



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF
FARMERS MUTUAL OF TENNESSEE
KNOXVILLE, TENNESSEE

AS OF
DECEMBER 31, 2021

TABLE OF CONTENTS

Introduction	1
Scope of Examination	1
Compliance with Previous Examination Findings	3
Company History	4
Management and Control	5
Management	5
Control	6
Organizational Chart	7
Dividends	7
Corporate Records	7
Agreements with Affiliates	8
Territory and Plan of Operation	9
Growth of Company	10
Loss Experience	10
Reinsurance Agreements	11
Accounts and Records	14
Market Conduct Activities	14
Subsequent Events	17
Financial Statements	19
Assets	19
Liabilities, Surplus, and Other Funds	20
Statement of Income	21
Capital and Surplus Account	22
Analysis of Changes in Financial Statements	23
Comments and Recommendations	23
Conclusion	27
Affidavit	28
Affidavit	29

Knoxville, Tennessee
May 26, 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.”) § 56-1-408, 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 OF TENNESSEE

NAIC # 30651

837 North Hall of Fame Drive
Knoxville Tennessee 37917

hereinafter referred to as the “Company” or “FMT” 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. This examination was called through the National Association of Insurance Commissioners (NAIC) Financial Examination Electronic Tracking System (FEETS).

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2016. This examination covers the period January 1, 2017, through December 31, 2021, and includes any material transactions and/or events occurring subsequent to the examination date.

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 NAIC in the *Financial Condition Examiners Handbook* (“Handbook”), as deemed appropriate. The examination was planned and performed to evaluate the financial condition of the Company, as of December 31, 2021. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management’s compliance with statutory accounting principles and annual statement instructions.

All significant risks were considered when planning which key activities and accounts would be examined. The key activities included: Investments; Reinsurance Assumed; Reinsurance Ceded; Reserves/Claims Handling; Underwriting/Premium; and Capital and Surplus.

The Company’s 2021 Annual Statement was compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology general controls (ITGC) was conducted and reviewed as part of this examination. The examination included a review of the following controls: management and organizational; logical and physical security; system and program development; contingency planning; service provider; operations; processing; e-commerce; and network and internet.

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

The Company does not have an Internal Audit (IA) Department.

The TDCI relied upon the work of the examination actuary for the review of the Company's loss reserves. Independent reinsurance and investment specialist services were not deemed necessary.

The Company’s certified public accountant (CPA) workpapers were reviewed for the 2021 audit and copies were incorporated into the examination, as deemed appropriate.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

The previous full-scope examination report dated June 6, 2018, which covered the period from January 1, 2012, through December 31, 2016, contained the following four (4) recommendations:

Recommendations

1. The Board of Directors (“Board”) or a committee did not approve all of the Company’s investment transactions as required by Tenn. Code Ann. § 56-3-408(b)(1). The Company has not corrected this previous recommendation during this examination period. See the “Management and Control” and “Comments and Recommendations” sections of this report.
2. The Company’s liability insurance coverage is sold by several county mutual insurers (“county mutuals”) to the county mutuals’ policyholders. The county mutual is listed as the producer on these liability policies. However, not all county mutuals have obtained a producer’s license, which is a violation of Tenn. Code Ann. § 56-6-106(b). Therefore, this issue has not been completely remediated. See the “Comments and Recommendations” section in this report.

The payment of commissions to an unlicensed producer is a violation of Tenn. Code Ann. § 56-6-113(b). See the “Comments and Recommendations” section in this report.
3. The Company has mutual fund investments held by Vanguard. Vanguard is a broker/dealer and qualifies as a custodian; however, there is no custodial agreement between Vanguard and the Company that meets the requirements of Tennessee Compilation of Rules and Regulations (“Tenn. Comp. R. & Reg.”) 0780-01-46-.02. The Company has not corrected this previous recommendation during this examination period. See the “Comments and Recommendations” section in this report.
4. The Company should record all complaints on its complaint register, whether received directly from the insured or from the TDCI, in compliance with Tenn. Code Ann. § 56-8-104(11). The Company has added omitted state complaints to its complaint log, but they have not added the detail required by statute. See the “Comments and Recommendations” section in this report.

COMPANY HISTORY

The Company was incorporated on June 19, 1913, and commenced business on July 12, 1913, under the statutes of the State of Tennessee, as Farmers Mutual Fire Insurance Company of Knox County, Tennessee. On May 17, 1973, the Charter of Incorporation of the Farmers Mutual Fire Insurance Company of Tennessee was certified by the Secretary of State of Tennessee. The TDCI issued a Certificate of Authority (COA) on May 18, 1973, which authorized the Company to commence the business of insurance as a state mutual fire insurance company.

