

REPORT ON EXAMINATION  
OF THE  
STONE HARBOR INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2001

DATE OF REPORT

JANUARY 10, 2003

EXAMINER

BERNARD LOTT

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

January 10, 2003

Honorable Gregory V. Serio  
Superintendent of Insurance  
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 21977 dated December 9, 2002 attached hereto, I have made an examination into the condition and affairs of Stone Harbor Insurance Company as of December 31, 2001, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 536 East Main Street, Patchogue, New York 11772.

Wherever the designations "the Company" or "Stone Harbor" appear herein without qualification, they should be understood to indicate the Stone Harbor Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

## 1. SCOPE OF EXAMINATION

This is the first financial examination of the Company after the examination on organization, which was conducted as of November 21, 1997. This examination covered the period from November 22, 1997 through December 31, 2001. Transactions occurring subsequent to this period were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification. 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 Company
- Management and control
- Corporate records
- Territory and plan of operation
- Growth of Company
- Accounts and records
- Financial statements

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

## 2. DESCRIPTION OF COMPANY

### A. History

The Company was incorporated under the laws of the State of New York as the Stonebridge Insurance Company on April 6, 1993. The Company was licensed on December 12, 1997 and adopted its present name on April 14, 2000. The Company has yet to commence business.

The capital paid in is \$500,000, consisting of 10,000 shares of common stock at \$50 par value per share. The gross paid in and contributed surplus of \$510,783 has remained the same since the report on organization.

### B. 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 nor more than twenty-one members. Pursuant to Article III, Section 4 of the by-laws the board is required to meet for at least four regularly scheduled quarterly meetings each year. At December 31, 2001, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Israel Bonet Deer Park, NY	Retired
Thomas Casey Lloyd Harbor, NY	Attorney
Roland Fisher Deer Park, NY	Programmer, Nu-Main of New York
Mary Lou Gillen Shirley, NY	Manager, Nu-Main of New York

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Donna Ann Goldrick Comack, NY	Retired
Dawn Marie Graham Troy, NY	School Principal
Anthony Imparato Coram, NY	Vice President, Nu-Main of New York
Andrea Irslinger Brooklyn, NY	Attorney
Bridget Irslinger Hewlett, NY	Social Worker
Susi Kleiman Jamesburg, NY	Treasurer, Stone Harbor Insurance Company
Angelo Oliveri Syosset, NY	President, Stone Harbor Insurance Company
Joseph Sarro Bay Shore, NY	Retired
Joseph Stabile West Bay Shore, NY	Retired Attorney

During the period covered by this examination the board of directors did not convene any meetings as specified in its by-laws. Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in Article III, Section 4 of its by-laws and maintain complete minutes of such proceedings.

A review of the Company's by-laws noted that Stone Harbor was referred to by its former name, Stonebridge Insurance Company. It is recommended that the by-laws be amended to refer to the Company by its current name. It is also recommended that any changes made to the Company's charter and by-laws be ratified by the board of directors.

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

<u>Name</u>	<u>Title</u>
Angelo Oliveri	President
Susi Kleiman	Treasurer/Secretary

C. Territory and Plan of Operation

As of December 31, 2001, the Company was licensed to write business only in New York. It 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 damage
6	Water damage
12	Collision
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

Based on the lines 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 \$500,000. During this examination, however, the Company did not provide a copy of its current certificate of authority. It is recommended that the Company exercise due care in obtaining and maintaining its certificate of authority.

As of the examination date, the Company has not commenced writing business. The Department has requested that the Company prepare and submit a business plan, detailing its plan to commence writing business.

