



**REPORT ON EXAMINATION
OF
STERLING INSURANCE COOPERATIVE, INC.**

AS OF DECEMBER 31, 2020

**EXAMINER:
DATE OF REPORT:**

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

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

March 25, 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 32193 dated January 28, 2021, attached hereto, I have made an examination into the condition and affairs of Sterling Insurance Cooperative, Inc. 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 Cooperative, 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 Sterling Insurance Cooperative, Inc., a single-state insurer. The previous examination was conducted as of December 31, 2015. This examination covered the 5-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

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

The Company was incorporated under the laws of the State of New York on April 18, 1883, as the Farmers Mutual Insurance Company of Milan, Pine Plains, and Stanford (“Farmers”), to conduct business as an assessment cooperative fire insurance company in the Town of Milan in Dutchess County, New York. It became licensed and commenced business on April 18, 1883. In 1957, the Department approved a merger agreement in which the Farmers Town Mutual Insurance of Red Hook 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 Farmers and Sterling Insurance Company (“SIC”), an advance premium co-operative property and casualty insurance company domiciled in this state, after which the Company’s name was changed to its current title, Sterling Insurance Cooperative, Inc. The name change was approved by this Department on July 26, 2016.

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 seven nor more than 13 members. The board meets four times during each calendar year. At December 31, 2020, the board of directors was comprised of the following ten members:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|--|---|
| Antonino Cogliandro Castleton, New York | Secretary, Sterling Insurance Cooperative, Inc. Senior Vice President-Insurance Operations, Sterling Insurance Company |
| Michael B. Downie Oneonta, New York | Vice President-Claims, Sterling Insurance Cooperative, Inc. Vice President-Claims, Sterling Insurance Company |
| Stephen A. Harris Cobleskill, New York | President, Sterling Insurance Cooperative, Inc. Sterling Insurance Company |

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|--|---|
| Jeffrey Johnson Norwich, New York | Vice President-Marketing, Sterling Insurance Company |
| Henry Lamont Cobleskill, New York | Vice President, Sterling Insurance Company |
| Catherine McArdle Cobleskill, New York | Vice President-Director of Marketing, Sterling Insurance Company |
| Melissa A. Morlang Cobleskill, New York | Treasurer, Sterling Insurance Cooperative, Inc. Senior Vice President-Accounting, Chief Financial Officer, Sterling Insurance Company |
| Janette F. Rosscoe Cobleskill, New York | Senior Vice President-Underwriting, Sterling Insurance Company |
| Christopher R. Stauble Cobleskill, New York | Vice President, Sterling Insurance Cooperative, Inc. Vice President-Agencies, Sterling Insurance Company |
| Lefteri T. Tsamis Warnerville, New York | Senior Vice President-Information Technology, Sterling Insurance Company |

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

| <u>Name</u> | <u>Title</u> |
|------------------------|----------------|
| Stephen A. Harris | President |
| Antonino Cogliandro | Secretary |
| Melissa A. Morlang | Treasurer |
| Christopher R. Stauble | Vice President |

B. Territory and Plan of Operation

As of December 31, 2020, the Company was licensed to write business in New York only, excluding the counties of New York, Kings, Queens, Bronx, and Richmond.

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 |
| 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 (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 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</u> |
|----------------------|------------------------|
| 2016 | \$ 6,156 |
| 2017 | \$ 4,011 |
| 2018 | \$ 11,730 |
| 2019 | \$3,345,395 |
| 2020 | \$4,157,719 |

The Company did not assume any reinsurance during the examination period. From 2016 to 2018, the Company did not write any new policies.

Approximately 64% of the Company's direct premiums written in 2020 came from New York Mutual Underwriters ("NYMU"), an unincorporated joint underwriting facility that writes policies on behalf of its member companies. On January 1, 2019, the Company's affiliate, Sterling Insurance Company ("SIC"), withdrew from participation in NYMU and the Company offered replacement policies to policyholders previously insured by NYMU. The Company also wrote business that was not produced by NYMU, but was similar to the types of policies typically underwritten by NYMU.

At December 31, 2020, the commercial and homeowners multiple perils accounted for 74%, and 17% were from the fire line of business.