At the close of business on June 30, 1973, the Company reinsured the unearned premiums and all liabilities and assumed title to all assets of the Farmers Mutual Fire Insurance Company of Knox County. The Company began operations on July 1, 1973, and filed a financial statement as of the same date.

By Order dated October 1991, the Company converted from a state mutual fire insurance company under Title 56, Chapter 21 of the Tenn. Code Ann., to a mutual insurance company under Title 56, Chapter 19 of the Tenn. Code Ann. An amended and restated Charter was approved by the TDCI December 20, 1991, and subsequently filed with the Secretary of State and with the Register of Deeds, Knox County, Tennessee in June 1992. The amended Charter changed the name of the Company to Farmers Mutual of Tennessee and noted that FMT was the successor to and assumed all assets and liabilities of the Farmers Mutual Fire Insurance Company of Tennessee. A COA, with an effective date of June 10, 1992, was issued by the TDCI on July 23, 1992.

The Company has acquired several county mutuals through merger in the intervening years.

As of December 31, 2021, the Company was licensed only in the State of Tennessee.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in a Board elected annually. In accordance with the Bylaws, the Board shall consist of not less than six (6) nor more than eleven (11) directors. At least three (3) of the directors must be members of the Company. A “member” is defined in the Bylaws as a person or organization who maintains an insurance policy with the Company. Directors are elected by members during the annual members’ meeting.

A majority of directors constitutes a quorum. Directors serve until the next annual meeting of the members and thereafter until a successor has been elected.

The following persons were listed as directors on the 2021 Annual Statement jurat page as of December 31, 2021:

<u>Director</u>	<u>Occupation</u>
Alexander K. Akard	Bank executive
William K. Dunn	Marketing Consultant
Douglas R. Elkins	Business Manager, Sales Representative
Mark J. Ellsworth	CPA, Business Consultant, Nebraska
Wesley R. Gainey	President FMT
William B. Oldham, III	Insurance Agent
James L. Spitzer	Retired, Manager Utilities Board
Rufus B. (“Gordo”) Watson	Insurance Agent; Chairman of the Board, FMT

Officers

The Bylaws provide that the officers of the Company shall consist of a President, a Secretary, a Treasurer, and such Vice Presidents, Assistant Secretaries, Assistant Treasurers, and other officers as the Board may from time to time elect. Two (2) or more offices may be held by the same person except for President and Vice President, and President and Secretary.

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

<u>Company Officers</u>	<u>Title</u>
Rufus B. (“Gordo”) Watson	Chairman of the Board
Wesley R. Gainey	President
James L. Spitzer	Treasurer
William K. Dunn	Secretary

Committees

The Bylaws provide for two (2) mandatory committees of the Board: Executive Committee and Nominating Committee. The Board may appoint other committees as necessary.

The following directors were serving as of December 31, 2021:

Executive Committee

William K. Dunn, Chairman
James L. Spitzer
Wesley R. Gainey

Nominating Committee

William K. Dunn
James L. Spitzer
Douglas R. Elkins

Other committees of the Board included:

Investment Committee

Alexander K. Akard
Mark J. Ellsworth
Wesley R. Gainey
James L. Spitzer
Rufus B. Watson

Governance Committee

William K. Dunn
Douglas R. Elkins
Wesley R. Gainey
Rufus B. Watkins

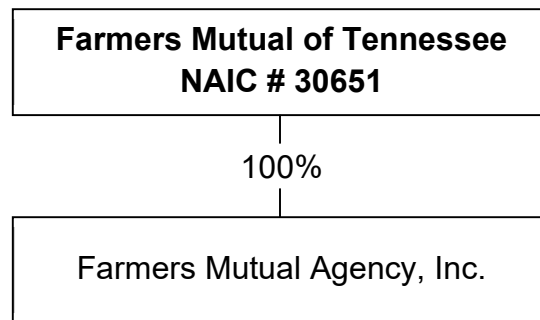
CONTROL

The Company is a mutual company and as such, is owned by its policyholders (members). The Company owns one hundred percent (100%) of Farmers Mutual Agency (FMA), a Tennessee corporation. FMA was created to provide the Company's agents and policyholders access to products not offered on a direct basis.

Conflicts of 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. It was noted that not all directors completed conflict of interest affidavits for each year. Requiring the annual completion of conflict of interest disclosure forms help document the Company's compliance with Tenn. Code Ann. § 56-3-103. It is suggested that the Company's practice for monitoring conflicts of interest include disclosure by all officers, directors, and responsible employees. See the "Comments and Recommendations" section of this report.

