



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

**REPORT ON EXAMINATION
OF THE
FARMERS MUTUAL INSURANCE COMPANY OF
GILES COUNTY
PULASKI, TENNESSEE**

**AS OF
DECEMBER 31, 2021**

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Pulaski, Tennessee
April 5, 2023

Honorable Carter Lawrence
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, 2021, has been made of the condition and affairs of:

FARMERS MUTUAL INSURANCE COMPANY OF GILES COUNTY

NAIC # 15974
1029 W. College St.
Pulaski, Tennessee 38478

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, 2016. This examination covers the period from January 1, 2017, through December 31, 2021, 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 the *Annual Statement Instructions for Tennessee County Mutual Insurers* ("Instructions"), using substantive procedures where applicable. The examination also included an assessment of prospective risks faced by the Company, based on information obtained during the course of the examination.

The examination reviewed the Company's business policies and practices, management and corporate matters, and reviewed and evaluated assets, liabilities, income, and disbursements. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules, and regulations. In planning and conducting our examination, we considered the concepts of materiality and risk, and our examination efforts were directed accordingly.

A separate market conduct review was performed concurrently with the financial examination. See the "Market Conduct Activities" section of this report.

The Company provided a Letter of Representation certifying that management has disclosed all significant matters and records.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

The examination included a review to determine the current status of the comments and recommendations noted in the previous examination, as of December 31, 2016. A summary of the Commissioner's directives and the corrective actions taken by the Company are discussed below:

Comments

1. It was noted that per the Company's Bylaws, the Board of Directors ("Board"), is to elect one-third (1/3) of the Board each year for a three (3) year term. Due to attrition, the Board was no longer electing one-third (1/3) of its members each year. The Board resolved to extend the term of two (2) Board members to bring the Board elections back into its proper cycle.

Corrective Action

The Company did not comply with this comment, as the Company has not been electing one-third (1/3) of its directors each year. See the "Management and Control" and "Comments and Recommendations" sections of this report.

2. It was noted that the Company does not have a formal conflict of interest policy to govern the actions of its officers and directors. As a good business practice and to evidence compliance with Tenn. Code Ann. § 56-3-103, the Company is advised to implement such a policy and require annual disclosures of conflicts or potential conflicts of interest.

Corrective Action

The Company created a conflict of interest policy, but did not require annual disclosures of conflicts or potential conflicts of interest. See the “Conflict of Interest and Pecuniary Interest” and “Comments and Recommendations” sections of this report.

3. It was noted that the Company had several verbal agreements in place with its service providers. As a “best practice”, it was suggested that the Company consider formalizing these verbal agreements by reducing them to writing.

Corrective Action

The Company has complied with this comment, as the Company was able to provide a written copy of its service provider agreements.

4. It was noted that the Company did not have the authority to sell policies in Perry County per its Certificate of Authority (COA) and Tenn. Code Ann. § 56-22-106(f)(1). The Company sold one (1) policy in Perry County in 2015.

Corrective Action

The Company has complied with its COA and Tenn. Code Ann. § 56-22-106(f)(1) during the examination period.

5. It was noted that the Company’s custodial agreement was not in compliance with Tennessee Compilation of Rules and Regulations (“Tenn. Comp. R. & Regs.”) 0780-01-46-.02. Upon review of the custodial agreement, it was found that not all of the required terms were included in the Company’s custodial agreement with SunTrust.

Corrective Action

The Company amended its custodial agreement to comply with Tenn. Comp. R. & Regs. 0780-01-46-.02. However, the Company could not provide evidence that the Board approved the amended agreement. This is not in compliance with Tenn. Comp. R. & Regs. 0780-01-46-.02, which requires the custodial agreement to be authorized

by a resolution of the Board. See the “Accounts and Records” and “Comments and Recommendations” sections of this report.

6. It was noted that the Company did not maintain a complaint register that was compliant with Tenn. Code Ann. § 56-8-104(11).

Corrective Action

The Company has not complied with this comment, as it does not maintain records of complaints in accordance with Tenn. Code Ann. § 56-8-104(11). See the “Market Conduct” and “Comments and Recommendations” sections of this report.

Recommendations

1. It was found that the Company was in violation of Tenn. Code Ann. § 56-6-113(b), which states, “A person shall not accept a commission, service fee, brokerage or other valuable consideration for selling, soliciting or negotiating a contract of insurance in this state if that person is required to be licensed under this part and is not so licensed.” The Company should discontinue the practice of accepting commissions on the Farmers Mutual of Tennessee (FMT) liability policies sold and should use an appropriately licensed and appointed agent for administering the FMT’s liability policies.

