

REPORT ON EXAMINATION

OF

STERLING INSURANCE COOPERATIVE, INC.

AS OF

DECEMBER 31, 2015

DATE OF REPORT

NOVEMBER 23, 2016

EXAMINER

SHEIK MOHAMED

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

June 7, 2018

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
New York, New York 10004

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31540 dated October 26, 2016, attached hereto, I have made an examination into the condition and affairs of Sterling Insurance Cooperative, Inc. as of December 31, 2015, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Sterling Insurance Cooperative, 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 182 Barnerville Road, Cobleskill, NY 12043.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2010. This examination covered the five-year period from January 1, 2011 through December 31, 2015, and was limited in scope to these balance sheet items considered by this Department to require analysis, verification or description, including: invested assets and loss and loss adjustment expenses. The examination included a review of income, disbursements and Company records deemed necessary to accomplish such analysis or verification. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 the 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

The Company was organized on April 19, 1883, to transact business as an assessment co-operative fire insurance company in the Town of Milan, Dutchess County, New York.

Under the terms of an agreement of merger approved by this Department in 1957, the Farmers Town Mutual Insurance Company of Red Hook, New York was merged under the title and charter of the Farmers Mutual Insurance Company of Milan, Pine Plains and Stanford.

On October 16, 2015, the Department approved an affiliation between Sterling Insurance Company and the Company.

Effective July 26, 2016, the Company adopted its current title.

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 seven nor more than thirteen members. The board meets at least four

times during each calendar year. At December 31, 2015, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael Downie Oneonta, NY	VP - Claims, Sterling Insurance Company Sterling Insurance Cooperative, Inc.
Stephen A. Harris Cobleskill, NY	President, Sterling Insurance Company Sterling Insurance Cooperative, Inc. Director, New York Mutual Underwriters
Jeffrey Johnson Norwich, NY	Assistant Vice President – Marketing, Sterling Insurance Company
Henry Lamont Cobleskill, NY	Consultant, Lamont Engineers Vice President, Sterling Insurance Company
Melissa A. Morlang Cobleskill, NY	Assistant Vice President – Finance, Sterling Insurance Company Treasurer, Sterling Insurance Cooperative, Inc.
Janette F. Rosscoe Cobleskill, NY	Senior Vice President – Underwriting, Sterling Insurance Company Secretary, Sterling Insurance Cooperative, Inc.
Christopher F. Schline Cobleskill, NY	Senior Vice President – Insurance Operations, Sterling Insurance Company President, Sterling Marketing Services Vice President, Sterling Insurance Cooperative, Inc.
Christopher Stauble Cobleskill, NY	Vice President – Marketing, Sterling Insurance Company
Lefteri Tsamis Warnerville, NY	Vice President – Information Technology Sterling Insurance 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 had an acceptable record of attendance.

Pursuant to Section 312(b) of the New York Insurance Law, a copy of the prior report on examination should have been furnished by the Company to each member of its board of directors, and each member should have signed a statement, which shall be retained in the insurer's files confirming that such member has received and read such report. The Company was not able to provide evidence that the prior report on examination was furnished to each member, nor could it provide signed statements confirming that each member received and read such report.

It is recommended that the Company comply with Section 312(b) of the New York Insurance Law and furnish each board member with a copy of its filed report on examination and obtain a signed statement from each board member acknowledging that they have received and read such report. Additionally, the distribution of the report to the board members and receipt of signed acknowledgments should be reflected in the Board of Directors minutes.

As of December 31, 2015, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Stephen A. Harris	President
Janette F. Roscoe	Secretary
Melissa A. Morlang	Treasurer
Christopher F. Schline	Vice President
Todd M. Kedik	Vice President – Accounting

B. Territory and Plan of Operation

As of December 31, 2015, the Company was licensed to write business in New York only.

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

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery

<u>Paragraph</u>	<u>Line of Business</u>
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability (excluding workers' compensation)
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)
20	Marine and inland marine only (inland only)

Based upon the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13, 41 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$100,000.

The Company's predominant lines of business are fire and miscellaneous property. Policies are issued by the Company for a term of three years with applications taken by its agent, The Valley Group. Inspections are made by the agent or an independent contractor.

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

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2011	\$37,950
2012	\$40,930
2013	\$48,217
2014	\$44,031
2015	\$32,497

The Company did not assume any reinsurance during the examination period.

C. Reinsurance Ceded

As of December 31, 2015, the Company has a 100% quota share reinsurance agreement in place with Sterling Insurance Company.

The ceded reinsurance agreement in effect as of the examination date was 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 SSAP

No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Vice President of Accounting 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.