ORGANIZATIONAL CHART



DIVIDENDS

During the period of examination, the Company did not declare nor pay any dividends.

CORPORATE RECORDS

Board and committee meeting minutes were noted to be incomplete for the period 2017-2022. Minutes of annual members' meetings were not available for review for the period of 2017-2022. Tenn. Code Ann. § 48-26-101 reads: "A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation." The Company should ensure that corporate records are maintained in accordance with Tenn. Code Ann. § 48-26-101. See the "Comments and Recommendations" section in this report.

The available minutes of meetings of the Company's Board and committees for the period under examination were reviewed. The review noted that investment transactions are not approved by the Board or by a committee of the Board, as required by Tenn. Code Ann. § 56-3-408(b)(1). This issue was noted in the previous examination. See the "Compliance with Previous Examination Findings" and the "Comments and Recommendations" sections of this report.

The Company did not document a review by the Board of the actuarial opinion or a review of the booked reserve. This is a violation of Tenn. Code Ann. § 56-1-501(b), which requires the Company's annual statement be completed and filed in accordance with the NAIC *Annual Statement Filing Instructions* ("Instructions"). The Instructions require the Appointed Actuary to report to the Board or to the Audit Committee each year on the items within the scope of the Actuarial Opinion. The Company should ensure that the Appointed Actuary present the Actuarial Opinion and Actuarial Report to the Board through a formal

presentation, as required in the NAIC Instructions. See the “Comments and Recommendations” section in this report.

There were no changes to the Company’s Charter during the examination period. Subsequent to the examination, the Charter was restated and adopted by the Board and members in March 2022. See the “Subsequent Events” section of this report.

There were no changes made to the Bylaws during the examination period. The Bylaws were subsequently revised, on August 12, 2022. See the “Subsequent Events” section of this report.

AGREEMENTS WITH AFFILIATES

The Company had the following significant agreement with its subsidiary in effect, as of December 31, 2021:

Services Agreement

The Company is a party to a Services Agreement, dated August 1, 1997, with FMA. Under the terms of the agreement, the Company provides all office space, office equipment, supplies, clerical help, and other support services to FMA. As consideration for these services, FMA agrees to pay the Company a forty and four tenths percent (40.4%) pro-rata share of the expenses incurred by the Company in providing these services. Additionally, the Company provides payroll and accounting services for FMA, which are required for the payment of agents' commissions. FMA reimburses the Company one hundred percent (100%) of all such payroll expenses, including payroll taxes. The agreement was approved by the TDCI.

TERRITORY AND PLAN OF OPERATION

TERRITORY

The Company is licensed to transact business only in the State of Tennessee. The COA granted by Tennessee was reviewed and found to be in force on December 31, 2021.

Premium tax records were reviewed for Tennessee and no exceptions were noted.

PLAN OF OPERATION

The Company writes fire, allied lines, farmowners multiple peril, homeowners multiple peril, commercial multiple peril, other liability, and burglary and theft coverages.

During the examination period, the Company developed by-peril products and increased rating territories from one (1) to eleven (11) statewide.

The Company issues only non-assessable policies. New policies, policy endorsements, and renewals were direct billed. Dividends may be paid to policyholders from unassigned surplus; however, no dividends were paid during the period under examination.

The Company has its own marketing division located at its home office in Knoxville, Tennessee. The Company markets its insurance products through FMA, as well as through independent agents.

In addition to the Company's traditional marketing approach, approximately fifteen (15) Tennessee county mutuals write liability insurance through the Company as a service to the policyholders who wish to obtain such coverage on properties insured by the county mutuals.

As noted in the "Compliance with Previous Examination Findings" section of this report, the Company listed some county mutuals as producers. However, not all county mutuals were licensed as producers, as required by Tenn. Code Ann. § 56-6-106. Further, the Company paid commissions to the county mutuals on the liability policies sold. Tenn. Code Ann. § 56-6-113(a) states "An insurer or insurance producer shall not pay a commission, service fee, brokerage fee 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 only pay commissions to duly licensed producers. See the "Market Conduct Activities" and "Comments and Recommendations" sections in this report.

During the period under review and through the date of this report, all underwriting and pricing was performed in the Company's home office. The adjustment of claims is handled by Company employees and independent adjusters.

Subsequent to the examination period, the Company became aware of a rate implementation error. See the "Subsequent Events" and the "Comments and Recommendation" sections of this report.

