



**STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE**

**REPORT ON EXAMINATION
OF THE
EAST TENNESSEE MUTUAL INSURANCE COMPANY
(NAIC # 13651)
BLOUNTVILLE, TENNESSEE**

**AS OF
DECEMBER 31, 2018**

TABLE OF CONTENTS

Introduction.....	1
Scope of Examination.....	1
Compliance With Previous Examination Findings	2
Company History	2
Management and Control	3
Management.....	3
Control	4
Conflicts of Interest and Pecuniary Interests.....	5
Corporate Records.....	5
Service Agreements.....	5
Territory and Plan of Operation	6
Growth of Company.....	7
Loss Experience	7
Reinsurance	7
Accounts and Records	8
Market Conduct Activities	8
Subsequent Events	10
Financial Statements	11
Assets	11
Liabilities and Policyholders' Surplus.....	11
Statement of Income.....	12
Policyholder's Surplus Account.....	13
Analysis of Changes in Financial Statements.....	14
Comments and Recommendations	14
Conclusion.....	15
Affidavit.....	16

Blountville, Tennessee
March 4, 2020

Honorable Hodgen M. Mainda
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated (“Tenn. Code Ann.”) § 56-22-115, a full-scope financial examination and market conduct review, as of December 31, 2018, has been made of the condition and affairs of:

EAST TENNESSEE MUTUAL INSURANCE COMPANY
NAIC # 13651
3188 Highway 126
Blountville, Tennessee 37617-4729

hereinafter referred to as the “Company” and a report thereon is submitted as follows:

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or “Department”). The examination was conducted by duly authorized representatives of the Department.

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2013. This examination covers the period from January 1, 2014, through the close of business on December 31, 2018, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (“Handbook”), as deemed appropriate. The examination sought to evaluate the overall financial statement presentation and

management's compliance with statutory accounting principles and annual statement instructions.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

The examination included a review to determine the current status of the comments and recommendations in the previous report on examination, as of December 31, 2013, which covered the period from January 1, 2009, through December 31, 2013. A summary of the Commissioner's directives and the corrective actions taken by the Company is discussed below:

Directive #1

The Company is directed to comply with Tenn. Code Ann. § 56-3-408(b)(1) by having the Board of Directors review and approve all investment transactions.

Corrective Action

During the current period of examination, the Company was found to be in compliance with Tenn. Code Ann. § 56-3-408(b)(1). The Board of Directors are reviewing and approving all investment transactions.

Directive #2

The Company is directed to comply with Tenn. Code Ann. § 56-22-109(b)(1) by filing with the TDCI its most recent rate increases for Dwelling and Contents, Rental Dwelling and Livestock Coverage.

Corrective Action

During the current period of examination, the Company was found to be in compliance with Tenn. Code Ann. § 56-22-109(b)(1). On August 6, 2015, the Company filed its most recent rate increase with the TDCI and received approval.

COMPANY HISTORY

The Company incorporated on September 24, 1896, under the Tennessee Business Corporation Act as a non-profit mutual benefit corporation. The Company commenced business on September 24, 1896. On June 10, 2009, the Company was issued its most recent Certificate of Authority to transact the business of insurance pursuant to Tenn. Code Ann. § 56-22-101, *et seq.* The Company's original business purpose was to insure loss or damage to property due to fire, lightning, hail, extended coverage, and tornado to residents of Sullivan County, Tennessee.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in a Board of Directors ("Board"), elected annually by its policyholders ("members"). One third (1/3) of the Board is elected at each annual meeting and serves a term of three (3) years. In accordance with the Company's Bylaws, the Board shall consist of at least six (6) directors.

The following persons were duly elected by the members and serving as directors of the Board as of December 31, 2018:

<u>Director</u>	<u>Address</u>
William Pierce	Bluff City, Tennessee
Jamie Ketron	Bluff City, Tennessee
G. Julia Lambert	Silver Springs, Florida
Charles McQueen	Shady Valley, Tennessee
Art Meadows	Fairmont, West Virginia
Heather Parker	Blountville, Tennessee
Patricia Castle	Mt Carmel, Tennessee

Officers

The annual meeting of the members shall be held at the call of the President and held on the first Wednesday in March at the Company.

The Bylaws provide that the officers of the Company shall be a President, Vice President, and a Secretary and Treasurer. Each officer shall serve a term of three (3) years.

