NAIC.

F. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law states, in part:

“any amount issued and payable to a resident of this State shall be deemed abandoned property if unclaimed for three years by the person entitled to thereto... and shall be reported to the State of New York by April 1 of each year.”

The examination review revealed that the Company made the required filings, however, the Company has outstanding checks that did not clear the bank for more than three years that were not included in its Abandoned Property Report.

It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law and remit to the Office of the State Comptroller all amounts issued and payable to a resident of this state that are unclaimed for three years or more.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following statements show the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2001. It is the same as the balance sheet filed by the Company:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Non-Admitted Assets</u>	<u>Net-Admitted Assets</u>
Bonds	\$15,567,344	\$	\$	\$15,567,344
Common stocks	1,221,727			1,221,727
Cash and short-term investments	5,548,419			5,548,419
Agents' balances or uncollected premiums	914,973			914,973
Reinsurance recoverables on loss and loss adjustment expense payments	160,469			160,469
Interest, dividends and real estate income due and and accrued	267,114			267,114
Equities and deposits in pools and associations	110,111			110,111
Rent security deposit	3,100		\$3,100	
Premiums receivable over 90 days	48,645		48,645	
Accounts receivable-NYS Refund	77,120			77,120
Other assets non-admitted	<u>288,175</u>	_____	<u>288,175</u>	_____
Total assets	<u>\$24,207,198</u>	<u>\$ 0</u>	<u>\$ 339,920</u>	<u>\$23,867,278</u>

Liabilities

Losses		\$7,996,760
Loss adjustment expenses		2,150,925
Other expenses		88,273
Taxes licenses and fees		589,546
Unearned premiums		3,436,865
Ceded reinsurance premiums payable		341,105
Advanced premium received		499,257
Abandoned property		<u>8,784</u>
Total liabilities		\$15,111,515
Additional special contingent surplus	300,000	
Gross paid-in and contributed surplus	<u>8,455,761</u>	
Surplus as regards policyholders		<u>8,755,761</u>
Total liabilities and surplus		<u>\$23,867,276</u>

Note: Fire Districts of New York Mutual Insurance Company, Inc. has been exempted from Federal and State income taxes since 1980.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$4,500,492 during the five-year examination period from January 1, 1997 through December 31, 2001 detailed as follows:

<u>Statement of Income</u>		
<u>Underwriting Income</u>		
Premiums earned		\$30,428,042
Deductions:		
Losses incurred	\$16,773,353	
Loss adjustment expenses incurred	7,584,781	
Other underwriting expenses incurred	<u>5,235,642</u>	
Total underwriting deductions		<u>29,593,776</u>
Net underwriting gain		\$ 834,266
<u>Investment Income</u>		
Net investment income earned	\$ 4,168,260	
Net realized capital gains (losses)	<u>20,744</u>	
Net investment gain		4,189,004
<u>Other Income</u>		
Sale of asset	\$ <u>75,000</u>	
Total other income		<u>75,000</u>
Net income		<u>\$ 5,098,270</u>

Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of December 31, 1996			\$4,255,269
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$5,098,270	\$	
Net unrealized capital losses		374,824	
Change in non-admitted assets		213,256	
Miscellaneous adjustments	<u> </u>	<u>9,698</u>	
Total gains and losses	<u>\$5,098,270</u>	<u>\$597,778</u>	
Net increase in surplus as regards policyholders			<u>\$4,500,492</u>
Surplus as regards policyholders, per report on examination as of December 31, 2001			<u>\$8,755,761</u>

4. LOSS AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$10,147,685 is the same as the amount reported by the Company as of the examination date. The 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. MARKET CONDUCT ACTIVITIES

In the course of the examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the generally more precise scope of

a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Department's Property Bureau.

No problem areas were noted.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

Following are the violations, recommendations and comments contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation (page numbers refer to the prior report):

<u>Item</u>		<u>Page No.</u>
A.	It is recommended that minutes of all meetings of the board and committees thereof be maintained in accordance with the by-laws of the Company The Company has complied with this recommendation.	4
B.	It is recommended that the Company revise the reinsurance agreement described herein to include an insolvency clause that meets the requirements of Section 1308 of the New York Insurance Law. The Company has complied with this recommendation.	9
C.	It is strongly recommended that the Company reconcile all data that appears in the annual statement and that all discrepancies in the data can be readily explained. The Company has complied with this recommendation.	13

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following are the recommendations and comments contained in this report:

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
(i) <u>Annual Statement Balances</u>	
It is recommended that the Company classify assets correctly on all future filed financial statements.	7
(ii) <u>Custodian Agreement</u>	
It is recommended that the Company revise its custodian agreement with PNC Bank to include the necessary safeguards considered to be good business practice by the Department and the NAIC.	8
B. <u>Abandoned Property Law</u>	
It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law and remit to the Office of the State Comptroller all amounts issued and payable to a resident of this state that are unclaimed for three years or more.	9

Respectfully submitted,

_____/S/
James Murphy
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

JAMES MURPHY, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/
James Murphy

Subscribed and sworn to before me

this _____ day of _____ 2002.

Appointment No. 21845

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

James Murphy

as proper person to examine into the affairs of the

FIRE DISTRICTS OF NEW YORK MUTUAL INSURANCE COMPANY

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

Company

with such other information as he 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 March, 2002





GREGORY V. SERIO
Superintendent of Insurance