C. Reinsurance Ceded

Effective December 14, 2015, the Company entered into a 100% net line quota share reinsurance agreement with its affiliate, SIC, whereby SIC agrees to assume 100% of all business written by the Company and for which the Company receives a 40% ceding commission. This agreement was approved by the Department.

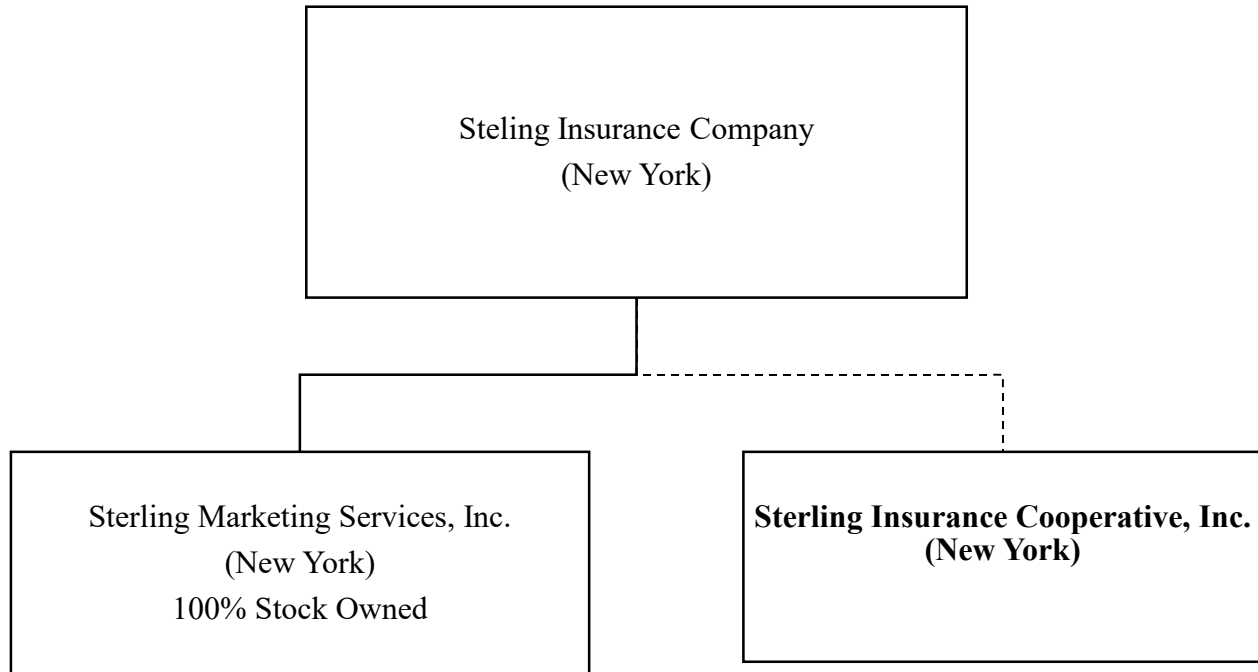
The 100% net line quota share reinsurance agreement in effect as of the examination date was reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

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 agreement 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 appropriated risk transfer and 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 Department approved an affiliation between the Company and SIC on October 16, 2015, but the affiliation became 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 (discussed below). The Company provides market and pricing flexibility for the Sterling Group.

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



Affiliated Agreements

At December 31, 2020, the Company was party to the following agreement with its affiliate:

Management and Affiliation Agreement

Effective December 14, 2015, the Company entered into a management and affiliation agreement with SIC, whereby SIC performs management services on behalf of the Company. The fees associated with the management transaction were \$690,557 at year-end on December 31, 2020. Endorsement No. 1, dated July 1, 2015, made this agreement effective on December 14, 2015. Endorsement No. 2, dated September 28, 2016, recognized the Company's name change to its current title. The agreement and its amendments were filed with and approved by the Department.

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 * | 0% |
| Adjusted liabilities to liquid assets | 74% |
| Two-year overall operating* | 0% |

*The Company cedes 100% of direct premiums to its affiliate SIC.

Underwriting Ratios

The underwriting ratios normally presented are inapplicable as the Company cedes 100% of direct premiums to its affiliate SIC.