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 as filed with the TDCI:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Premiums Earned</u>	<u>Net Income (Loss)</u>
2021	\$24,891,879	\$11,107,740	\$13,784,139	\$12,423,277	(\$1,167,307)
2020	\$24,901,809	\$10,236,131	\$14,665,678	\$12,148,287	\$300,531
2019	\$24,201,958	\$10,226,155	\$13,975,803	\$12,004,867	\$1,156,402
2018	\$22,868,130	\$9,679,239	\$13,188,891	\$11,426,125	(\$230,592)
2017	\$22,560,506	\$9,112,055	\$13,448,451	\$11,344,938	(\$594,508)

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements, the ratios of losses and loss adjustment expenses (LAE) incurred to earned premiums, for the period subject to this examination were as follows:

<u>Year</u>	<u>Premiums Earned</u>	<u>Total Losses and Loss Adjustment Expenses</u>	<u>Total Underwriting Expenses</u>	<u>Combined Ratio</u>
2021	\$12,423,277	\$9,514,119	\$4,802,460	113.65%
2020	\$12,148,287	\$7,902,579	\$4,395,564	100.59%
2019	\$12,004,867	\$6,134,285	\$5,009,546	91.79%
2018	\$11,426,125	\$7,121,975	\$4,757,687	102.84%
2017	\$11,344,938	\$7,686,283	\$4,534,357	107.11%

REINSURANCE AGREEMENTS

Assumed Reinsurance

NAMIC Reinsurance Facility – NAMIC member companies

The National Association of Mutual Insurance Companies “NAMIC” is a Trade organization serving the interests of more than 1,500 member companies. The Company became a member of NAMIC in October 1987. As a condition of obtaining and maintaining insurance through the NAMIC Insurance Company, Inc. program for directors and officers or insurance company professional liability exposures, any NAMIC member insurance company with legal authority to reinsure the Company for general liability exposures (including Section 2 of multi-peril policies) is required to reinsure the Company. The Company assumes a stated pool percentage established annually. For 2021, the Company’s pool percentage was approximately twenty-nine hundredths of one percent (0.29169%).

County Mutual program

The Company assumes proportional and excess property reinsurance from certain Tennessee county mutuals. Reinsurance assumed is based on the respective participating county mutuals’ selected levels. The program includes property excess of loss, and three (3) layers of aggregate excess of loss.

Facultative Excess of Loss

The Company offers an additional \$100,000 excess of loss coverage to the county mutuals on a facultative basis. For 2021, three (3) county mutuals had placed facultative coverage with the Company. There are no formal reinsurance agreements. To document the Company’s business practices, it is suggested that the Company formalize all of its reinsurance agreements in writing and execute with all parties. See the “Comments and Recommendations” section in this report.

Ceded Reinsurance

County Mutual Excess of Loss and Aggregate Excess of Loss

Under the reinsurance contract effective January 1, 2014, and amended effective January 1, 2021, the Company cedes to Farmers Mutual Hail Insurance Company of Iowa (“Farmers Mutual Hail”), an authorized insurer, property reinsurance assumed from Tennessee county mutual fire insurance companies, and such business is limited to personal lines business classified as homeowners, fire, extended coverage, and allied lines as follows:

	<u>Ceded</u>	<u>Retained</u>
Property Excess of Loss and First Aggregate	50%	50%
Second and Third Aggregate	75%	25%

Multiple Layer Excess of Loss

The Company cedes excess of loss on direct business written as follows: fifty percent (50%) to Farmers Mutual Hail and fifty percent (50%) to Renaissance Reinsurance U.S., Inc., both authorized insurers. Effective January 1, 2021, reinsurance is triggered when the loss ratio exceeds sixty percent (60%). Reinsurance coverage is on an excess of loss basis.

Combination Catastrophe and Aggregate Excess of Loss Reinsurance Contract

Effective January 1, 2021, the Company cedes catastrophe liability with a trigger of at least two (2) risks under one (1) loss occurrence. This agreement covers business written directly by the Company.

The reinsurance is placed through underwriting members of Lloyds, Odyssey Reinsurance Company, Peak Reinsurance Company, Ltd., and Taiping Reinsurance Company, Ltd., and is one hundred percent (100%) placed.

Property Facultative Agreement

Effective November 1, 2021, Facultative Cover for property risks in excess of \$600,000 for each risk and limited to \$1,000,000 for each risk is ceded to General Reinsurance Corporation, an authorized insurer. This coverage allows the Company to write property coverage with a total insured value of more than \$600,000.