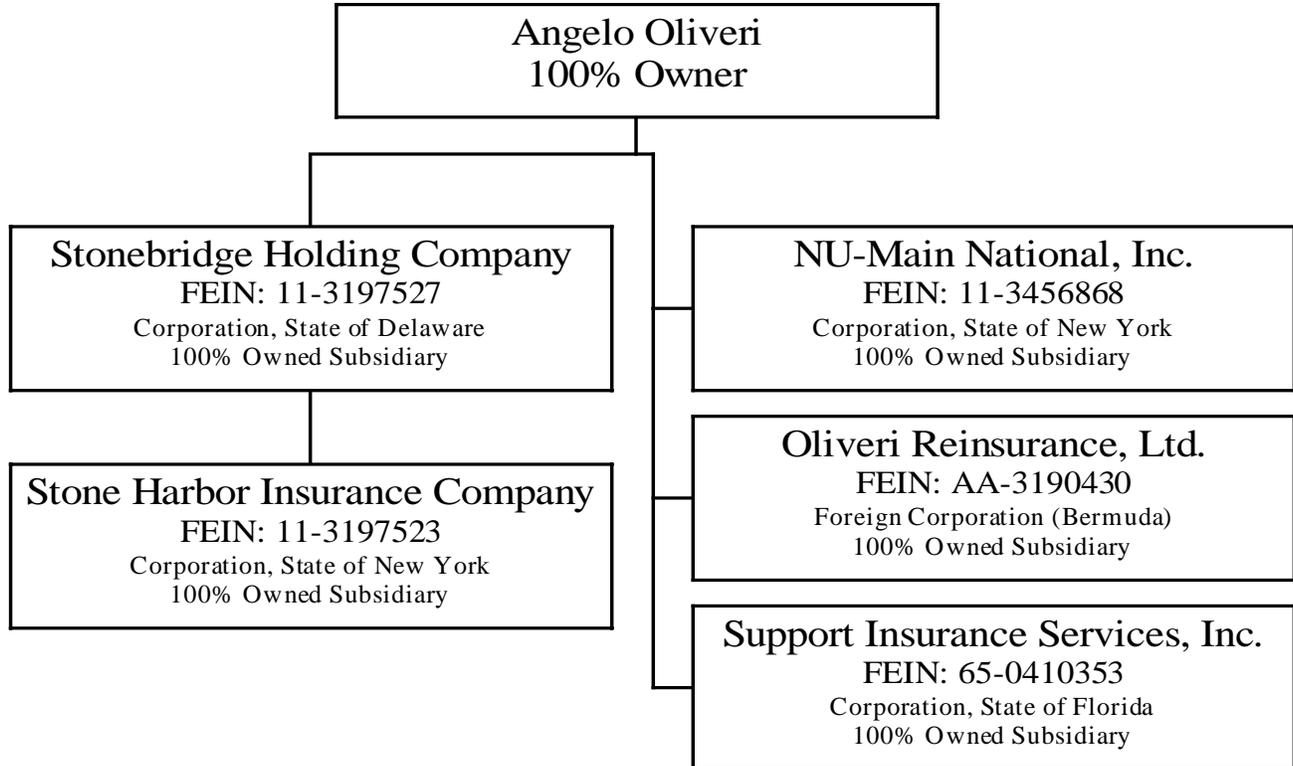
D. Holding Company System

Stone Harbor is 100% owned by, Stonebridge Holding Company, a Delaware corporation, which is ultimately controlled by Angelo Oliveri.

As a member of a holding company system, Stone Harbor is required, pursuant to Department Regulation 52, to file an annual holding company registration statement (Form HC-1) within 120 days following the end of its ultimate holding company's fiscal year. A review of the Company's Form HC-1 filing for year 2001, found that it was not submitted to the Department until September 2002. The review also indicated that the filing failed to include additional data required by Part 80-1.4 of Regulation 52. This additional data included but was not limited to the personal financial statements of Angelo Oliveri, the ultimate controlling person. It was also noted during the review that the Company, with the exception of year 2001, failed to file Form HC-1 for any year covered by this examination. It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Department Regulation 52. It is also recommended that the holding company filings

include the additional data required by Part 80-1.4 of Department Regulation 52 which includes but was not limited to the personal financial statements of Angelo Oliveri, the ultimate controlling person.

The following is an abbreviated chart of the holding company system at December 31, 2001:



During the period covered by this examination, the Company was a party to a sublease agreement with an affiliate, Collision Consultants, Inc., for its main administrative office space in Melville, New York. Subsequent to the examination date the Company moved to Patchogue, New York. It was disclosed that Stone Harbor did not pay rent to Collision Consultants, Inc. for the office space, in accordance with its sublease agreement. In addition, the Company did not provide an executed copy of the sublease agreement to the Department. It is recommended that all agreements between the Company and any person in its holding company system be submitted to the Department for prior approval in accordance with Section 1505(d)(2) of the New York Insurance Law.