D. Affiliated group

On October 16, 2015, the Department approved an affiliation between Sterling Insurance Company ("SIC") and the Company effective on December 14, 2015. As a matter of continued funding, the Company issued a surplus note in exchange for \$350,000 from SIC. SIC controls the Company through a management agreement, which took effect on December 14, 2015. Pursuant to the terms of the management agreement, SIC performs management services on behalf of the Company.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2015, based upon the results of this examination:

Net premiums written to policyholders' surplus	(2.0%)
Adjusted liabilities to liquid assets	3.1%
Gross agents' balances to policyholders' surplus	2.8%

The negative value for the net premiums written to policyholders' surplus ratio was due to the return of premium to policyholders. The other two ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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 and loss adjustment expenses incurred	\$ 82,526	53.10%
Other underwriting expenses incurred	641,391	412.66
Net underwriting loss	<u>(568,487)</u>	<u>(365.75)</u>
Premiums earned	<u>\$155,430</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2015 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 99,997	\$0	\$ 99,997
Cash, cash equivalents and short-term investments	408,667		408,667
Investment income due and accrued	20		20
Uncollected premiums and agents' balances in the course of collection	14,449		14,449
Deferred premiums, agents' balances and installments booked but deferred and not yet due	<u>14,515</u>	<u>0</u>	<u>14,515</u>
Total assets	<u>\$537,648</u>	<u>\$0</u>	<u>\$537,648</u>

Liabilities, Surplus and Other Funds

Liabilities

Commissions payable, contingent commissions and other similar charges		\$ 637
Taxes, licenses and fees (excluding federal and foreign income taxes)		219
Advance premium		241
Ceded reinsurance premiums payable (net of ceding commissions)		24,466
Payable to parent, subsidiaries and affiliates		<u>4,480</u>
Total liabilities		\$ 30,043

Surplus and Other Funds

Surplus notes	\$350,000	
Unassigned funds (surplus)	<u>157,605</u>	
Surplus as regards policyholders		<u>507,605</u>
Total liabilities, surplus and other funds		<u>\$537,648</u>

Note: The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income/loss for the examination period, as reported by the Company, was \$(1,806,109) as detailed below:

Underwriting Income

Premiums earned		\$ 155,430
Deductions:		
Losses and loss adjustment expenses incurred	\$ 82,526	
Other underwriting expenses incurred	<u>641,391</u>	
Total underwriting deductions		<u>723,917</u>
Net underwriting gain or (loss)		\$ (568,487)

Investment Income

Net investment income earned	\$ 127,008	
Net realized capital gain	<u>1,416,904</u>	
Net investment gain or (loss)		\$ <u>1,543,912</u>

Other Income

Finance and service charges not included in premiums	\$ 5	
Aggregate write-ins for miscellaneous income	<u>78,454</u>	
Total other income		\$ <u>78,459</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ <u>1,053,884</u>
Dividends to policyholders		<u>2,859,993</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$(1,806,109)
Net income/loss		<u>\$(1,806,109)</u>

C. Capital and Surplus Account

Surplus as regards policyholders decreased \$2,556,971 during the five-year examination period January 1, 2011 through December 31, 2015 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2010				\$ 3,064,576
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>		
Net income (loss)		\$1,806,109		
Net unrealized capital gains or (losses)		1,099,862		
Change in surplus notes	\$350,000			
Aggregate write-ins for gains and losses in surplus	_____	_____1,000		
Net increase (decrease) in surplus	\$350,000	\$2,906,971		(2,556,971)
Surplus as regards policyholders as reported by the Company as of December 31, 2015				\$ <u>507,605</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2015. As of December 31, 2015, the Company has a 100% quota share reinsurance agreement in place with Sterling Insurance Company.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It was recommended that the Company comply with Section 312(b) of the New York Insurance Law and furnish each board member with a copy of its filed report on examination and obtain a signed statement from each board member acknowledging that they have received and read such report. Additionally, the distribution of the report to the board members and receipt of signed acknowledgments should be reflected in the Board of Directors minutes.	3-4
The Company has not complied with this recommendation. A similar comment is made in this report.	
B. <u>Accounts and Records</u>	
i. <u>Investment Limitation</u>	
It was recommended that the Company refrain from investing more than 10% of its admitted assets in any one institution pursuant to the provisions of Section 1409(a) of the New York Insurance Law.	6
The Company has complied with this recommendation.	
ii. <u>Schedule P</u>	
It was recommended that the Company exercise greater care in the preparation of Schedule P.	7
The Company had no reported claims in 2015. The previous management did not provide Schedule P data to the current management. Therefore, this recommendation is no longer applicable.	
iii. <u>Custodial Agreement</u>	
It was recommended that the Company revise its custodial agreement to include the provisions and safeguards recommended by both the Department and the NAIC.	7
The Company has complied with this recommendation.	

iv. Certificates of Deposit

It was recommended that the Company report certificates of deposit with a maturity in excess of one year from the date of acquisition as bonds, pursuant to the provisions of SSAP 26. 7

The Company has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
i.	It is recommended that the Company comply with Section 312(b) of the New York Insurance Law and furnish each board member with a copy of its filed report on examination and obtain a signed statement from each board member acknowledging that they have received and read such report. Additionally, the distribution of the report to the board members and receipt of signed acknowledgments should be reflected in the Board of Directors minutes.	4

Respectfully submitted,

Sheik Mohamed, CPCU
Associate Insurance Examiner

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

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

Sheik Mohamed

Subscribed and sworn to before me

this _____ day of _____, 2018.

APPOINTMENT NO. 31540

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, 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 Mohamed

as a proper person to examine the affairs of the

Sterling Insurance Cooperative

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 26th day of October, 2016

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief