

REPORT ON EXAMINATION

OF THE

STERLING INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

DATE OF REPORT

APRIL 30, 2007

EXAMINER

GERARD L. FRANCO

## TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of Examination	2
2.	Description of Company	2
	A. Management	3
	B. Territory and plan of operation	4
	C. Reinsurance	5
	D. Holding company system	8
	E. Significant operating ratios	9
	F. Accounts and records	10
3.	Financial Statements	12
	A. Balance sheet	12
	B. Underwriting and investment exhibit	14
4.	Losses and loss adjustment expenses	15
5.	Market conduct activities	15
6.	Compliance with prior report on examination	16
7.	Summary of comments and recommendations	17



STATE OF NEW YORK  
INSURANCE DEPARTMENT  
ONE COMMERCE PLAZA  
ALBANY, NEW YORK 12257

April 30, 2007

Mr. Eric R. Dinallo  
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 22541 dated August 31, 2006 attached hereto, I have made an examination into the condition and affairs of the Sterling Insurance Company as of December 31, 2005, and submit the following report thereon.

Wherever the designations “the Company” or “SIC” appear herein without qualification, they should be understood to indicate the Sterling Insurance Company.

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

The examination was conducted at the Company’s home office located at 182 Barnerville Road, Cobleskill, New York 12043.

## **1. SCOPE OF EXAMINATION**

The previous examination was conducted as of December 31, 2000. This examination covered the five year period from January 1, 2001 through December 31, 2005, and was limited in scope to those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner. 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 certified public accountants.

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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

The Sterling Insurance Company was incorporated under the laws of the State of New York on October 17, 1895, as the Schoharie and Otsego Mutual Fire Insurance Company for the purpose of transacting business as a co-operative fire insurance corporation in Schoharie and Otsego Counties. On December 10, 1910, this Department authorized the Company to continue the transaction of business on the advance premium plan in seven counties located in the central and eastern parts of this state.

On June 20, 1911, the charter was amended to permit the Company to extend its territory to include all of the counties of this state with the exception of the counties of New York, Kings, Queens, Bronx and Richmond.

Under Agreements of Merger approved by this Department, the Company merged with the Empire Co-operative Fire Insurance Company, of Middleburgh, New York and the Wyoming Valley Fire Insurance Company, of Warsaw, New York in September 1951 and June 1953, respectively, under the title and charter of Sterling Fire Insurance Company.

Pursuant to Section 805 of the Business Corporation Law, a Certificate of Change of Name was approved on May 20, 1959, amending the charter of the Company to reflect the name, Sterling Insurance Company and extending its territory to include the entire state of New York.

On April 22, 2004 this Department approved the Company's request to issue a floating rate surplus note in the amount of \$3,000,000 to I-Preferred Term Securities IV, Ltd. and to enter into an indenture with U.S. Bank Association as trustee for I-Preferred Term Securities IV, Ltd. The interest rate is based on the 3 – month LIBOR plus 3.8% and shall not exceed 12.5% prior to June 2009. The note was issued on May 12, 2004 and has a thirty year duration.

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 nine (9) nor more than thirteen (13) members. As of the examination date, the board of directors was comprised of nine members, which was divided into three unequal groups. Section 704(a) of the New York Business Corporation Law states, in part, that "The certificate of incorporation or the specific provisions of a by-law ... may provide that the directors be divided into either two, three or four classes. All classes shall be as nearly equal in number as possible..." As of the examination date the Company's three classes of directors were divided into three unequal groups of four, three and two members. Therefore, it is recommended that the Company comply with Section 704(a) of the New York Business Corporation Law and have the three director groups divided as nearly equal in number as possible.

Each member insured by the Company is entitled to one vote in person or by proxy at any and all meetings of the Company. The annual meeting of the board of directors is held immediately after the annual meeting of the Company. The board of directors met five times each year for the period under examination, thereby complying with Section 6624(b) of the New York Insurance Law.

