



**REPORT ON EXAMINATION
OF
FIRE DISTRICTS INSURANCE COMPANY, INC.
AS OF DECEMBER 31, 2022**

**EXAMINER:
DATE OF REPORT:**

**SHEIK H. MOHAMED
AUGUST 8, 2024**

TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	3
	A. Corporate governance	3
	B. Territory and plan of operation	4
	C. Reinsurance ceded	5
	D. Affiliated group	6
	E. Significant ratios	7
3.	Financial statements	9
	A. Balance sheet	9
	B. Statement of income	11
	C. Capital and surplus	12
4.	Losses and loss adjustment expenses	12
5.	Compliance with prior report on examination	13
6.	Summary of comments and recommendations	13

KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

August 8, 2024

Honorable Adrienne A. Harris
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 32567 dated August 10, 2023, attached hereto, I have made an examination into the condition and affairs of Fire Districts Insurance Company, Inc. as of December 31, 2022, and submit the following report thereon.

Wherever the designations “the Company” or “FDI” appear herein without qualification, they should be understood to indicate Fire Districts 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.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Fire Districts Insurance Company, Inc., a single-state insurer. The previous examination was conducted as of December 31, 2018. This examination covered the four-year period from January 1, 2019 through December 31, 2022. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner. The examination of the Company was performed concurrently with the examinations of the following insurers: Fire Districts of New York Mutual Insurance Company, Inc. (“FDM”) and FDM Preferred Insurance Company, Inc. (“FPI”). Collectively, the three insurers are referred to as Fire Districts Group (“FDG”).

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify current and 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 New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- 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 Insurance Company, Inc. was incorporated under the laws of the State of New York on December 21, 2007. It became licensed on March 16, 2009, and commenced business on the same date.

The Company is a stock company that writes workers' compensation insurance and employer's liability insurance, primarily for volunteer firefighters in New York State. It was established by FDM as a surcharged company for policyholders having experienced worse than average loss ratios and exposures to losses. The Company received a determination from the State of New York Department of Taxation and Finance that it is entitled to tax-exempt status as provided in Section 1512(a)(1) of the New York State Tax Law.

A. Corporate Governance

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of thirteen members, and in no case, shall there be less than nine members. The board meets four times during each calendar year. At December 31, 2022, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Craig P. DeBaun Oceanside, NY	Retired
Roberta G. Doremus Tallman, NY	Retired
John J. Egan Selden, NY	District Manager, Selden Fire Department
Michael H. Geoghan Bayport, NY	President, Fire Districts Insurance Company, Inc.
Dominick D. Greene Newburgh, NY	Retired
Thomas E. Herlihy, Jr. Tully, NY	Secretary, Fire Districts Insurance Company, Inc.
John LoScalzo Huntington, NY	Retired

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Manzi West Babylon, NY	Retired
Ralph Raymond North Massapequa, NY	Commissioner, North Massapequa Fire Department
Randall J. Rider Tonawanda, NY	Treasurer, Fire Districts Insurance Company, Inc.
Amy Speach Baldwinsville, NY	District Secretary, Belgium Cold Springs Fire Department
William L. VanGorder Johnston, NY	Insurance Account Agent, NBT Insurance Agency, LLC
Michael L. White Clay, NY	Vice President, Fire Districts Insurance Company, Inc. Marketing Agent, McNeil & Company, Inc

As of December 31, 2022, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Michael H. Geoghan	President
Thomas E. Herlihy Jr.	Secretary
Randall J. Rider	Treasurer
Michael L. White	Vice President
Kendall K. Willis	Executive Vice President and Chief Financial Officer
Royal Denny	Executive Vice President and Chief Operating Officer

B. Territory and Plan of Operation

As of December 31, 2022, the Company was licensed to write business solely in New York.

As of the examination date, the Company was authorized to transact the kind of insurance as defined in the following numbered paragraph of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
15	Workers' compensation and employers' liability

Based upon the line of business for which the Company is licensed and the Company's current capital structure, 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 \$600,000.

The following schedule shows the direct written premiums and premiums assumed by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2019	\$2,575,829	\$2,386,934	\$4,962,763
2020	\$1,584,625	\$2,138,688	\$3,723,313
2021	\$1,639,060	\$2,189,771	\$3,828,831
2022	\$1,494,701	\$2,101,676	\$3,596,377

Effective April 1, 2009, the Company entered into an intercompany pooling agreement with its parent, FDM, and its affiliate, FPI. The three companies agreed to pool all insurance risks and to participate by means of intercompany reinsurances at a fixed percentage basis, with FDM's lead participation being 75%, and FPI's and the Company's participations being 10% and 15%, respectively. The pooling and participation are for premiums earned and losses incurred on or after April 1, 2009. The agreement was submitted to and approved by the Department pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

C. Reinsurance Ceded

The Company places reinsurance with reinsurers that hold an A.M. Best financial strength rating of A or higher. There are no significant counter-party risks related to the reinsurance recoverables of the Company. The Company considers its risk appetite and tolerance when determining the reinsurance program.