Umbrella Liability

Effective June 1, 2019, the Company cedes to General Reinsurance Corporation, an authorized insurer, excess liability coverage of up to \$1,000,000 written directly by the Company. The Company retains five percent (5%) of the excess liability coverage written,

and the reinsurer's limit is ninety-five percent (95%) of the excess liability coverage written up to \$1,000,000, each occurrence.

Home Field Advantage Program Multi-Line Reinsurance Agreement

Effective January 1, 2019, the Company cedes to Hartford Steam Boiler Inspection and Insurance Company (HSB), an authorized insurer, a one hundred percent (100%) quota share liability for certain HSB branded products issued by the Company.

The reinsurer processes and pays all losses and loss adjustment expenses on this business.

Reinsurance Intermediaries

Mutual Underwriters, LLC acts as reinsurance intermediary broker on behalf of the Company's agreements with General Reinsurance Corporation. The Company does not have a reinsurance intermediary agreement with the Mutual Underwriters, as required by Tenn. Code Ann. § 56-6-804.

Acrisure Re US Ltd., acts as the reinsurance intermediary on behalf of the Company's agreements for its Multiple Line Excess of Loss and Aggregate Contract. The Company does not have a reinsurance intermediary agreement with the Acrisure Re US Ltd., as required by Tenn. Code Ann. § 56-6-804.

It is recommended that the Company ensure compliance with the reinsurance intermediary requirements of Tenn. Code Ann. § 56-6-804. See the "Comments and Recommendations" section of this report.

Managing General Agent

The Company is party to an agreement appointing Mutual Underwriters, LLC as Managing General Agent (MGA) for the Company. The agreement does not meet the requirements of Tenn. Code Ann. §§ 56-6-504 and 56-6-505. It is recommended that managing general agent agreements comply with the requirements of Tenn. Code Ann. §§ 56-6-504 and 56-6-505. See the "Comments and Recommendations" section of this report.

Other Considerations

All the Company's financially significant reinsurance agreements were reviewed during the examination and found to contain such language as recommended by the NAIC and as required for reinsurance credit by Tenn. Code Ann. § 56-2-207(a)(2). All formal reinsurance agreements appear to effectuate the proper transfer of risk in accordance with Statement of Statutory Accounting Principles (SSAP) No. 62 and NAIC guidelines.

ACCOUNTS AND RECORDS

During the examination, certain balances were tested, and amounts were traced from the Company's trial balance to the 2021 Annual Statement. Annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed. These test checks and reviews revealed no material discrepancies.

The Company's investment securities were confirmed with the custodian of such securities as of the date of this examination, except as noted for the Vanguard Group below.

The account agreement with the Vanguard Group does not meet the requirements for a custodial agreement, as required under Tenn. Comp. R. & Regs. 0780-01-46-.02. The Vanguard Brokerage Account was not confirmed, and alternative examination procedures were utilized for the examination to determine the account balance. The Company should ensure compliance with the custodial agreement requirements of Tenn. Comp. R. & Regs. 0780-01-46-.02. See the "Comments and Recommendations" section of this report.

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

MARKET CONDUCT ACTIVITIES

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

Operations and Management Standards

The Company's antifraud initiatives were examined to determine if the initiatives are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts. The Company has an antifraud plan, which contains procedures designed to detect and investigate potentially fraudulent activity. The procedures were examined to ensure that they included proper guidance for employees. As a result of the examination, no issues or concerns were identified.

Company procedures and policies relating to privacy were reviewed to determine compliance with Tenn. Code Ann. § 56-8-104(19). The Company's privacy policy did not address privacy notices to consumers who are not customers, as recommended in Tenn. Comp. R. & Regs. Section 0780-01-72-.05. During the course of this examination, the Company revised the privacy policy in use to include customers and consumers. See the "Comments and Recommendations" section of this report.

Complaint Handling Standards

The Company maintains a complaint register, pursuant to Tenn. Code Ann. § 56-8-104(11). The Company's complaint procedures and complaint register were examined in accordance with the requirements of Tenn. Code Ann. § 56-8-104(11) and the NAIC *Market Regulation Handbook* ("Market Handbook").

The Company's complaint log did not include sufficient details of the complaint and resolution (i.e., classification by line of insurance, nature of each complaint, and the disposition of each complaint), as required by Tenn. Code Ann. § 56-8-104(11). The register and the accompanying files are maintained for a minimum of five (5) years.

It is recommended that the Company's complaint log include sufficient details of the complaint and its resolution, as required by Tenn. Code Ann. § 56-8-104(11). See the "Comments and Recommendations" section of this report.