The directors as of December 31, 2005, were as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Stephen Alexander Harris Cobleskill, NY	President, Sterling Insurance Company Director, Sterling Marketing Services, Inc.
Brian Avrum Kaiser Cobleskill, NY	Retired Vice President – Central National Bank

<u>Director</u>	<u>Principal Business Affiliation</u>
Henry Lamont Cobleskill, NY	Owner - Lamont, VanDenValk, Buckman & Whitbeck PC Vice President, Sterling Insurance Company
Henry Lee Cobleskill, NY	Retired Pharmacist
Frederick John Lindsay Cobleskill, NY	Retail Management
Patricia Ann MacNeil Cobleskill, NY	Retired Vice President Human Resources of SIC; Secretary, Sterling Insurance Company
Daniel Bert Schulte Cobleskill, NY	Vice President of Bert Schulte Construction, Inc. – Contractor Director, Sterling Marketing Services, Inc.
Howard Joseph Stauble Cobleskill, NY	Retired Vice President Agencies of SIC; Treasurer, Sterling Insurance Company Director, Sterling Marketing Services, Inc.
Donald Robert Whiting Slingerlands, NY	Retired Insurance Professional

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.

Each of the directors' qualifications, as set forth in Article VI and Article IV of the Company's charter and by-laws, respectively, was reviewed, and each director is duly qualified.

At December 31, 2005, the officers of the Company were as follows:

President	Stephen A. Harris
Treasurer	Howard J. Stauble
Secretary	Patricia A. MacNeil
Senior Vice President	James B. Hogan, Jr.
Senior Vice President	Howard J. Rickard, Jr.
Senior Vice President	Christopher F. Schline
Senior Vice President	Janette F. Rosscoe
Vice President	Henry Lamont

B. Territory and Plan of Operation

As of December 31, 2005, 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
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland marine only)

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

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2001	\$29,998,265
2002	\$34,042,414
2003	\$39,582,396
2004	\$44,536,053
2005	\$47,474,051

Based on 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 \$650,000.

The Company's predominate lines of business are homeowners multiple peril and commercial multiple peril which accounted for 58.6% and 30.0%, respectively, of the Company's 2005 direct written business. Approximately 11% of the Company's total direct written premiums were attributable to New York Mutual Underwriters. At December 31, 2005 the Company wrote business through independent agents.

#### C. Reinsurance

During the period covered by this examination, the Company assumed a very minor volume of business as compared to its direct writings. The assumptions reflect the Company's participation

in a catastrophe pool. This reinsurance agreement was terminated at the end of the calendar year 2002.

The Company has structured its ceded reinsurance program as of December 31, 2005 to limit its maximum exposure to any one risk as follows:

Property 2 layers	\$1,050,000 x/s \$200,000 ultimate net loss as respects any one risk, each loss occurrence or \$2,725,000 x/s 200,000 ultimate net loss and loss adjustment expense combined as respects any one loss occurrence.
Basket Property and Casualty Retentions (related to the first layers of the Property contract noted above and the Casualty contract noted below)	\$150,000 x/s \$200,000 of combined retention involving a combination of property and casualty business for each loss occurrence.
Act of Terrorism 2 layers	\$2,725,000 x/s \$200,000 ultimate net loss and loss adjustment expense combined as respects any and all losses arising out of any one or multiple acts of terrorism or counter-terrorism during any contract year. Limits only applicable if total of all types of property damages sustained by all persons affected by the act of terrorism, whether or not insured, exceed \$25,000,000 or fifty or more persons sustain death or physical injury.
Casualty 3 layers	\$1,850,000 x/s \$150,000 ultimate net loss as respects any one loss occurrence.
Act of Terrorism 2 layers	\$2,550,000 x/s \$150,000 ultimate net loss and loss adjustment expense combined as respects any and all losses arising out of any one or multiple acts of terrorism or counter-terrorism during any contract year as regards layers one and two only. Limits only applicable if total of all types of property damages sustained by all persons affected by the act of terrorism, whether or not insured, exceed \$25,000,000 or fifty or more persons sustain death or physical injury.
Microbial contamination 1 layer	\$1,000,000 x/s \$1,000,000 ultimate net loss and loss adjustment expense combined as respects any and all losses arising out of any one occurrence or multiple occurrences of microbial contamination during any contract year as regards the third layer.
Property Catastrophe 5 layers	\$20,000,000 x/s \$1,000,000 for each and every loss occurrence (two or more risks involved).

Property Aggregate	100% of the amount net aggregate losses for each contract year exceed 72% of subject net earned premiums plus \$1,750,000 of net aggregate losses; subject to a maximum limit of liability not to exceed \$1,000,000 for any one contract year.
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As of December 31, 2005 the Company had the following quota share reinsurance program in place:

Property and Casualty	5% of the Company's business covered by this agreement that remains after deducting all other reinsurance inuring to this agreement each and every loss.
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It is noted that the Company, as of January 1, 2004, decreased its quota share percentage to 5% which increased its net retention on property business to \$190,000 and increased its retention on casualty business to \$142,500.