Corrective Action

The Company complied with this recommendation. The Company is no longer listed as a producer on FMT’s liability policies. The agreement was amended to state that the Company, through its licensed property and casualty agents, will market the Company’s products as well as FMT’s products.

COMPANY HISTORY

The Company was incorporated on March 24, 1900, under the provisions of the Tennessee Business Corporation Act. The Company is a non-profit mutual benefit corporation organized as a county mutual fire insurance company, pursuant to Tenn. Code Ann. Title 56, Chapter 22. The Company’s purpose is to provide insurance for its members and to reinsure and accept reinsurance for fire, lightning, extended coverages, and other coverages as is allowed under Tenn. Code Ann. Title 56, Chapter 22. Every policyholder of the Company is a member while their policy is in force. The Company commenced business on April 12, 1900.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

All of the power and authority of the Company shall be vested in the Board except as otherwise provided by the law. Annual meetings of the members are held on the first Monday of March each year. Special meetings of the members may be called at any time by a majority of the Board. Pursuant to the Bylaws, members are given advance notice of the date, time, and location of all membership meetings.

A meeting of the Board is to be held immediately following the adjournment of each membership meeting at which directors are elected, and notice of such meeting need not be given. Special meetings of the Board may be held at any time upon the call of the President, Secretary, or a majority of the Board. Notice of any special meeting of the Board shall be mailed to each director at least three (3) days before the day on which the meeting is to be held.

All meetings shall be held at the office of the Company or at such place as the Board may designate.

Per the Bylaws, the Board shall not be less than six (6) and no more than fifteen (15) directors. Directors must be members of the Company. The Bylaws call for one-third (1/3) of the directors to be elected each year, who shall be elected for terms of three (3) years to succeed the director whose term shall expire in that year. Vacancies in the Board may be filled for the unexpired term by the directors. During the examination period, it was noted that the Company had not been electing one-third (1/3) of its directors each year in accordance with its Bylaws. See the "Compliance with Previous Examination Findings" and "Comments and Records" sections of this report.

According to the Company's 2021 Annual Statement jurat page, the following persons were listed as directors of the Company, as of December 31, 2021:

<u>Director</u>	<u>Address</u>
Harry Burns	Pulaski, Tennessee
Clint Burns	Lawrenceburg, Tennessee
Richard Long, Sr.	Pulaski, Tennessee
Richard Long, Jr.	Pulaski, Tennessee
Lane Rose	Pulaski, Tennessee
Janie Wilburn	Prospect, Tennessee

Officers

The Bylaws of the Company instruct the Board to elect the Company's officers immediately following the members' annual meeting. Per the Bylaws of the Company, the Board shall elect a President, Vice-President, Secretary/Treasurer, and Manager. The officers must be members of the Board. It was noted that the Company did not have a manager during the examination period, which is not in compliance with the Company's Bylaws. See the "Comments and Recommendations" section of this report.

The officers of the Company shall hold office at the pleasure of the Board. The Board may create other officer positions and appoint additional officers as needed. The Board may terminate any officer at any time, with or without cause, by a majority vote. The Board shall fill a vacancy in any office.

The following individuals were duly elected by the Board and were serving as officers of the Company, as of December 31, 2021:

<u>Name</u>	<u>Title</u>
Harry Burns	President
Lane Rose	Vice President
Janie Wilburn	Secretary/Treasurer

COMMITTEES

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

Executive Committee

The Executive Committee is appointed annually by the Board. It is authorized to conduct the business of the Company under the authority of the Board and pursuant to the Charter and Bylaws.

The following persons served on the Executive Committee, as of December 31, 2021:

<u>Name</u>	<u>Title</u>
Harry Burns	President, Director
Lane Rose	Vice President, Director
Janie Wilburn	Secretary, Treasurer, Director

Finance Committee

The Finance Committee recommends amounts and types of compensation paid to the Company's directors, officers, and employees.

The following persons served on the Finance Committee, as of December 31, 2021:

<u>Name</u>	<u>Title</u>
Clint Burns	Director
Lane Rose	Vice President, Director
Richard Long, Jr.	Director

CONTROL

The Company is equally owned by its members (policyholders). The Company has never issued any shares of capital stock or established guaranteed capital.