Ceded Reinsurance Program

The Company has an excess of loss treaty in place with the following coverage: \$19,000,000 in excess of \$1,000,000. The agreement is comprised of four layers with a different limit within each layer.

As of December 31, 2022, reinsurance recoverables of approximately \$2.9 million and \$2.2 million were attributable to Transatlantic Reinsurance Company and Fletcher Reinsurance Company ("Formerly Maiden Reinsurance North America, Inc."). Additionally, the reinsurance recoverables from both of these

authorized reinsurers represent more than 40% of the Company's surplus to policyholders. The Company has a trust agreement with Maiden Re, whereby the reinsurer deposits funds into the trust to cover outstanding case reserves, unpaid balances and IBNR. The trust agreement is for the benefit of all companies in the Fire Districts Group. As of December 31, 2022, the market value of the trust was \$12,550,472.

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.

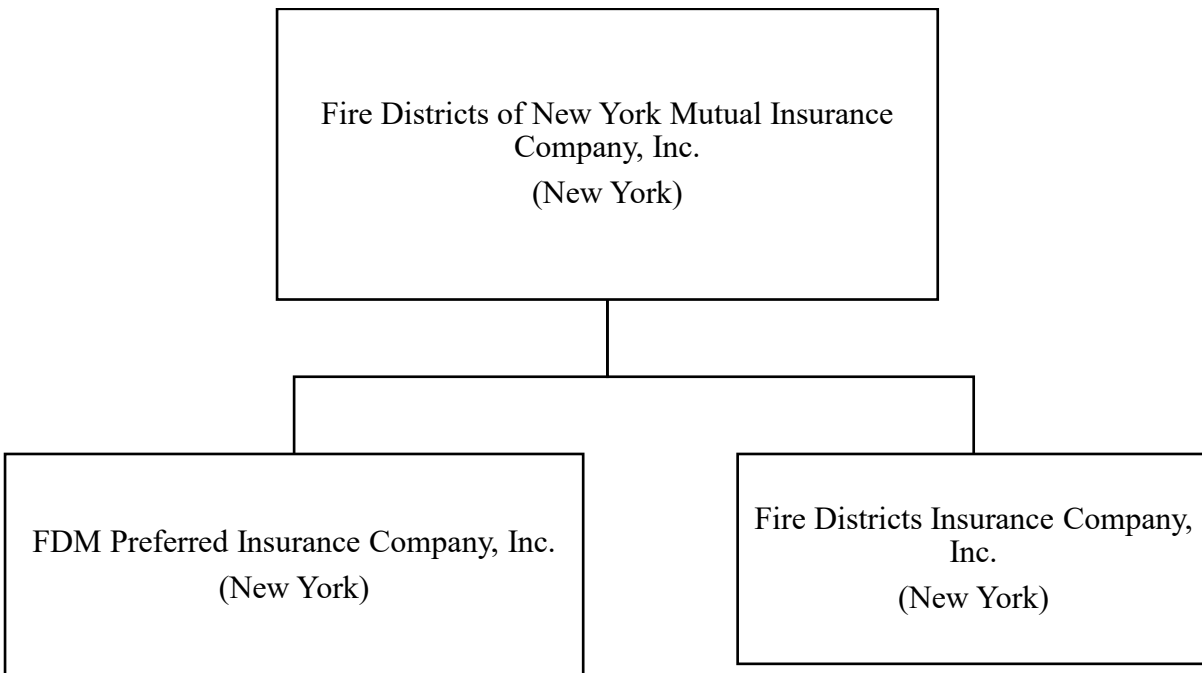
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62R. Representations were supported by an attestation from the Company's Chief Operating Officer and Chief Financial 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. 62R.

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

D. Affiliated Group

The Company is wholly-owned by FDM. Because the ultimate controlling party of the affiliated group is 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, because all affiliates are insurance companies subject to Articles 3 and 16 of the New York Insurance Law.