As of December 31, 2005, the Company had a quota share reinsurance program in place for its personal liability umbrella business. This reinsurance covered 95% of \$1,000,000 (\$950,000) of the ultimate net loss, each occurrence and/or in the aggregate, where applicable, any one original insured.

As of December 31, 2005, the Company had in effect a personal automobile glass breakage reinsurance agreement, which covered the comprehensive portion of the Company's personal automobile policies for vehicles principally garaged in New York State. The liability of the reinsurer for the cost of replacement glass and adjustment expenses, in any single occurrence, shall not exceed the comprehensive portion of the Company's personal automobile policy.

For the examination years 2001, 2002 and 2003 the Company placed its reinsurance with the Mutual Reinsurance Bureau ("MRB"), with the exception of its personal automobile glass agreement, which was placed with an authorized reinsurer for the five-year examination period. For the years 2001, 2002 and 2003, the reinsuring members of MRB numbered six, five and four, respectively, on the rest of the SIC contracts. It is noted that on each of these MRB reinsurance contracts there was one unauthorized reinsurer during this time period.

In 2004 and 2005 the Company placed its reinsurance with the three reinsuring members of MRB for both years, with one being unauthorized, for all contracts except the property catastrophe

and the personal automobile glass agreement noted above. The property catastrophe contract was placed through an intermediary, for 2004 and 2005, with a percentage placed with unauthorized reinsurers. Since the previous examination, the Company's net retention has increased from \$175,000 to \$200,000 on property business, and remained at \$150,000 on casualty business, excluding the quota share reinsurance agreement.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers on its working reinsurance layers. The letter of credit obtained by the Company to take credit for cessions to an unauthorized reinsurer was reviewed for compliance with Department Regulations 133. No exceptions were noted. The Company did not obtain any collateral for the unauthorized reinsurers, on its catastrophe contracts; however, no reinsurance recoverable was reported by the Company on its 2005 Annual Statement Schedule F – Part 3 from such reinsurers. Therefore, SIC did not need to acquire collateral from these unauthorized reinsurers.

All 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 ceded reinsurance agreements for which the Company is taking credit on its current financial statement transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by an attestation signed by the Company's Chief Executive and Chief Financial Officers included as a Reinsurance Attestation Supplement in the 2005 annual statement.

#### D. Holding Company System

In February of 1993, the Department approved the organization of a wholly owned subsidiary named Sterling Marketing Services, Inc. ("SMS"). SMS was organized to act as a general insurance agency for insurers other than Sterling and to solicit placement of insurance policies with such insurers' agents.

Sterling Insurance Company contributed capital to the subsidiary by purchasing 50 shares of no par common stock at \$400 per share, for a total investment of \$20,000.

SMS is housed at the Company's home office. Sterling Insurance Company provides services to SMS in accordance with an "Agreement and Statement of Policy" between the two companies.

The Company, from the period July 1, 1976 through October 31, 1997, participated on a 1/3 share basis in non-assessable combination policies issued under the name New York Mutual Underwriters ("NYMU"). Effective November 1, 1997, the Company shares with one other advance premium corporation one-half of all New York Mutual Underwriters' premiums, losses and expenses according to the Articles of Agreement of this underwriting association. NYMU's predominate lines of business are commercial/special multiple peril, commercial landlord, personal dwellings and allied line of business.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2005, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	121%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	61%
Premiums in course of collection to surplus as regards policyholders	8%

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.

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	\$ 91,013,015	57.42%
Other underwriting expenses incurred	60,116,263	37.93%
Aggregate write-ins for underwriting deductions	2,895,361	1.83%
Net underwriting loss	<u>4,474,030</u>	<u>2.82%</u>
Premiums earned	<u>\$158,498,669</u>	<u>100.00%</u>

F. Accounts and Records

i. Accounting Records of New York Mutual Underwriters

Section 6611(a)(1) of the New York Insurance Law states that; “Every co-operative property/casualty insurance company shall keep and maintain books of account and records in such manner as will show fully and truly the condition, affairs and business of such corporation and facilitate the preparation and verification of its annual statements.” The Company participates as a direct writer in any combination policy issued by New York Mutual Underwriters. As of November 1997 the Company shares, with one other advance premium corporation one-half of all NYMU’s premiums, losses and expenses. During the Department’s review of NYMU, it was noted that the accounting practices and procedures of NYMU did not facilitate preparation and verification of the annual statement of the Company. Therefore, it is recommended that the Company comply with Section 6611(a)(1) of the New York Insurance Law and maintain proper records and books of accounts at New York Mutual Underwriters, which will facilitate the preparation and verification of its annual statements.

