



**REPORT ON EXAMINATION
OF
STERLING INSURANCE COMPANY**

AS OF DECEMBER 31, 2020

**EXAMINER:
DATE OF REPORT:**

**M. IRENE TRAN, CFE
MAY 9, 2022**

TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	2
	A. Corporate governance	3
	B. Territory and plan of operation	4
	C. Reinsurance ceded	6
	D. Affiliated group	7
	E. Significant ratios	9
3.	Financial statements	10
	A. Balance sheet	10
	B. Statement of income	12
	C. Capital and surplus	13
4.	Losses and loss adjustment expenses	14
5.	Subsequent events	14
6.	Compliance with prior report on examination	14
7.	Summary of comments and recommendations	14

KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

May 9, 2022

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 32192 dated January 28, 2021, attached hereto, I have made an examination into the condition and affairs of Sterling Insurance Company as of December 31, 2020, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Sterling Insurance Company.

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

Due to the COVID-19 pandemic, this examination was conducted remotely.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Sterling Insurance Company, a multi-state insurer. The Company is licensed to write business in New York only; however, it is considered a multi-state due to an assumption of business pursuant to a regional pooling arrangement. The previous examination was conducted as of December 31, 2015. This examination covered the five-year period from January 1, 2016 through December 31, 2020. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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
- Affiliated group description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

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

The 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 to transact business as a cooperative fire insurance corporation. On May 20, 1959, the Company’s name was changed to Sterling Insurance

Company. The Company is an advance premium co-operative property and casualty insurance company and is permitted to transact business in all counties in this state.

In February 1993, the Department approved the organization of the Company's wholly owned subsidiary, Sterling Marketing Services, Inc. ("SMS"), a general insurance agency.

On October 16, 2015, the Department approved an affiliation between the Company and Farmers Mutual Insurance Company of Milan, Pine Plains, and Stanford, now known as Sterling Insurance Cooperative, Inc. ("SI Coop"), an assessment cooperative property/casualty insurance company domiciled in New York. The affiliation became effective on December 14, 2015. As a matter of continued funding, SI Coop issued a surplus note, with a maturity date of September 30, 2035, in exchange for \$350,000 from the Company. The Company controls SI Coop through a management agreement that took effect on December 14, 2015.

A. Corporate Governance

Pursuant to the Company's amended charter and by-laws, management of the Company is vested in a board of directors consisting of not less than nine nor more than 13 members. The board meets five times during each calendar year. At December 31, 2020, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Stephen Alexander Harris Cobleskill, NY	President, Sterling Insurance Company President, Sterling Insurance Cooperative, Inc.
Brian A. Kaiser Howes Cave, NY	Self-employed
Henry Lamont Cobleskill, NY	Vice President, Sterling Insurance Company
Frederick John Lindsay Ft. Myers, FL	Treasurer, Sterling Insurance Company
Patricia Ann MacNeil Cobleskill, NY	Secretary, Sterling Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Christopher F. Schline Myrtle Beach, SC	Retired, Sterling Insurance Company
Daniel Bert Schulte Cobleskill, NY	President, Bert Schulte Construction Company, Inc.
Donald Robert Whiting Millsboro, DE	Retired Insurance Professional
Paula D. Wissenbach Cobleskill, NY	Retired, Sterling Insurance Company

As of December 31, 2020, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Stephen Alexander. Harris	President
Patricia Ann MacNeil	Secretary
Frederick John Lindsay	Treasurer
Henry Lamont	Vice President

B. Territory and Plan of Operation

As of December 31, 2020, 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
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (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 \$700,000.

The following schedule shows the direct and assumed premiums written 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>
2016	\$65,470,335	\$ 136,005	\$65,606,340
2017	\$67,711,099	\$ 188,856	\$67,899,955
2018	\$68,753,318	\$ 324,703	\$69,078,021
2019	\$67,248,415	\$3,726,637	\$70,975,052
2020	\$67,827,384	\$4,704,820	\$72,532,204

The Company is a multi-line carrier, writing both commercial and personal lines of insurance. The Company primarily writes homeowners, which accounts for 58.7% of its writings in 2020, followed by commercial multiple peril, which accounts for 30.9%. Business is written with widespread geographic representation throughout New York.