CONFLICTS OF INTEREST AND PECUNIARY INTEREST

During the examination, a review was performed of the Company's compliance with Tenn. Code Ann. § 56-3-103, which prohibits Company directors, officers, and employees from having a pecuniary interest in any funds of the Company. While the review found no director, officer, or employee of the Company had a pecuniary interest in the funds of the Company, it was noted that the Company did not require annual disclosures of possible conflicts of interest. Maintaining a conflict of interest disclosure form, and requiring annual disclosures of possible conflicts of interest, helps document the Company's compliance with Tenn. Code Ann. § 56-3-103. See "Compliance with Previous Examination Findings" and the "Comments and Recommendations" sections of this report.

CORPORATE RECORDS

During the examination, the Company's member and Board meeting minutes were reviewed. During the review of the Company's Board meeting minutes, no evidence of the Board's approval of the Company's investments or investment transactions was noted. This is not in compliance with Tenn. Code Ann. § 56-3-408(b)(1) which states: "No investment or loan, except premium finance loans, shall be made by any insurance company, unless the investment or loan has first been authorized by the board of directors or by a committee appointed by the board of directors and charged with the duty of supervising the investment or loan." See "Comments and Recommendations" section of this report.

As noted above in the “Compliance with Previous Examination Findings,” during the review of the Company’s amended custodial agreement and review of the Board minutes, it was noted that the Company was unable to provide evidence of the Board’s authorization of the amended agreement. Tenn. Comp. R. & Regs. 0780-01-46-.02(2) requires the custodial agreement to be authorized by a resolution of the Board. See the “Compliance with Previous Examination Findings” and “Comments and Recommendations” sections of this report.

During the review of the Company’s records, it was noted that the Company did not keep meeting minutes for the Finance Committee meetings. This is not in compliance with Tenn. Code Ann. § 48-66-101(a) which requires that a company keep as permanent records minutes of all meetings of its members and board of directors, a record of all actions taken by the members or directors without a meeting, and a record of all actions taken by committees of the board of directors. See “Comments and Recommendations” section of this report.

Constitution and Bylaws

The Constitution and Bylaws recite the general and specific powers of the Company in detail. The Bylaws may be amended or repealed, or new Bylaws may be drafted and adopted by the affirmative vote of two-thirds (2/3) of the directors at any regular or special meeting, provided a copy of the proposed amendment has been filed with the Secretary not less than sixty (60) days before any such meeting. There were no amendments to the Constitution and Bylaws during the examination period.

SERVICE AGREEMENTS

The Company had the following significant service agreements during the period under examination.

Policy Management Services

Automated Insurance Management Systems (AIMS) of Richmond, Virginia, provides policy management, premium accounting software, and support services.

Investment Custodian Services

Truist Bank (formerly SunTrust Bank) provides the Company with investment custodial services.

TERRITORY AND PLAN OF OPERATION

TERRITORY

The Department issued the Company's current COA authorizing the transaction of property insurance business pursuant to Tenn. Code Ann. § 56-22-106(f)(1) on September 3, 2008. The COA is valid until suspended or revoked and allows the Company to transact business operations in Giles County and all counties contiguous to Giles County in the State of Tennessee. As of December 31, 2021, the Company wrote policies in Giles, Lawrence, Lincoln, Marshall, and Maury counties in Tennessee.

PLAN OF OPERATION

The Company provides its members with coverage on dwellings, rental homes, mobile homes, farm buildings, livestock, personal property, farm machinery, and churches in case of loss. Liability coverage, provided by FMT, is also available to the members of the Company if they wish to purchase this additional protection through the Company.

The Company has three (3) rate tiers for dwellings based on specific criteria such as age, condition, and value. The standard deductible is \$1,000, and the policyholder can pay lower premium rates in exchange for a higher deductible.

The Company wrote business through one (1) licensed in-house agent during the examination period. The Company's agent is duly licensed to sell property-and-casualty insurance in Tennessee.