It is noted that during the course of this examination, NYMU was in the process of converting to a new general ledger system.

ii. Filing Date of Audited Financial Statement and Opinion

Regulation 118 Part 89.2(a) indicates that the contract between the Company and its Certified Public Account (“CPA”) must specify that on or before May 31st, the CPA shall provide an audited financial statement of such insurer together with an opinion on the financial statements of such insurer.

The CPA contract for the 2005 audit year used the following wording: "We shall provide you by May 31, 2006 (circumstances permitting) an audited financial statement and opinion for the year ended December 31, 2005 and an evaluation of the Company's accounting procedures and internal control systems as are necessary to the furnishing of the opinion." Adding the wording "(circumstances permitting)" to the contract is not in accordance with the requirements of Regulation 118. Thus, it is recommended that the Company ensure that the contract with the CPA for all future audits contain the wording required by Department Regulation 118.

iii. Directors and Officers Liability Insurance

Regulation 110 Part 72.4 specifies the retention amounts, individual and aggregate, and the coinsurance percentage that each insurer is to hold on a Directors and Officers Liability Policy. After a review, it was revealed that the Company's Directors and Officers Liability policy did not contain a coinsurance percentage as required by Regulation 110. Per Regulation 110 the minimum retentions for a company of this size is \$5,000 individual and \$50,000 aggregate, with a coinsurance percentage of 0.5%. Therefore, it is recommended that the Company comply with Regulation 110 Part 72.4 and include the required coinsurance percentage in its Directors and Officers policy.

3. FINANCIAL STATEMENTSA. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2005 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$55,984,162	\$ 0	\$55,984,162
Common stocks	12,570,845	0	12,570,845
Real Estate: Properties occupied by the company	1,482,418	0	1,482,418
Cash, cash equivalents and short-term investments	5,553,184	0	5,553,184
Investment income due and accrued	531,335	0	531,335
Uncollected premiums and agents' balances in the course of collection	2,913,729	19,425	2,894,304
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,408,981	0	3,408,981
Amounts recoverable from reinsurers	86,326	0	86,326
Net deferred tax asset	809,766	0	809,766
Electronic data processing equipment and software	166,917	0	166,917
Furniture and equipment, including health care delivery assets	303,143	303,143	0
Aggregate write-ins for other than invested assets	<u>1,005,105</u>	<u>803</u>	<u>1,004,302</u>
Total assets	<u>\$84,815,911</u>	<u>\$323,371</u>	<u>\$84,492,540</u>

Liabilities, surplus and other funds

Losses and loss adjustment expenses		\$19,800,214
Commissions payable, contingent commissions and other similar charges		1,738,595
Other expenses (excluding taxes, licenses and fees)		826,639
Taxes, licenses and fees (excluding federal and foreign income taxes)		48,182
Current federal and foreign income taxes		204,650
Unearned premiums		24,974,680
Advance premium		499,590
Ceded reinsurance premiums payable (net of ceding commissions)		(139,206)
Funds held by company under reinsurance treaties		314,412
Amounts withheld or retained by company for account of others		16,639
Aggregate write-ins for liabilities		<u>917,489</u>
Total liabilities		49,201,884
Aggregate write-ins for special surplus funds	\$ 886,364	
Surplus notes	3,000,000	
Unassigned funds (surplus)	<u>31,404,292</u>	
Surplus as regards policyholders		<u>\$35,290,656</u>
Total liabilities, surplus and other funds		<u>\$84,492,540</u>

Note 1: The Internal Revenue Service (IRS) has not yet begun to audit tax returns of the Sterling Insurance Company covering tax years 2001 – 2005. However, subsequent to the examination date it was learned that the IRS will commence an audit of Sterling Marketing Services, Inc., a subsidiary of Sterling Insurance Company, in 2007 for the year 2005. 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.