The following officers were duly elected by the Board and were serving as officers of the Company as of December 31, 2018:

<u>Name</u>	<u>Title</u>
William Pierce	President
Jamie Ketron	Vice President
G. Julia Lambert	Secretary/Treasurer

Committees

The Board installed committees to provide oversight for the affairs of the Company. The Board appointed the following Committees:

Finance Committee

The following individuals were serving on the Finance Committee as of December 31, 2018:

<u>Name</u>	<u>Title</u>
William Pierce	President
Jamie Ketron	Vice President
G. Julia Lambert	Secretary/Treasurer

Governance Committee

The following individuals were serving on the Governance Committee as of December 31, 2018:

<u>Name</u>	<u>Title</u>
Jamie Ketron	Vice President
Art Meadows	Director
Heather Parker	Director
Charlea McQueen	Director

CONTROL

The Company's Bylaws define a member as a person having insurance with the Company. The Company is equally owned by its members. The Company has never issued any shares of capital stock or established guaranteed capital.

Annual and special meetings of the members shall be held at the call of the Board and shall be held at the office of the Company, or at such place as the Board may designate. Pursuant to the Bylaws, members are given advance notice of the date, time, and location of all membership meetings.

Each member is entitled to one (1) vote irrespective of the number of policies owned by the member. No member shall vote by proxy. At an annual or special meeting, the members present shall constitute a quorum.

The Company's members held five (5) annual meetings and no special meetings during the examination period.

CONFLICTS OF INTEREST AND PECUNIARY INTERESTS

The Company has a Code of Ethics policy which governs the actions of all directors, officers, and employees. The Company's policy requires directors, officers, and employees to sign conflict of interest disclosure statements when they join the Company. It was noted that the new directors and officers did not sign conflict of interest disclosure statements. See the "Comments and Recommendations" section of this report.

Pursuant to Tenn. Code Ann. § 56-3-103, officers or directors must not be pecuniarily interested in investment or disposition of funds of a domestic insurance company. It could not be determined if the directors and officers were compliant with Tenn. Code Ann. § 56-3-103, as the conflict of interest disclosure statements were not completed.

CORPORATE RECORDS

The minutes of the meetings were reviewed and appear to reflect properly the acts of the respective bodies.

The Bylaws provide for the regulation of the business and for the conduct of the affairs of the Company, the Board, and the members.

SERVICE AGREEMENTS

The Company had several agreements in place for services during the period under examination. The prices and terms associated with these agreements appear to be fair based on the services provided.

Financial and Tax Preparation Services

Zeno, Pockl, Lilly and Copeland, A.C. provides accounting services related to regulatory filings, including preparation of statutory annual statements, payment of premium taxes, and federal income tax filings.

Legal Services

Herrin, Booze & McPeak provides legal services.

Investment Advisory Services

Edward Jones provide investment advisory services. This agreement gives the investment advisor the ability to supervise and direct the investment and reinvestment of all assets, subject to the limitations, needs, and objectives imposed by the Company's investment policy. Edward Jones is authorized to give instructions to the Company's custodian, First Tennessee Bank, with respect to all investment decisions.

Claims Adjuster

N & C Claims Services provides claims adjustment services.

Software Licensing Agreement

Intuitive Web Solutions, LLC, of Springfield, Missouri, provides the BriteCore software system. This software includes policy administration, claims processing, billing, electronic quoting with underwriting and applications, and agency access.

TERRITORY AND PLAN OF OPERATION

Territory

The Company's current Certificate of Authority was issued by the TDCI on June 10, 2009, and authorized the transaction of the business of fire, lightning, hail, extended coverage, tornado and liability insurance in the State of Tennessee. The Certificate of Authority is valid until suspended or revoked and allows the Company to transact business operations in Sullivan County and all counties contiguous thereto in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(f)(1). The Company writes policies in Carter, Grainger, Greene, Hamblen, Hancock, Hawkins, Johnson, Sullivan, Unicoi, and Washington counties in Tennessee.

Plan of Operations

The Company provides its members with coverage on dwelling homes, rental homes, modular homes, mobile homes, farm buildings, livestock, personal property, farm machinery and churches in case of loss due to fire, wind, hail, lightning and theft.

The Company writes business through two (2) licensed in-house agents and five (5) local insurance agencies. The agencies and agents receive a commission for all new and renewal business.