The Company's reported risk-based capital ("RBC") score was 8,071.7% 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:

| <u>Assets</u> | <u>Assets</u> | <u>Assets Not Admitted</u> | Net Admitted <u>Assets</u> |
|---|--------------------|--------------------------------|-------------------------------|
| Bonds | \$ 177,085 | \$ 0 | \$ 177,085 |
| Cash, cash equivalents and short-term investments | 629,175 | 0 | 629,175 |
| Investment income due and accrued | 1,090 | 0 | 1,090 |
| Uncollected premiums and agents' balances in the course of collection | 154,031 | 252 | 153,779 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 665,078 | 0 | 665,078 |
| Net deferred tax asset | 2,136 | 0 | 2,136 |
| Receivables from parent, subsidiaries, and affiliates | <u>337,269</u> | <u>0</u> | <u>337,269</u> |
| Total assets | <u>\$1,965,864</u> | <u>\$252</u> | <u>\$1,965,612</u> |

Liabilities, Surplus and Other FundsLiabilities

| | |
|---|-----------------|
| Commissions payable, contingent commissions and other similar charges | \$ 158,982 |
| Other expenses (excluding taxes, licenses and fees) | 3,062 |
| Current federal and foreign income taxes | 17,424 |
| Advance premium | 50,854 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 835,398 |
| Amounts withheld or retained by company for account of others | 1,834 |
| Payable to parent, subsidiaries, and affiliates | <u>192,428</u> |
| Total liabilities | \$1,259,982 |

Surplus and Other Funds

| | |
|--|------------------------|
| Surplus notes | \$350,000 |
| Unassigned funds (surplus) | <u>355,630</u> |
| Surplus as regards policyholders | <u>705,630</u> |
| Total liabilities, surplus and other funds | <u>\$1,965,612</u> |

Note: The Internal Revenue Service has not yet audited tax returns covering tax years 2011 and through 2020. The Company established an accrual tax assessment of \$2,262.57 relative to the 2019 tax estimated tax penalty.

B. Statement of Income

The net income for the examination period as reported by the Company was \$196,143, as detailed below:

Underwriting Income

| | | | |
|--|------------------|----|------------------|
| Premiums earned | | \$ | 0 |
| Deductions: | | | |
| Losses and loss adjustment expenses incurred | \$ 44,096 | | |
| Other underwriting expenses incurred | <u>(301,517)</u> | | |
| Total underwriting deductions | | | <u>(257,421)</u> |
| Net underwriting gain or (loss) | | \$ | 257,421 |

Investment Income

| | | | |
|--|----------------|--|---------|
| Net investment income or (loss) earned | \$ (2,228) | | |
| Net realized capital gain | <u>(5,346)</u> | | |
| Net investment gain or (loss) | | | (7,574) |

Other Income

| | | | |
|---|----------------|----|----------------|
| Net gain or (loss) from agents' or premium balances charged off | \$ (13,078) | | |
| Finance and service charges not included in premiums | <u>106,377</u> | | |
| Total other income | | | <u>93,299</u> |
| Net income after dividends to policyholders but before federal and foreign income taxes | | \$ | 343,146 |
| Federal and foreign income taxes incurred | | | <u>147,003</u> |
| Net income | | \$ | <u>196,143</u> |

C. Capital and Surplus

Surplus as regards policyholders increased \$198,025 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 | Gains in <u>Surplus</u> | Losses in <u>Surplus</u> | \$507,605 |
|--|----------------------------|-----------------------------|------------------|
| Net income | \$196,143 | | |
| Change in net deferred income tax | 2,134 | | |
| Change in nonadmitted assets | <u>0</u> | \$252 | |
| Total gains and losses | \$198,277 | \$252 | |
| Net increase (decrease) in surplus | | | <u>198,025</u> |
| Surplus as regards policyholders as reported by the Company as of December 31, 2020 | | | <u>\$705,630</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 \$0 is the same as reported by the Company as of December 31, 2020.

Effective December 14, 2015, the Company entered into a 100% net line quota share reinsurance agreement with its affiliate, SIC, whereby SIC agrees to assume 100% of all business written by the Company.

5. **SUBSEQUENT EVENTS**

On July 13, 2021, the Company received approval from the Department to make an interest payment of \$81,116.10 on the Surplus Note issued to Sterling Insurance Company.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

| <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 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 |

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report 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 _____, 2024.

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:

Irene Tran

as a proper person to examine the affairs of the

Sterling Insurance Cooperative, Inc.

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