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 its annual statements filed with the Department:

<u>Year</u>	<u>Gross Premiums Written</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholders Surplus</u>	<u>Net Income</u>
2021	\$488,533	\$1,110,066	\$258,023	\$852,043	(\$19,422)
2020	\$456,382	\$991,040	\$321,569	\$759,471	(\$51,243)
2019	\$456,725	\$1,057,293	\$241,991	\$815,302	\$217,293
2018	\$439,296	\$1,018,875	\$215,971	\$628,914	(\$181,461)
2017	\$435,831	\$1,055,664	\$207,965	\$865,945	(\$129,383)

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 annual statements filed with the Department:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Incurred Losses & LAE</u>	<u>Loss Ratio</u>	<u>Other Expenses</u>	<u>Expense Ratio</u>	<u>Combined Ratio</u>
2021	\$304,409	\$153,082	50.29%	\$188,660	61.98%	112.26%
2020	\$285,318	\$233,410	81.81%	\$160,536	56.27%	138.07%
2019	\$257,502	(\$91,333)	(35.47%)	\$164,862	64.02%	28.55%
2018	\$243,146	\$282,658	116.25%	\$169,339	69.64%	185.90%
2017	\$232,111	\$198,701	85.61%	\$183,332	78.98%	164.59%

REINSURANCE

Specific and Aggregate Excess of Loss Reinsurance

The Company has multiple reinsurers brokered by Guy Carpenter, all of which are licensed carriers approved to transact business in the State of Tennessee. In accordance with Tenn. Code Ann. §§ 56-22-110 and 56-22-106(d), the Company maintained Specific and Aggregate Excess of Loss coverage through these reinsurers to limit its exposure to larger risks. Under the terms of the agreements, the Company retains the first \$25,000 of each risk per occurrence, subject to a limit of liability to the reinsurer of up to one thousand percent (1,000%) of gross net earned premium income.

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 Statement of Statutory Accounting Principles (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

During 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 required by Tenn. Comp. R. & Regs. 0780-01-78-.04(1).

During the review of the Company's Unclaimed Property, it was noted that the Company was not complying with Tenn. Comp. R. & Regs 1700-02-01 and Tenn. Code Ann. §§ 66-29-101, *et seq.*, due to the Company not correctly accounting for and escheating the unclaimed property to the Department as required by the Rule. See the "Comments and Recommendations" section of this report.

During the review of the Company's admitted assets, it was noted that the Company was not correctly non-admitting its real estate investments in accordance with Tenn. Code Ann. § 56-3-405(1), which limits the Company from having more than ten percent (10%) of its admitted assets in real estate investments. It is recommended that the Company not admit real estate investments in excess of ten percent (10%) of its admitted assets, pursuant to Tenn. Code Ann. § 56-3-405(1). See the "Comments and Recommendations" section in this report.

During the review of the Company's 2021 Annual Statement, it was noted that the Company included loss adjustment expenses (LAE) within claims expenses, which is not in compliance with SSAP No. 55 paragraph 6(c) of the Instructions, and Tenn. Code Ann. § 56-22-109. See the "Comments and Recommendations" section in this report.

During the review of the Company's 2021 Annual Statement, numerous issues of non-compliance with the Instructions and Tenn. Code Ann. § 56-22-109 were identified. See the "Comments and Recommendations" section in this report.

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

The Company is not required to have audited financial statements, as written premiums are less than \$1,000,000, per Tenn. Comp. R. & Regs. 0780-01-78-.04(3).

The Company was exempt from Tenn. Comp. R. & Regs. 0780-01-78-.04(4), which requires the filing of an actuarial opinion by a qualified actuary with the Commissioner on or before March 1.

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

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a limited market conduct review was made of the Company, as of December 31, 2021. The following items were addressed:

Operations and Management Standards

Company antifraud initiatives were examined to determine if the initiatives are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts as required by Tenn. Code Ann. § 56-53-111(b)(1)(A). During the review, it was noted that some of the Company's applications lacked the fraud warning statement as required by Tenn. Code Ann. § 56-53-111(b)(1)(A). Tenn. Code Ann. § 56-53-111(b)(1)(A) requires that all applications for insurance and all claim forms contain a statement that clearly states in substance the following or words to that effect: "It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the Company."

Additionally, the Company's procedures and policies relating to privacy were reviewed to determine compliance with Tenn. Code Ann § 56-8-104(19). No issues were noted.

Underwriting and Rating Standards

During the examination of the Company's underwriting procedures and policy administration, a sample of policies in-force were reviewed for compliance with Tenn. Code Ann. § 56-8-104(7) and Tenn. Comp. R. & Regs. 0780-01-34. No issues were noted.