Marketing and Sales Standards

The Company utilizes the following forms of advertising: billboards, community event sponsorships, digital advertising, direct mail postcards, radio/cable commercials, print advertising in daily, weekly, monthly, or quarterly publications, and product specific brochures. A sample of the Company's advertising materials was reviewed and found to be in accordance with Tenn. Code Ann. § 56-8-104(1) and the Market Handbook.

Producer Licensing Standards

Title 56, Chapter 21 of the Tenn. Code Ann. requires the Company to sell its products and services through producers who are properly licensed and appointed by the Company. In the examination of producer licensing, a comparison was made of the Company's producers utilized during the examination period to the TDCI listing of appointed producers. In the sample reviewed of 2021 new business written, it was noted that some policies were written by unappointed producers.

The Company was also found to have paid commissions during 2021 to producers, where the producer was not appointed and had reported no associated agents. All producers representing the Company should be licensed and appointed, as required by Tenn. Code Ann. §§ 56-6-103 and 56-6-115(a).

The Company paid commissions to some county mutuals that do not hold an insurance producer's license, in violation of Tenn. Code Ann. § 56-6-113(a). The Company should ensure that commissions are only paid to properly licensed producers to be in compliance with Tenn. Code Ann. §§ 56-6-106 and 56-6-113(a).

See the “Plan of Operations” and “Comments and Recommendations” sections of this report.

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.

Underwriting and Rating Standards

In the examination of the Company’s underwriting procedures and policy administration, policy files for open and closed policies were reviewed in accordance with Tenn. Code Ann. § 56-8-104, Tenn. Comp. R. & Regs. 0780-01-34, and established Company guidelines. In the examination of these contracts, there were no instances of unfair methods of competition, or unfair or deceptive acts found.

The examiners reviewed a sample of the policy forms that were used by the Company during the period of examination. All forms were noted, without exception, as having been filed with the TDCI prior to use, in accordance with Tenn. Code Ann. § 56-5-105(a). The filings are consistent in form and include appropriate documentation.

Some policy applications could not be located within the BriteCore policy administration system. Tenn. Code Ann. § 56-8-104(10) 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 of this report.

As noted in the “Subsequent Events” and “Comments and Recommendations” sections of this report, the Company disclosed to the Department that they had identified a rate implementation error in 2022.

Claims Handling Standards

The Company’s claims handling practices, efficiency of claims handling, the accuracy of payment, adherence to contract provisions, and compliance with applicable statutes and rules were examined. A sample of claims with benefit payments and claims denied by the Company were reviewed. The Company’s claims were properly documented and handled in accordance with the Company’s policy provisions and applicable statutes and rules. No issues or concerns were identified.

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. Subsequent to the examination period, Farmers Mutual Fire Insurance Company of Union County merged into and with the Company, effective November 30, 2022. On December 9, 2022, McMinn County Farmers Mutual Insurance Company merged into and with the Company.

Subsequent to the examination period, effective March 12, 2022, the Charter was amended as follows:

- Charter Item 3 was amended to change the Registered Agent to Wesley R. Gainey.
- Charter Item 11 was changed to read: “No director may be liable to the Corporation or its members for breach of their fiduciary duty to the Corporation. However, this provision shall not absolve a director from a breach of their duty of loyalty, for acts or omissions not in good faith or which involved intentional misconduct or a knowing violation of the law or for distributions in violation of Tenn. Code Ann. § 48-58-304.” (This code provision was repealed January 1, 2015.)

Subsequent to the examination period, effective March 12, 2022, the Bylaws were amended as follows:

- Article II, Section 2: The date of the annual meeting was changed from the second Saturday in March to the second Thursday in June of each year.
- Article III, Section 5: The annual meeting notice was changed from written notice by United States mail to permit delivery by electronic mail.
- A Revocable Proxy Authorization was approved by the Board to be included in renewal notices to members.
- The Board also approved a change to Bylaws Article IV, Section 2 – removing the following sentence that was not included in the Bylaws, as restated March 2016:

"Excepting Directors holding office on January 1, 1997, no person shall be elected or reelected a Director for a term which begins at a date beyond their seventy-fifth birthday."

The minutes of the September 2022 Board meeting disclosed a rate implementation error with respect to the Home Systems Protection and Identity Recovery coverages. The rates charged to the policyholders were higher than the rates filed with the Department. The Company reported this error to the TDCI. At the date of this report, this issue has not been resolved.

Except as noted above, no events required additional disclosure in this examination report. Management stated in its Letter of Representation that they were not aware 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, surplus, and other funds, and a statement of income, as of December 31, 2021, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2021 Annual Statement.

ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$15,558,959	\$0	\$15,558,959
Preferred stocks	450,000	250,000	200,000
Common stocks	2,425,176	115,632	2,309,544
Properties occupied by the Company	1,430,869	0	1,430,869
Properties held for sale	10,250	10,250	0
Cash and cash equivalents	2,164,420	0	2,164,420
Mutual Underwriters – Prepaid	<u>50,000</u>	<u>50,000</u>	<u>0</u>
Subtotals – Cash, and invested assets	22,089,674	425,882	21,663,792
Investment income due or accrued	91,570	0	91,570
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	304,449	12,650	291,799
Deferred premiums and agent's balances and installments booked but deferred and not yet due	1,625,381	0	1,625,381
Reinsurance:			
Amounts recoverable from reinsurers	517,803	0	517,803
Current federal and foreign income tax recoverable and interest thereon	269,510	0	269,510
Net deferred tax asset	421,881	33,782	388,099
Electronic data processing equipment	29,749	0	29,749
Furniture and equipment	64,574	64,574	0
Receivables from parent, subsidiaries, and affiliates	<u>14,176</u>	<u>0</u>	<u>14,176</u>
Totals	<u>\$25,428,767</u>	<u>\$536,888</u>	<u>\$24,891,879</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses		\$2,027,220
Reinsurance payable on paid losses and loss adjustment expenses		79,522
Loss adjustment expenses		252,537
Other expenses		528,316
Taxes, licenses, and fees		40,000
Unearned premiums		7,747,974
Advance premium		259,608
Ceded reinsurance premiums payable		<u>172,563</u>
 Total Liabilities		 11,107,740
 Unassigned funds (surplus)	 <u>\$13,784,139</u>	
 Total Capital and Surplus		 <u>13,784,139</u>
 Total		 <u>\$24,891,879</u>

STATEMENT OF INCOME

Premiums earned		\$12,423,277
Deductions:		
Losses incurred	\$8,753,253	
Loss adjustment expenses incurred	760,866	
Other underwriting expenses incurred	<u>4,802,460</u>	
Total underwriting deductions		<u>14,316,579</u>
Net underwriting gain (loss)		<u>(1,893,302)</u>
Net investment income earned		365,400
Net realized capital gains or (losses)		<u>74,945</u>
Net investment gain		<u>440,345</u>
Net gain (loss) from agents' or premium balances charged off		(5,583)
Aggregate write-ins for miscellaneous income		<u>(3,283)</u>
Total other income		<u>(8,866)</u>
Net income (loss) before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		(1,461,823)
Federal and foreign income taxes		<u>(294,517)</u>
Net income (loss)		<u>(\$1,167,306)</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance as regards policyholders December 31, previous year	\$14,665,677	\$13,975,803	\$13,188,891	\$13,448,451	\$14,090,000
Income or (loss)	(1,167,307)	300,530	1,156,402	(230,592)	(590,000)
Change in net unrealized capital gains or (losses)	224,308	103,908	53,439	(14,205)	300,000
Change in net deferred income tax	13,587	(19,958)	(11,446)	19,657	(110,000)
Change in non-admitted assets	(206,784)	305,394	(411,483)	(34,421)	200,000
Year audit adjustment	485	0	0	0	0
Balance of payroll loan forgiven change in non-admitted to admitted	254,173	0	0	0	0
Ending	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>
Change in capital and surplus for the year	<u>(881,538)</u>	<u>689,874</u>	<u>786,912</u>	<u>(259,560)</u>	<u>(640,000)</u>
Balance as regards policyholders December 31, current year	<u>\$13,784,139</u>	<u>\$14,665,677</u>	<u>\$13,975,803</u>	<u>\$13,188,891</u>	<u>\$13,448,451</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Surplus as regards policyholders

\$13,784,139

Surplus as regards policyholders, as established by this examination, is the same as reported by the Company in its 2021 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2021.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments

1. As noted in the "Management and Control" section of this report, not all of the Company's directors completed conflict of interest affidavits for each year of the examination period. Requiring the annual completion of conflict of interest disclosure forms helps document the Company's compliance with Tenn. Code Ann. § 56-3-103.

As a good business practice and to evidence compliance with Tenn. Code Ann. § 56-3-103, it is suggested that the Company require annual completion of conflict of interest disclosure forms.