The following is an unabridged chart of the affiliated group at December 31, 2022:



In addition to the intercompany pooling agreement, the Company was party to the following agreement with other members of its affiliated group as of December 31, 2022:

Service and Cost Allocation Agreement

Effective January 30, 2009, the Company entered into a service and cost allocation agreement with FDM and FPI, whereby FDM agrees to provide personnel services, and makes available its property, equipment and facilities. Pursuant to the agreement, FDI and FPI agree to reimburse FDM in accordance with the requirements of Department Regulation 30. This agreement was filed with the Department pursuant to Article 16 of the New York Insurance Law and was non-disapproved.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2022, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	17%
Adjusted liabilities to liquid assets	41%
Two-year overall operating	34%

Underwriting Ratios

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$3,123,182	34.81%
Other underwriting expenses incurred	2,159,090	24.06%
Net underwriting gain (loss)	<u>3,690,068</u>	<u>41.13%</u>
Premiums earned	<u>\$8,972,340</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 3,217.4% at December 31, 2022. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200% or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2022, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$15,332,341	\$ 0	\$15,332,341
Common stocks	980,177	0	980,177
Cash, cash equivalents and short-term investments	3,428,387	0	3,428,387
Investment income due and accrued	75,023	0	75,023
Uncollected premiums and agents' balances in the course of collection	91,786	0	91,786
Amounts recoverable from reinsurers	547,318	0	547,318
Receivables from parent, subsidiaries and affiliates	403,273	0	403,273
Other assets	<u>1,927</u>	<u>1,927</u>	<u>0</u>
Total assets	<u>\$20,860,232</u>	<u>\$1,927</u>	<u>\$20,858,305</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 6,553,660
Reinsurance payable on paid losses and loss adjustment expenses	278,189
Commissions payable, contingent commissions and other similar charges	84,716
Other expenses (excluding taxes, licenses and fees)	11,000
Unearned premiums	576,523
Payable to parent, subsidiaries, and affiliates	<u>656,116</u>
 Total liabilities	 \$ 8,160,204

Surplus and Other Funds

Common capital stock	\$ 600,000
Gross paid in and contributed surplus	1,630,040
Unassigned funds (surplus)	<u>10,468,061</u>
 Surplus as regards policyholders	 <u>\$12,698,101</u>
 Total liabilities, surplus and other funds	 <u>\$20,858,305</u>

B. Statement of Income

The net income for the examination period as reported by the Company was \$5,541,030, as detailed below:

Underwriting Income

Premiums earned		\$8,972,340
Deductions:		
Losses and loss adjustment expenses incurred	\$3,123,182	
Other underwriting expenses incurred	<u>2,159,090</u>	
Total underwriting deductions		<u>5,282,272</u>
Net underwriting gain or (loss)		\$3,690,068

Investment Income

Net investment income earned	\$1,379,836	
Net realized capital gain	<u>471,126</u>	
Net investment gain or (loss)		<u>1,850,962</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$5,541,030
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$5,541,030
Federal and foreign income taxes incurred		<u>0</u>
Net income		<u>\$5,541,030</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$5,510,322 during the four-year examination period January 1, 2019 through December 31, 2022, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2018			\$ 7,187,779
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$5,541,030		
Net unrealized capital gains or (losses)	0	\$28,781	
Change in nonadmitted assets	<u>0</u>	<u>1,927</u>	
Total gains and losses	\$5,541,030	\$30,708	
Net increase (decrease) in surplus			<u>5,510,322</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2022			<u>\$12,698,101</u>

No adjustments were made to surplus as a result of this examination.

Capital paid in is \$600,000 consisting of 60,000 shares of \$10 par value per share common stock. Gross paid in and contributed surplus is \$1,630,040.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$6,553,660 is the same as reported by the Company as of December 31, 2022. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with actuarial standards of practice and statutory accounting principles, including SSAP No. 55. 100% of the Company's reserves were in the workers' compensation line of business.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Corporate Governance</u>	
i. It was recommended that the Company comply with the provisions of Section 312(b) of the New York Insurance Law and ensure that a copy of the report on examination is furnished to each board member and that the requisite board member statement is available for review.	4
<p>The Company has complied with this recommendation.</p>	
ii. It was recommended that the Company require all of its directors, officers and key employees to complete a Code of Business Conduct and Ethics Disclosure statement on an annual basis and ensure that all questionnaires are completed accurately, signed, maintained and available for review.	5
<p>The Company has complied with this recommendation.</p>	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

_____/S/_____
Sheik H. Mohamed
Associate Insurance Examiner

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

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

_____/S/_____
Sheik H. Mohamed

Subscribed and sworn to before me

this _____ day of _____, 2024.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Adrienne A. Harris, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Sheik Mohammed

as a proper person to examine the affairs of the

Fire Districts Insurance Company, Inc.

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

COMPANY

with such other information as he shall deem requisite.

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

this 10th day of August, 2023

*ADRIENNE A. HARRIS
Superintendent of Financial Services*



By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*