A sample of canceled and non-renewed policies was reviewed for timely notification and compliance with Tenn. Code Ann. § 56-8-104(7) and Tenn. Comp. R. & Regs. 0780-01-34. No issues were noted.

During the review of the Company's rates and forms, it was noted that the Company could not provide documentation showing that its current rates and forms had been filed with the Department in accordance with Tenn. Code Ann. § 56-5-105(a), which requires every insurer of personal risk insurance to file with the Commissioner all rates, supplementary rate information, policy forms, and endorsements, at least thirty (30) days before the proposed effective date. See the "Comments and Recommendations" section in this report.

Producer Licensing Standards

Tenn. Code Ann. § 56-6-115 requires the Company to sell its products and services through producers who are properly licensed and appointed by the Company. The Company producer's state-issued license and appointment information was reviewed during the examination for compliance with Tenn. Code Ann. § 56-6-115. No issues were noted.

Marketing and Sales Standards

The Company does not distribute any advertising material. Instead, the Company's reputation and products are communicated to potential members by the Board and the Company's agent via word of mouth.

Policyholder Services Standards

The Company's timeliness of policy issuance, premium billing, response to policyholder requests, provision of adequate disclosures, and compliance with applicable statutes and rules were examined. The Company was found to be in compliance with the relevant market conduct standards.

Claims Handling Standards

A sample of claims was reviewed for unfair claims practices defined by Tenn. Code Ann. § 56-8-105. Testing included timeliness of contact and resolution, adequacy of claims documentation, and claims handling procedures. In conducting the examination, random samples were selected from the claims. During the review of the Company's claims files, it was noted that a lack of documentation prevented testing for compliance with Tenn. Code Ann. § 56-8-105(2), (3), and (4). Due to this lack of documentation in the claims files, the Company is not in compliance with Tenn. Code Ann. §§ 56-8-104(10) and 56-8-105(2), (3), and (4). See the "Comments and Recommendations" section in this report.

During the review of the Company's denied claims, it was noted that the Company is not keeping records of any denied claims. This is not in compliance with Tenn. Code Ann. § 56-8-104(10), which requires an insurer to maintain its books, records, documents, and other business records in such an order that data regarding claims, rating, underwriting, and marketing are accessible and retrievable for examination by the insurance Commissioner. See the "Comments and Recommendations" section in this report.

Complaint Handling Standards

The Company's complaint handling practices were reviewed for compliance with Tenn. Code Ann. § 56-8-104(11). During this review, it was noted that the Company does not maintain records of the complaints it receives, which does not comply with Tenn. Code Ann. § 56-8-104(11). Tenn. Code Ann. § 56-8-104(11) requires the Company to maintain a complete record of all of the complaints it receives. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint. See the "Compliance with Previous Examination Findings" and "Comments and Recommendations" sections in this report.

SUBSEQUENT EVENTS

During the review of the Company's 2022 Board meeting minutes, it was noted that the Company's Board did not review or approve its investments. This is not in compliance with Tenn. Code Ann. § 56-3-408(b)(1) which states: "No investment or loan, except premium finance loans, shall be made by any insurance company unless the investment or loan has first been authorized by the board of directors or by a committee appointed by the board of directors and charged with the duty of supervising the investment or loan." See the "Comments and Recommendations" section in this report.

During the review of the Company's 2022 Board meeting minutes, it was noted that the Company's Board only had five (5) directors for the majority of 2022. This is not in compliance with the Bylaws, which requires there be at least six (6) directors. See the "Comments and Recommendations" section in this report.

Management stated in its Letter of Representation that they were unaware of any events subsequent to December 31, 2021, that could have a material effect on the Company's financial condition.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income, as of December 31, 2021, together with a reconciliation of policyholders' surplus for the period under review, as reported by the Company in its 2021 Annual Statement:

	<u>ASSETS</u>		
	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds, and Long-term Certificate of Deposits	\$643,438		\$643,438
Properties occupied by the Company	126,176		126,176
Cash and cash equivalents	299,972		299,972
Premium receivables and agents' balances	<u>40,480</u>		<u>40,480</u>
Total Admitted Assets	<u>\$1,110,066</u>	<u>\$0</u>	<u>\$1,110,066</u>

LIABILITIES AND POLICYHOLDERS' SURPLUS

Unearned premiums	\$234,893
Advance premiums	7,982
Accounts payable and accrued expenses payable	<u>15,148</u>
 Total liabilities	 258,023
 Policyholders' surplus	 <u>852,043</u>
 Total Liabilities and Policyholders' Surplus	 <u>\$1,110,066</u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Net premiums and assessments earned \$304,409