During the examination period, the Company was a member of the joint underwriting facility, New York Mutual Underwriters (“NYMU”). NYMU was formed in 1926 under the title New York Cooperative Underwriters and produced a combination policy on behalf of 16 New York domiciled insurance companies. Over the years, the membership of the NYMU dwindled to two insurers, one of which was the Company. As such, 50% of NYMU’s earnings, losses, expenses etc. flow directly to the Company’s income statement, with the other 50% flowing to the remaining member. Effective December 31, 2018, the Company received Department approval to withdraw from NYMU. The withdrawal placed NYMU into run-off status, as by statute, the joint facility requires more than one member. Arrangements were made for NYMU policyholders to secure coverage with SI Coop. The Company continues to share in NYMU’s operation on a 50/50 basis until there are no policies in force and all claims are settled.

The Company’s assumed reinsurance is mostly attributable to its 100% quota share reinsurance agreement with affiliate, SI Coop. The exponential growth in assumed premiums in 2019 was attributable to increases in SI Coop's business written related to the New York Mutual Underwriters policies. At December 31, 2020, approximately \$2.5 million of the Company’s assumed business was attributable to this. Additionally, the Company voluntarily participates in the New York Property Insurance

Underwriting Association and the National Association of Mutual Insurance Companies as a member of the reinsurance facility programs.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property Excess of Loss</u> (Three layers)	\$2,150,000 in excess of \$350,000 per risk
<u>Casualty Excess of Loss</u> (Two layers and clash coverage)	Layers 1-2: \$750,000 in excess of \$250,000 per loss occurrence subject to a limit of liability per occurrence; for policies produced through NYMU or SI Coop, the retention is \$150,000. Clash - \$1,000,000 in excess of \$1,000,000 each loss occurrence.
<u>Property Catastrophe Excess of Loss</u> (Six layers)	Layer 1: \$2,000,000 in excess of \$3,000,000 per occurrence, placed at 50%. Layers 2-5: \$66,000,000 in excess of \$5,000,000. Layer 6: \$34,000,000 in excess of \$71,000,000.
<u>Equipment Breakdown and Service Line Quota Share</u>	100% of \$25,000,000 any one risk as respects equipment breakdown for commercial business. 100% of \$100,000 any one risk as respects equipment breakdown liability homeowner's business. 100% of \$10,000 as respects service line liability.

As of December 31, 2020, the Company also had various facultative reinsurance agreements in place.

The Company's ceded business was primarily to authorized reinsurers. It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133. No exceptions were noted.

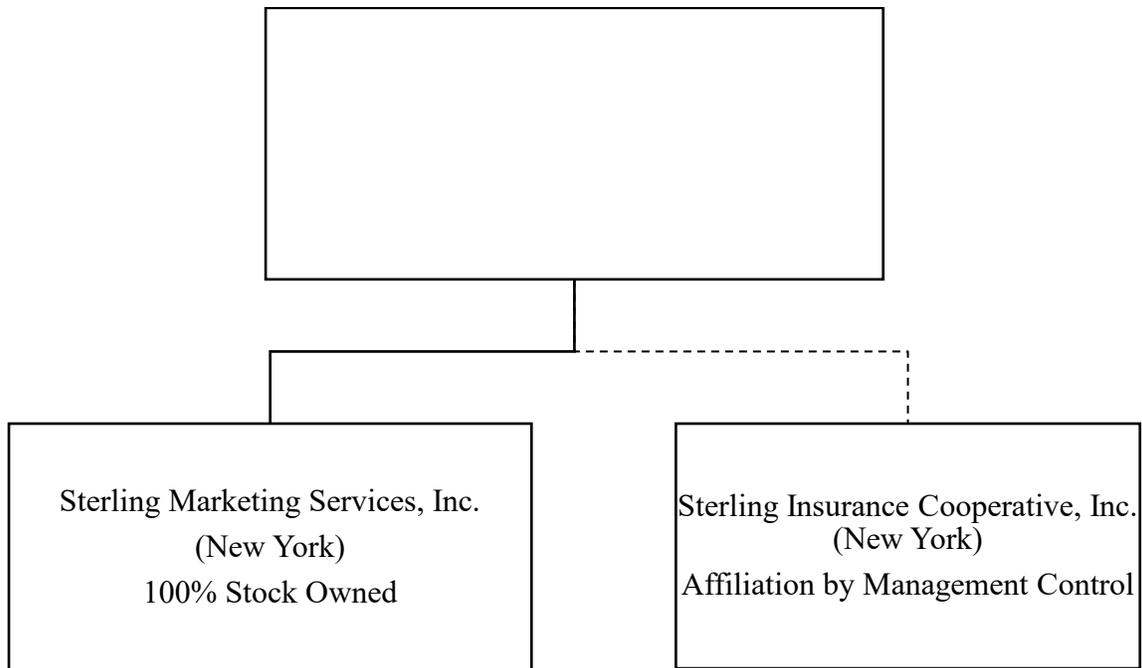
All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