The agents perform a visual inspection of the property, photograph the property and determine the value prior to the issuance of the policy. The Company's president approves or rejects all policy applications prepared by the agents. Policies are typically written for at least eighty percent (80%) of the actual cash value of the property insured, subject to the policy limits.

On September 1, 2018, the Company requested to add a new line of business, Homeowner Basic Form 1 – RCV (replacement cost), effective January 1, 2019.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, according to financial statements filed with the TDCI:

<u>Year</u>	<u>Gross Premiums Written</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholder Surplus</u>	<u>Net Income (Loss)</u>
2018	\$716,021	\$3,042,917	\$373,011	\$2,669,906	\$98,374
2017	\$719,442	\$2,947,361	\$338,807	\$2,608,554	\$19,335
2016	\$721,026	\$2,992,325	\$411,449	\$2,580,876	(\$71,353)
2015	\$703,499	\$2,989,762	\$377,598	\$2,612,164	(\$19,734)
2014	\$740,719	\$3,091,868	\$383,488	\$2,708,380	(\$43,056)

LOSS EXPERIENCE

The following comparative data reflects the loss experience of the Company for the period under review, as reported by the Company in its financial statements filed with the TDCI:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Losses & LAE</u>	<u>Loss Ratio</u>	<u>Other Expenses</u>	<u>Expense Ratio</u>	<u>Combined Ratio</u>
2018	\$535,512	\$165,228	30.85%	\$330,219	61.26%	92.11%
2017	\$551,006	\$295,040	53.55%	\$330,246	60.10%	113.64%
2016	\$541,450	\$302,396	55.85%	\$316,823	57.09%	112.94%
2015	\$531,634	\$283,157	53.26%	\$332,514	62.73%	115.99%
2014	\$534,384	\$359,907	67.35%	\$369,618	67.32%	134.67%

REINSURANCE

The Company has four (4) reinsurance contracts with multiple reinsurers brokered by Guy Carpenter, including property per risk excess of loss, property catastrophe excess of loss, casualty quota share, and aggregate excess of loss reinsurance agreements. All of the reinsurers are licensed carriers approved to transact business in the State of Tennessee. The agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit pursuant to Tenn. Code Ann. § 56-2-207(a)(2). These agreements appear to effectuate proper transfer of risk in accordance with SSAP No. 62 and NAIC guidelines. The agreements were found to meet the requirements set forth in Tenn. Code Ann. § 56-22-110.

ACCOUNTS AND RECORDS

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). Our review did not disclose any deficiencies in these records.

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to confirm values for assets and liabilities appearing in the Company's financial statements. General ledger balances were reconciled with the financial statements and were reviewed for completeness of disclosure and conformity to NAIC Accounting Practices and Procedures, as permitted by Tenn. Comp. R. & Reg. 0780-01-78-.04(1).

It was noted that the Company obtained a line of credit to pay claims and operating expenses in 2016 and 2017. Loans are only allowed in accordance with Tenn. Code Ann. § 56-22-108(c). See the "Comments and Recommendations" section of this report.

In accordance with Tenn. Code Ann. § 56-46-110, the Company was exempt from filing a Risk-Based Capital Report.

The Company was exempt from filing an actuarial opinion by a qualified actuary with the Commissioner on or before March 1, pursuant to Tenn. Comp. R. & Regs. 0780-1-78.04(4).

The Company's books and records are located in Blountville, Tennessee.

MARKET CONDUCT ACTIVITIES

A limited market conduct review was made of the Company, as of December 31, 2018, in conjunction with this examination. The following items were addressed:

Policy Forms and Underwriting Practices

Pursuant to Tenn. Code Ann. §§ 56-5-103, 56-5-104, 56-5-105, and 56-22-109(b)(1), the Company's policy forms were in effect from January 1, 2014, through December 31, 2018. The Company's premium rates were in effect from January 1, 2014, through December 31, 2018. No rate changes were made during the examination period.

During a review of the Company's insurance applications, it was noted that the applications did not have the fraud statement required by Tenn. Code Ann. § 56-53-111.

This issue was addressed and corrected during the examination. See the "Comments and Recommendations" section of this report.

As of December 31, 2018, the Company had two (2) agents writing business, as well as five (5) agencies.

All new policy quotes require underwriting questions to be answered in the BriteCore system. The Manager reviews the BriteCore policy file and determines coverage. When appropriate, a property inspection is conducted.