DEDUCTIONS

Net Losses incurred 153,082

Loss expenses incurred including claims adjustment
expenses 0

Commissions and brokerage 0

Salaries and related items 91,648

Director fees 8,596

Advertising and subscriptions 1,583

Board, bureaus, and association dues 5,439

Employee relations and welfare 266

Insurance and fidelity bonds 20,958

Travel and Insurance Items 7,116

Equipment 6,533

Postage, telephone, and telegraph 4,530

Legal and auditing fees 25,000

Taxes, licenses, and fees 5,757

Real estate expenses and repairs 9,277

Aggregate write-ins for underwriting expenses 1,957

Total underwriting expenses incurred 188,660

Total underwriting deductions 341,742

Net underwriting gain (loss) (37,333)

INVESTMENT INCOME

Net investment income earned 16,728

Net investment gain (loss) 16,728

OTHER INCOME

Aggregate write-ins for miscellaneous income 1,183

Total other income 1,183

Net income after dividends to policyholders and before
federal income taxes (19,422)

Net Income (loss) **(\$19,422)**

POLICYHOLDERS' SURPLUS ACCOUNT

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Policyholders' Surplus					
December 31, previous year	<u>\$759,471</u>	<u>\$815,302</u>	<u>\$628,914</u>	<u>\$865,942</u>	<u>\$994,320</u>
Net income or (loss)	(19,422)	(51,243)	217,293	(181,461)	(111,222)
Change in non-admitted assets from prior year	0	(4,588)	(30,905)	(55,567)	(2,847)
Aggregate write-ins for gains and losses in surplus	<u>111,994</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(14,390)</u>
Policyholders' Surplus					
December 31, current year	<u>\$852,043</u>	<u>\$759,471</u>	<u>\$815,302</u>	<u>\$628,914</u>	<u>\$865,942*</u>

*The Company's Policyholders' Surplus Account for 2017 totaled \$865,861. Instead, the Company's reported Policyholders' Surplus was \$865,942, an immaterial difference of \$81.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus

\$852,043

Total policyholders' surplus, as established by this examination, is the same as what was reported by the Company in its 2021 Annual Statement. There were no changes made to any asset or liability item as a result of the examination performed as of December 31, 2021.

COMMENTS AND RECOMMENDATIONS

Comments

1. As noted in the "Compliance with Previous Examination Findings" and "Management and Control" sections of this report, the Company does not require conflict of interest or possible conflicts of interest to be disclosed by its directors, officers, or employees.

As a good business practice and to evidence compliance with Tenn. Code Ann. § 56-3-103, the Company is advised to require annual disclosures of conflicts or potential conflicts of interest.

2. As noted in the "Compliance with Previous Examination Findings" and "Management and Control" sections of this report, the Company did not elect one-third (1/3) of its directors annually. The Company's Bylaws require the Company to elect one-third (1/3) of its directors annually.

It is suggested that the Company comply with its Bylaws.

3. As noted in the "Management and Control" section of this report, the Company did not elect a Manager as required by its Bylaws during the examination period.

The Company has addressed this issue by appointing Wendell Wilburn as Manager in 2023.

4. As noted in the "Market Conduct" section of this report, some of the Company's applications lacked a fraud warning statement, which is required by Tenn. Code Ann. § 56-53-111(b)(1)(A).

The Company has added a fraud statement that meets the requirements of Tenn. Code Ann. § 56-53-111(b)(1)(A) to its applications.

5. As noted in the “Subsequent Events” section of this report, the Company’s Board only had five (5) directors for the majority of 2022. This is not in compliance with the Bylaws, which requires there be at least six (6) directors.

The Company has addressed this by electing its agent, Wendell Wilburn, as a director in 2023.

Recommendations

1. As noted in the “Management and Control” and “Subsequent Events” sections of this report, no evidence of the Board’s approval of the Company’s investments or investment transactions was provided for the examination period and 2022. This is not in compliance with Tenn. Code Ann. § 56-3-408(b)(1).

It is recommended that the Company comply with Tenn. Code Ann. § 56-3-408(b)(1).

2. As noted in the “Compliance with Previous Examination Findings” and “Management and Control” sections of this report, there was no record of the Board approving the amended custodial agreement, which is not in compliance with Tenn. Comp. R. & Regs. 0780-01-46-.02(2).