Subsequent to the examination date the Company moved its administrative offices onto the premises of another affiliate, Nu-Main National, Incorporated (“Nu-Main”). Stone Harbor does not have a lease agreement with Nu-Main and it has not paid any rental expense for its office space. It is recommended that the Company draft a lease agreement with Nu-Main and submit the same to the Department for prior approval, pursuant to Section 1505(d)(2).

E. Accounts and Records

A review of the Company’s expenses disclosed that the Company was making various expense payments on behalf of its immediate parent, Stonebridge Holding Company. These expenses included the rental of office space in the State of Delaware for its parent. Since the Company could not demonstrate that these expenses were incurred for the benefit of the Stone Harbor, it is recommended that the Company seek reimbursement for all expenses paid on behalf of its immediate parent.

F. Custodian Service Agreements

The Company’s custodian service agreements with North Fork Bank were reviewed to determine if they contained the necessary safeguards, controls, and protective covenants and provisions deemed necessary for them to be considered acceptable agreements by the Department. The agreements did not contain many of the custodian agreement requirements specified in the National Association of Insurance Commissioner’s Financial Condition Examiners Handbook. In addition, the two custody agreements refer to the Company by its former name and listed a prior address.

It is recommended that the Company amend its custodian agreements with North Fork Bank to refer to the Company by its current name and to include its current address. It is also recommended that the Company amend its custodian agreements to include the necessary safeguards and controls prescribed

by the National Association of Insurance Commissioner's guidance for custodian or safekeeping agreements. In addition, it is recommended that the board of directors ratify all changes to the custodian agreements.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2001. This statement is the same as the balance sheet filed by the Company in its 2001 annual statement.

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash and short-term investments	\$1,030,465	\$	\$1,030,465
Receivable from parent, subsidiaries and affiliates	11,000		11,000
Aggregate write-ins for other than Invested assets	<u>2,775</u>	<u>2,775</u>	_____
Total assets	<u>\$1,044,240</u>	<u>\$2,775</u>	<u>\$1,041,465</u>

#### Liabilities

Other expenses (excluding taxes, licenses and fees)	\$	91
Payable to parent, subsidiaries and affiliates		<u>17,500</u>
Total liabilities	\$	17,591

#### Surplus and Other Funds

Common capital stock	\$500,000	
Gross paid in and contributed surplus	510,783	
Unassigned funds (surplus)	<u>13,091</u>	
Surplus as regards policyholders		<u>1,023,874</u>
Total liabilities, surplus and other funds		<u>\$1,041,465</u>

NOTE: The Company indicated that the Internal Revenue Service has not performed an audit of the Company's Federal income tax returns for any year covered by this examination. With the exception of any impact that might be caused from any examination changes contained in this report, the examiner is unaware of any potential exposure of the Company to any further tax assessments and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$13,091 during the examination period from November 22, 1997 through December 31, 2001, detailed as follows:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses incurred	\$		
Loss adjustment expenses incurred			
Other underwriting expenses incurred		<u>172,245</u>	
Total underwriting deductions			<u>172,245</u>
Net underwriting gain or (loss)			\$(172,245)

Investment Income

Net investment income earned	<u>\$192,114</u>		
Net investment gain or (loss)			<u>192,114</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$	19,869
Federal and foreign income taxes incurred			<u>4,003</u>
Net Income		\$	<u>15,866</u>

C. Capital and Surplus Account

Surplus as regards policyholders, per report on organization as of November 21, 1997			\$1,010,783
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$15,866		
Change in non-admitted assets	<u>          </u>	<u>\$2,775</u>	
Net increase (decrease) in surplus			<u>13,091</u>
Surplus as regards policyholders, per report on Examination, as of December 31, 2001			<u>\$1,023,874</u>

#### 4. CASH AND SHORT-TERM INVESTMENTS

The examination asset for the captioned item of \$1,030,465 is the same as reported by the Company as of December 31, 2001. The following, however, was noted during the review of this item:

1. The name on both the cash and security accounts was Stonebridge Insurance Company and the address list was the Company's prior address.
2. As of the examination date the Company held \$525,919 in a money market fund (Galaxy Prime Reserve Fund). This investment exceeded the limitation imposed by Section 1409 of the New York Insurance Law. Section 1409 states that no domestic insurer shall invest more than ten percent of its admitted assets in securities of any one institution. Subsequent to the examination date the Company divested itself of the excess investment. No financial change was made.
3. Although the Company maintained custodian agreements with North Fork Bank its securities were actually deposited with NFB Investment Services Corporation. NFB Investment Services Corporation, an affiliate of North Fork Bank, is a securities broker. The use of a securities broker as a custodian for insurer assets is in opposition to NAIC guidance on custodian or safekeeping agreements. NAIC guidance requires that an insurer's assets should be deposited with a bank or a trust company. Subsequent to the examination date, the Company has initiated steps to re-deposit its securities in a North Fork Bank account. No financial change was made.
4. Section 1411(a) of the New York Insurance Law states that no domestic insurer shall make any investments, unless authorized or approved by the board of directors. During the period covered by this examination the Company failed to hold any board of directors' meetings, and, as a consequence, did not approve of any investment transactions.

It is recommended that the Company change both its cash and security accounts to reflect its current name and address. It is recommended that the Company comply with Section 1409 of the New York Insurance Law regarding the investment of more than ten percent of its admitted assets in the securities of one institution. It is recommended that the Company deposit its securities with a bank or trust company as required by NAIC guidance. It is recommended that the Company adhere to the provisions of Section 1411(a) of the New York Insurance Law as regards to the board of directors' approval of investment transactions. It is also recommended that the Company seek to have the board of

directors ratify, confirm and approve investment transactions consummated by the Company during the period from November 22, 1997 to the present.

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Company convene regular meetings of its board of directors as stated in Article III, Section 4 of its by-laws and maintain complete minutes of such proceedings.	4
ii. It is recommended that the by-laws be amended to refer to the Company by its current name.	5
iii. It is recommended that any changes made to the Company's charter and by-laws be ratified by the board of directors.	5
B. <u>Territory and Plan of Operation</u>	
It is recommended that the Company exercise due care in obtaining and maintaining its certificate of authority.	6
As of the examination date, the Company has not commenced writing business. The Department has requested that Company prepare and submit a business plan, detailing its plan to commence writing business.	6
C. <u>Holding Company System</u>	
i. It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Department Regulation 52.	6
ii. It is recommended that the holding company filings include the additional data required by Part 80-1.4 of Department Regulation 52 which includes but was not limited to the personal financial statements of Angelo Oliveri, the ultimate controlling person.	6

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iii. It is recommended that all agreements between the Company and any person in its holding company system be submitted to the Department for prior approval in accordance with Section 1505(d)(2) of the New York Insurance Law.	8
iv. It is recommended that the Company draft a lease agreement with Nu-Main National, Inc. and submit the same to the Department for prior approval, pursuant to Section 1505(d)(2).	8
D. <u>Accounts and Records</u>	
Since the Company could not demonstrate that expenses paid on behalf of its immediate parent were incurred for the benefit of Stone Harbor, it is recommended that the Company seek reimbursement for these expenses.	8
E. <u>Custodian Service Agreements</u>	
i. It is recommended that the Company amend its custodian agreements with North Fork Bank to refer to the Company by its current name and to include its current address.	8
ii. It is recommended that the Company amend its custodian agreements to include the necessary safeguards and controls prescribed by the National Association of Insurance Commissioner's guidance for custodian or safekeeping agreements.	8
iii. It is recommended that the board of directors ratify all changes to the custodian agreements.	9
F. <u>Cash and Short-term Investments</u>	
i. It is recommended that the Company change both its cash and security accounts to reflect its current name and address.	13
ii. It is recommended that the Company comply with Section 1409 of the New York Insurance law regarding the investment of more than ten percent of its admitted assets in the securities of one institution.	13
iii. It is recommended that the Company deposit its securities with a bank or trust company as required by NAIC guidance.	13
iv. It is recommended that the Company adhere to the provisions of Section 1411(a) of the New York Insurance Law as regards to the board of directors' approval of investment transactions.	13

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- v. It is also recommended that the Company seek to have the board of directors ratify, confirm and approve investment transactions consummated by the Company during the period from November 22, 1997 to the present. 13-14

Respectfully submitted,

\_\_\_\_\_/S/  
Bernard Lott  
Senior Insurance Examiner

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

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

\_\_\_\_\_/S/  
Bernard Lott

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2003.

Appointment No. 21977

**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:*

**Bernard Lott**

*as proper person to examine into the affairs of the*

**STONE HARBOR INSURANCE COMPANY**

*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 9th day of December, 2002*



  
\_\_\_\_\_  
**GREGORY V. SERIO**  
*Superintendent of Insurance*