Note 2: No liability appears in the balance sheet for a surplus note in the amount of \$3,000,000 and accrued interest thereon in the amount of \$8,988.29 (as of December 31, 2005). This loan was granted pursuant to Section 1307 of the New York Insurance Law. As provided in Section 1307 repayment of principal and interest shall only be made out of the free and divisible surplus, subject to the prior approval of the Superintendent of the State of New York.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$18,124,543 during the five-year examination period January 1, 2001 through December 31, 2005, detailed as follows:

Underwriting Income

Premiums earned		\$158,498,669
Deductions:		
Losses and loss adjustment expenses incurred	\$91,013,015	
Other underwriting expenses incurred	60,116,263	
Aggregate write-ins for underwriting deductions	<u>2,895,361</u>	
Total underwriting deductions		<u>154,024,639</u>
Net underwriting gain or (loss)		\$ 4,474,030

Investment Income

Net investment income earned	\$10,971,274	
Net realized capital gain	<u>2,188,960</u>	
Net investment gain or (loss)		\$ <u>13,160,234</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(174,567)	
Finance and service charges not included in premiums	3,147,891	
Aggregate write-ins for miscellaneous income	<u>737,135</u>	
Total other income		\$ <u>3,710,459</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 21,344,723
Federal and foreign income taxes incurred		<u>6,508,418</u>
Net Income		\$ <u>14,836,305</u>

Surplus as regards policyholders per report on examination as of December 31, 2000			\$17,166,113
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$14,836,305	\$ 0	
Net unrealized capital gains or losses	2,032,031	0	
Change in net deferred income tax	0	145,669	
Change in nonadmitted assets	0	620,149	
Change in surplus notes	3,000,000	0	
Cumulative effect of changes in accounting principles	955,435	0	
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>1,933,410</u>	
Net increase (decrease) in surplus	<u>\$20,823,771</u>	<u>\$2,699,228</u>	<u>18,124,543</u>
Surplus as regards policyholders per report on examination as of December 31, 2005			<u>\$35,290,656</u>

#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$19,800,214 is the same as reported by the Company as of December 31, 2005. 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. MARKET CONDUCT ACTIVITIES**

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

- A. Underwriting
- B. Rating
- C. Claims and complaint handling

Except as noted below, no unfair practices were encountered.

Personal Lines cancellations were reviewed for Company compliance with Section 3425(b) of the New York Insurance Law. It was noted that in one instance the reason for cancellation was “DOES NOT MEET UNDERWRITING GUIDELINES CANCELLED BY PREVIOUS CARRIER” It is the Department’s position that this is not a specific reason as required by Section 3425(b). Based upon additional information supplied by the Company it appears that the use of the above noted reason is part of Sterling’s general cancellation practices in similar situations. Subsequent to the completion of the field portion of this examination Company management indicated that it had taken corrective action regarding this matter. Nevertheless, it is recommended that the Company comply with Section 3425(b) of the New York Insurance Law and give a more detailed description of the reason for the cancellation.

## 6. 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>Market Conduct Activities</u>	
i. It was recommended that the Company comply with Section 3425(d)(1) and 3426(e)(2) of the New York Insurance Law.	15
The Company substantively complied with this recommendation.	
ii. It was recommended that the Company comply with all the requirements of Section 216.6(h) of Regulation 64 by including all required information in each claim denial letter.	16
The Company has complied with this recommendation.	

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that the Company comply with Section 704(a) of the New York Business Corporation Law and have the three director groups divided as nearly equal in number as possible.	3
B. <u>Accounts and Records</u>	
i.     It is recommended that the Company comply with Section 6611(a)(1) of the New York Insurance Law and maintain proper records and books of accounts at New York Mutual Underwriters, which will facilitate the preparation and verification of its annual statements.	10
ii.    It is recommended that the Company ensure that the contract with the CPA for all future audits contain the wording required by Department Regulation 118.	10
iii.   It is recommended that the Company comply with Regulation 110 Part 72.4 and include the required coinsurance percentage in its Directors and Officers policy.	11
C. <u>Market Conduct</u>	
It is recommended that the Company comply with Section 3425(b) of the New York Insurance Law and give a more detailed description of the reason for the cancellation.	16



Appointment No 22541

**STATE OF NEW YORK  
INSURANCE DEPARTMENT**

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

*Gerard Franco*

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

**Sterling Insurance Company**

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

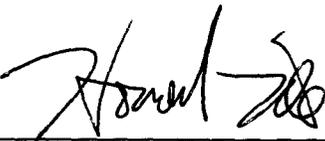
**Company**

*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 31st\_ day of August 2006*



  
\_\_\_\_\_  
HOWARD MILLS  
Superintendent of Insurance