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 appropriate risk transfer analyses and an attestation from the Company's Chief Executive 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.

D. Affiliated Group

The Company is a member of the Sterling Insurance Group. The Sterling Insurance Group consists of the Company, SI Coop, and SMS. As noted previously, the Company controls SI Coop through a management agreement that took effect December 14, 2015. SI Coop provides a capacity for writing non-standard risks. SMS functions as an insurance brokerage operation designed to align the Company's agency force with partners who provide insurance products that are generally not available through the Company.

The following is a chart of the affiliated group at December 31, 2020:



Affiliated Group Agreements

At December 31, 2020, the Company was party to the following agreements with other members of its holding company system:

Agreement and Statement of Policy

The Company is party to an agreement and statement of policy, dated July 15, 1993, with its subsidiary, SMS. The Company provides SMS business operations support and grants SMS use of its premises. Quarterly billings are to be settled within 45 days of receipt. In 2020, SMS paid a \$51,560 service fee under this agreement.

Management and Affiliation Agreement

Effective December 14, 2015, the Company entered into a management and affiliation agreement with Farmers Mutual Insurance Company of Milan, Pine Plains, and Stanford (now known as SI Coop), whereby the Company has contractual rights to manage SI Coop. The fees associated with Company's management and administration expenses totaled \$457,904 in 2020. Additionally, in conjunction with this agreement, the Company purchased a \$350,000 surplus note from SI Coop, for which the Company reported as a non-admitted invested asset. SI Coop has not made any principal and interest payments since inception. At December 31, 2020, the surplus notes had an unapproved interest of \$75,540.

Quota Share Agreement

In conjunction with the aforementioned management and affiliation agreement, effective December 14, 2015, the Company entered into a net line quota share reinsurance agreement, whereby the Company agrees to assume 100% of SI Coop's premiums and losses. The Company pays SI Coop a commission of 40% on all premiums ceded.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2020, 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	39%
Adjusted liabilities to liquid assets	33%
Two-year overall operating	75%

Underwriting Ratios

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

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$147,632,997	47.25%
Other underwriting expenses incurred	112,323,904	35.95
Net underwriting gain (loss)	<u>52,508,530</u>	<u>16.80</u>
Premiums earned	<u>\$312,465,431</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 2,952% at December 31, 2020. The RBC score 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 score 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, 2020, as reported by the Company:

Assets

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$170,060,843	\$ 0	\$170,060,843
Common stocks (stocks)	30,888,867	0	30,888,867
Properties occupied by the company (less \$0 encumbrances)	1,396,730	0	1,396,730
Cash, cash equivalents and short-term investments	9,648,215	0	9,648,215
Other invested assets	4,527,604	350,000	4,177,604
Investment income due and accrued	1,369,488	0	1,369,488
Uncollected premiums and agents' balances in the course of collection	2,408,745	3,329	2,405,416
Deferred premiums, agents' balances and installments booked but deferred and not yet due	7,645,282	0	7,645,282
Amounts recoverable from reinsurers	183,607	0	183,607
Current federal and foreign income tax recoverable and interest thereon	400,457	0	400,457
Electronic data processing equipment and software	175,601	0	175,601
Furniture and equipment, including health care delivery assets	188,030	188,030	0
Receivables from parent, subsidiaries, and affiliates	230,515	0	230,515
Cash value of life insurance	15,929,951	0	15,929,951
Equities in pools and associations	563,414	78,028	485,386
Equities and deposits in pools - NYMU	<u>256,927</u>	0	<u>256,927</u>
Total assets	<u>\$245,874,276</u>	<u>\$619,387</u>	<u>\$245,254,889</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and Loss Adjustment Expenses	\$ 27,166,718
Commissions payable, contingent commissions and other similar charges	2,933,081
Other expenses (excluding taxes, licenses, and fees)	1,491,562
Net deferred tax liability	902,030
Unearned premiums	37,087,434
Advance premium	875,748
Ceded reinsurance premiums payable (net of ceding commissions)	938,411
Funds held by company under reinsurance treaties	1,333,010
Amounts withheld or retained by company for account of others	26,519
Payable to parent, subsidiaries, and affiliates	337,269
Reserve for supplemental pension	3,567,763
Total liabilities	<u>76,659,545</u>
Total liabilities	\$ 76,659,545

Surplus and Other Funds

Special contingent surplus	\$ 900,000
Unassigned funds (surplus)	<u>167,695,344</u>
Surplus as regards policyholders	<u>\$168,595,344</u>
Total liabilities, surplus and other funds	<u>\$245,254,889</u>

Note: The Internal Revenue Service has not audited tax returns covering the period under examination. The Company has established an accrual tax assessment of \$23,111.61 relative to the 2019 estimated tax penalty.

B. Statement of Income

The net income for the examination period as reported by the Company was \$64,190,614, as detailed below:

Underwriting Income

Premiums earned		\$312,465,431
Deductions:		
Losses and loss adjustment expenses incurred	\$147,632,997	
Other underwriting expenses incurred	111,894,493	
LAD program - expense	<u>429,411</u>	
Total underwriting deductions		<u>259,956,901</u>
Net underwriting gain or (loss)		\$ 52,508,530

Investment Income

Net investment income earned	\$ 19,919,921	
Net realized capital gain	<u>5,148,802</u>	
Net investment gain or (loss)		25,068,723

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (270,771)	
Finance and service charges not included in premiums	3,156,140	
Income from pools and associations	71,324	
Life insurance premium on employees	2,171,856	
Income from other sources	<u>841,344</u>	
Total other income or (loss)		\$ <u>5,969,893</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 83,547,146
Federal and foreign income taxes incurred		<u>19,356,532</u>
Net income		\$ <u>64,190,614</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$70,226,128 during the five-year examination period January 1, 2016, through December 31, 2020, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2015			\$ 98,369,216
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$64,190,614		
Net unrealized capital gains or (losses)	7,362,101		
Change in net deferred income tax	530,661		
Change in nonadmitted assets		\$ 53,068	
Reserve for pension benefit obligations	<u>0</u>	<u>1,804,180</u>	
Total gains and losses	\$72,083,376	\$1,857,248	
Net increase (decrease) in surplus			<u>70,226,128</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2020			<u>\$168,595,344</u>

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

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$27,166,718 is the same as reported by the Company as of December 31, 2020. 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. The loss and loss adjustment expense reserves are concentrated in the commercial multi-peril and homeowners lines of business.

5. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. When releasing this report, the examination’s review noted that there had not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operation and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

On July 13, 2021, the Department approved an interest payment on the surplus note for \$81,116.10.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained no comments or recommendations.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination contains no comments or recommendations.

Respectfully submitted,

_____/S/_____
M. Irene Tran, CFE
Senior Insurance Examiner

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

M. Irene Tran, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____/S/_____
M. Irene Tran

Subscribed and sworn to before me

this _____ day of _____, 2022.

APPOINTMENT NO. 32192

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Linda A. Lacewell, 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:

M. Irene Tran

as a proper person to examine the affairs of the

Sterling Insurance Company

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

COMPANY

with such other information as she 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 28th day of January, 2021

LINDA A. LACEWELL
Superintendent of Financial Services

By:

Joan Riddell

Joan Riddell
Deputy Bureau Chief