Advertising

The Company's advertising during the period of examination consisted of various sponsorships and promotional materials. The Company's reputation and products are also communicated to potential members by the Board and the Company's agents via word of mouth.

Policy Cancellation

The Company mails a notice to its members at least thirty (30) days before cancellation. Notices are mailed within ten (10) days if initiated by the member. All cancellations reviewed included proper notice of cancellation as required by Tenn. Code Ann. § 56-22-109(b)(3).

The Company adheres to the non-renewal provisions contained in Tenn. Code Ann. §§ 56-7-1901 and 56-7-1902, in accordance with Tenn. Code Ann. § 56-22-109(b)(2), which relate to the notice of intention to non-renew and the reason(s) for non-renewal.

Claims Review

A sample of claims was reviewed for unfair claims practices as defined by Tenn. Code Ann. § 56-8-105. Testing included timeliness of contact and resolution, adequacy of claims documentation, claims handling procedures, and reasonableness of denials. No issues were noted during the claims review.

Complaint Handling

The Company's complaint handling practices were reviewed for compliance with Tenn. Code Ann. § 56-8-104(11). It was noted that the Company did not maintain a complaint log as required by this statute during the examination period. This issue was corrected during the examination as the Company documented its complaint handling procedures and created a complaint log in accordance with Tenn. Code Ann. § 56-8-104(11). See the "Comments and Recommendations" section of this report.

SUBSEQUENT EVENTS

No subsequent events were noted during the examination.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income, as of December 31, 2018, together with a reconciliation of policyholders' surplus for the period under review, as reported by the Company in its 2018 annual statement:

	<u>ASSETS</u>		
	<u>Assets</u>	<u>Non-Admitted</u>	<u>Net Admitted</u>
		<u>Assets</u>	<u>Assets</u>
Bonds	\$1,805,182		\$1,805,182
Stocks	979,162		979,162
Cash	114,254		114,254
Real Estate	42,561		42,561
Investment Income	18,925		18,925
Premium Receivables and Agents Balances	82,833		82,833
Net deferred tax asset	52,006	\$52,006	0
Pre-paid expenses	<u>7,989</u>	<u>7,989</u>	<u>0</u>
 Total Admitted Assets	 <u>\$3,102,912</u>	 <u>\$59,995</u>	 <u>\$3,042,917</u>

LIABILITIES AND POLICYHOLDERS' SURPLUS

Gross Losses and Claims Reported, Unpaid	\$10,000
Unearned Premiums	296,836
Advance Premiums	9,691
Commissions Payable and Similar Charges	279
Taxes and Other Expenses	33,166
Accounts Payable and Accrued Expenses Payable	16,469
Amounts Withheld or Retained for Account of Others	<u>6,570</u>
 Total Liabilities	 \$373,011
Policyholders' Surplus	<u>2,669,906</u>
 Total Liabilities and Policyholders' Surplus	 <u>\$3,042,917</u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Net premiums and assessments earned \$535,512

DEDUCTIONS

Net Losses incurred 51,544
Loss expenses incurred including claims adjustment expenses 113,684
Other underwriting expenses incurred 330,219
Total underwriting deductions 495,447
Net underwriting gain (loss) 40,065

INVESTMENT INCOME

Net investment income earned 67,738
Net realized capital gains (losses) less capital gains tax (4,952)
Net investment gain (loss) 62,786

OTHER INCOME

Finance and service charges not included in premiums (4,477)
Total other income (4,477)
Net income after dividends to policyholders and before federal
income taxes 98,374
Federal income taxes incurred 0
Net income \$98,374

POLICYHOLDER'S SURPLUS ACCOUNT

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Policyholders' Surplus					
December 31, previous year	<u>\$2,608,554</u>	<u>\$2,580,876</u>	<u>\$2,612,164</u>	<u>\$2,708,380</u>	<u>\$2,729,726</u>
Net income or (loss)	98,374	19,335	(71,353)	(19,734)	(43,056)
Change in net unrealized capital gains or (losses)	(37,179)	21,574	31,186	(57,151)	(23,747)
Change in net deferred income tax	(3,380)	(7,628)	20,347	9,965	8,793
Change in non-admitted assets from prior years	3,537	(5,603)	(11,468)	(29,296)	(4,437)
Aggregate write-ins for gains and losses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>41,101</u>
Net change in capital and surplus for the year	<u>61,352</u>	<u>27,678</u>	<u>(31,288)</u>	<u>(96,216)</u>	<u>(21,346)</u>
Policyholders' Surplus					
December 31, current year	<u>\$2,669,906</u>	<u>\$2,608,554</u>	<u>\$2,580,876</u>	<u>\$2,612,164</u>	<u>\$2,708,380</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus

\$2,669,906

Total policyholders' surplus, as established by this examination, is the same as what was reported by the Company in its 2018 Annual Statement. There were no changes made to any asset or liability item as a result of our examination performed as of December 31, 2018.