It is recommended that the Company comply with Tenn. Comp. R. & Regs. 0780-01-46-.02(2).

3. As noted in the “Management and Control” section of this report, the Company did not maintain meeting minutes for the Finance Committee meetings. This is not in compliance with Tenn. Code Ann. § 48-66-101(a).

It is recommended that the Company comply with Tenn. Code Ann. § 48-66-101(a).

4. As noted in the “Accounts and Records” section of this report, the Company was not correctly non-admitting real estate in excess of investments permitted under Tenn. Code Ann. § 56-3-405(1).

It is recommended that the Company comply with Tenn. Code Ann. § 56-3-405(1).

5. As noted in the “Accounts and Records” section of this report, during the review of the Company’s 2021 Annual Statement, there were numerous issues of non-compliance with the Instructions and Tenn. Code Ann. § 56-22-109.

It is recommended that the Company comply with the Instructions and Tenn. Code Ann. § 56-22-109.

6. As noted in the “Accounts and Records” section of this report, the Company was not correctly accounting for unclaimed property during the examination period. This is not in compliance with Tenn. Comp. R. & Regs. 1700-02-01 and Tenn. Code Ann. § 66-29-101, *et seq.*

It is recommended that the Company comply with Tenn. Comp. R. & Regs. 1700-02-01 and Tenn. Code Ann. § 66-29-101, *et seq.*

7. As noted in the “Accounts and Records” section of this report, the Company included loss adjustment expenses within claims expenses, which is not in compliance with SSAP No. 55 paragraph 6(c), the Instructions, and Tenn. Code Ann. § 56-22-109.

It is recommended that the Company comply with SSAP No. 55 paragraph 6(c), the Instructions, and Tenn. Code Ann. § 56-22-109.

8. As noted in the “Market Conduct” section of this report, the Company could not provide documentation evidencing that its current rates and forms had been filed with the Department in accordance with Tenn. Code Ann. § 56-5-105(a).

It is recommended that the Company file its rates and forms in accordance with Tenn. Code Ann. § 56-5-105(a).

9. As noted in the “Market Conduct” section of this report, due to a lack of claims documentation, it was not possible to test for compliance with Tenn. Code Ann. §§ 56-8-104(10) and 56-8-105(2), (3), and (4).

It is recommended that the Company comply with Tenn. Code Ann. §§ 56-8-104(10) and 56-8-105(2), (3), and (4).

10. As noted in the “Market Conduct” section of this report, the Company is not maintaining records of denied claims, which is not in compliance with Tenn. Code Ann. § 56-8-104(10).

It is recommended that the Company comply with Tenn. Code Ann. § 56-8-104(10).

11. As noted in the “Compliance with Previous Examination Findings” and “Market Conduct” sections of this report, the Company is not maintaining records of all of the complaints it receives in accordance with Tenn. Code Ann. § 56-8-104(11).

It is recommended that the Company comply with Tenn. Code Ann. § 56-8-104(11).

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 Farmers Mutual Insurance Company of Giles County.

In such manner, it was found that as of December 31, 2021, the Company had admitted assets of \$1,110,066, and liabilities, exclusive of policyholders' surplus, of \$258,023. Thus, there existed for the additional protection of the policyholders, the amount of \$852,043 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, 2021, the Company maintains surplus sufficient to satisfy that requirement.

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, Jay Uselton, CFE, Supervising Examiner, from the State of Tennessee, participated in the work of this examination.

Respectfully submitted,



Dustin Rice
Examiner-in-Charge
Tennessee Department of Commerce and Insurance

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Farmers Mutual Insurance Company of Giles County located in Pulaski, Tennessee, dated April 5, 2023, and made as of December 31, 2021, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.



Dustin Rice
Examiner-in-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 9th day of June, 2023



(NOTARY)

My Commission Expires: March 15, 2023



EXHIBIT B

FARMERS MUTUAL INSURANCE COMPANY OF GILES COUNTY
"A COUNTY MUTUAL INSURANCE COMPANY"

P.O. BOX 732
PULASKI, TN 38478
931-363-1322
FAX: 931-363-1332
e-mail: farmersmutu35957@bellsouth.net

June 12, 2023

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 – Farmers Mutual Insurance Company of Giles County

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Farmers Mutual Insurance Company of Giles County, made as of December 31, 2021.

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

Sincerely, 