COMMENTS AND RECOMMENDATIONS

Comments

1. As noted in the "Market Conduct Activities" section of this report, the Company does not maintain a complaint log as required by Tenn. Code Ann. § 56-8-104. The Company does not have any formal complaint procedures as described in Tenn. Code Ann. § 56-8-104(11). The Company has not received any formal complaints, but the Company created a complaint log and formal complaint procedures in order to comply with the aforementioned statute.
2. As noted in the "Market Conduct Activities" section of this report, the Company's application form did not contain the fraud statement required by Tenn. Code Ann. § 56-53-111. The statute states that all insurance applications shall contain the following disclosure:

"It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits."

The company added the required statement to its application form during the examination and is now in compliance with the aforementioned statute.

Recommendations

1. As noted in the "Account and Records" section of this report, the Company did not comply with Tenn. Code Ann. § 56-22-108(c). The Company obtained a line of credit to pay claims and operating expenses in 2016 and 2017. Notification of the loan was not submitted to TDCI. Tenn. Code Ann. § 56-22-108(c) outlines the prohibition of using loans for ordinary losses and operating expenses. It is recommended that the Company comply with Tenn. Code Ann. § 56-22-108(c) by closing the line of credit.

CONCLUSION

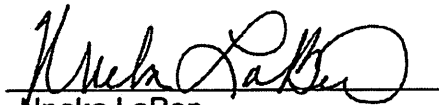
Rules and procedures as prescribed by the statutes of the State of Tennessee and guidance from the NAIC Handbook, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of East Tennessee Mutual Insurance Company.

In such manner, it was found that as of December 31, 2018, the Company had admitted assets of \$3,042,917 and liabilities, exclusive of policyholders' surplus, of \$373,011. Thus, there existed for the additional protection of the policyholders, the amount of \$2,669,906 in the form of policyholders' surplus. Tenn. Code Ann. § 56-22-105(c) requires an insurer of this Company's type to maintain a minimum surplus of \$200,000. For this examination, as of December 31, 2018, the Company maintains surplus sufficient to satisfy those requirements.

The courteous cooperation of the officers and employees of the Company extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Jody Fox, Insurance Examiner, and Daniel Clements, CPA, Supervising Examiner, from the State of Tennessee, participated in the work of this examination.


Respectfully submitted,



Nneka LaBon
Examiner-in-Charge
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of the East Tennessee Mutual Insurance Company located in Blountville, Tennessee, dated March 4, 2020, and made as of December 31, 2018, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of her knowledge, information, and belief.

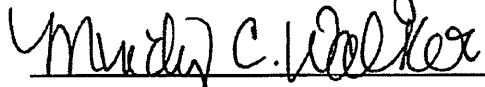

Nneka LaBon
Examiner-in-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 29th day of May, 2020



(NOTARY)

My Commission Expires: 7.6.2020

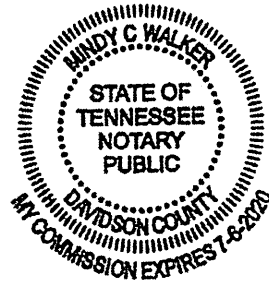
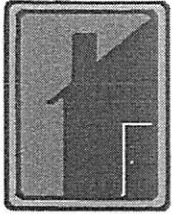


EXHIBIT B



East Tennessee
MUTUAL
Insurance

A County Mutual Insurance Company
PROPERTY & CASUALTY INSURANCE

Serving Northeast Tennessee Since 1896

P.O. Box 328, 3188 Highway 126
Blountville, Tennessee 37617
Phone: (423) 323-5361 * Fax: (423) 323-2247
www.easttnmutualins.com

May 29, 2020

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1135

RE: Report of Examination – East Tennessee Mutual Insurance Company

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for East Tennessee Mutual Insurance Company, made as of December 31, 2018.

By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

Barbara Lambert
General Manager