2. As noted above in the "Reinsurance Agreements" section of this report, the Company offers facultative reinsurance coverage to several county mutuals. The arrangements have not been formalized with a written agreement. As a "best practice," it is suggested that the Company consider formalizing these agreements by reducing them to writing and execute with all parties.
3. As noted in the "Market Conduct Activities" section of this report, the privacy policy in place as of December 31, 2021, did not address privacy notices to consumers who are not customers, which is required under Tenn. Comp. R. & Regs. 0780-01-72-.05. The Company subsequently developed a revised privacy notice applicable to consumers and customers.
4. As noted in the "Subsequent Events" section of this report, the Company disclosed an error in the implementation of rates dating to 2018. The issue is being addressed with the TDCI.

Recommendations

1. As noted in the “Compliance with Previous Examination Findings” and the “Management and Control” sections of this report, the Board or a committee did not approve all of the Company’s investment transactions, as required by Tenn. Code Ann. § 56-3-408(b)(1).

It is recommended that the Company ensure all investment transactions are properly approved in accordance with Tenn. Code Ann. § 56-3-408(b)(1).

2. As reported in the “Corporate Records” section of this report, the Company’s corporate meeting minutes (member, board, and committee meeting minutes) were noted to be incomplete for the examination period ending December 31, 2021 and subsequently, which is not in compliance with Tenn. Code Ann. § 48-26-101.

It is recommended the Company maintain complete copies of corporate meeting minutes as required under Tenn. Code Ann. § 48-26-101.

3. As noted in the “Corporate Records” section of this report, the Company did not document the Board’s review of the actuarial opinion or review of the booked reserve, which is not in compliance with the NAIC Instructions and Tenn. Code Ann. § 56-1-501(b).

It is recommended that the Company comply with the Instructions and Tenn. Code Ann. § 56-1-501(b).

4. As noted in the “Compliance with Previous Examination Findings”, “Territory and Plan of Operation”, and “Market Conduct Activities” sections of this report, the Company listed some county mutuals as producers that did not hold a producer’s license, in violation of Tenn. Code Ann. § 56-6-106(b).

Additionally, the Company paid commissions to these county mutuals in violation of Tenn. Code Ann. § 56-6-113(a), which prohibits the payment of commissions to an unlicensed producer.

It is recommended that the Company ensure that all producers are properly licensed in accordance with Tenn. Code Ann. § 56-6-106(b), and only pay commissions to producers in accordance with Tenn. Code Ann. § 56-6-113(a).

5. As noted in the “Market Conduct Activities” section of this report, the Company was not in compliance with Tenn. Code Ann. § 56-6-115(a) regarding the

appointment of producers. It was also noted that the Company paid commissions to producers that are not licensed for selling or negotiating insurance, which is a violation of Tenn. Code Ann. § 56-6-113(a).

It is recommended that all producers representing the Company be properly appointed, as required by Tenn. Code Ann. §§ 56-6-103 and 56-6-115(a).

6. As noted in the “Reinsurance Agreements” section of this report, the Company does not have a reinsurance intermediary agreement with the Mutual Underwriters, LLC and Acrisure Re US Ltd., as required by Tenn. Code Ann. § 56-6-804.

It is recommended that the Company ensure compliance with the reinsurance intermediary requirements of Tenn. Code Ann. § 56-6-804.

7. As noted in the “Reinsurance Agreements” section of this report, the agreement between the Company and Mutual Underwriters, LLC does not meet the requirements of Tenn. Code Ann. §§ 56-6-504 and 56-6-505.

It is recommended that any managing general agent agreement comply with the requirements of Tenn. Code Ann. §§ 56-6-504 and 56-6-505.

8. As noted in the “Accounts and Records” section of this report, the Custodial Agreement between the Company and The Vanguard Group does not meet the requirements of Tenn. Comp. R. & Regs. 0780-01-46-.02.

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

9. As noted in the “Compliance with Previous Examination Findings” and the “Market Conduct Activities” sections of this report, the Company’s complaint log did not include sufficient details of the complaint and its resolution, as required by Tenn. Code Ann. § 56-8-104(11).

It is recommended that the Company record the required elements of each complaint, as required by Tenn. Code Ann. § 56-8-104(11).

10. As noted in the “Market Conduct Activities” section of this report, the Company did not maintain copies of all policy applications within its policy administration system. Tenn. Code Ann. § 56-8-104(10) 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.

It is recommended that the Company comply with Tenn. Code Ann. § 56-8-104(10) by ensuring that it maintains its records in a manner accessible and retrievable for examination by the Insurance Commissioner.

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 of Tennessee.

In such a manner, it was found that as of December 31, 2021, the Company had admitted assets of \$24,891,879 and liabilities, exclusive of capital and surplus, of \$11,107,740. Thus, there existed for the additional protection of the policyholders, the amount of \$13,784,139 in the form of unassigned funds (surplus). Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum surplus of \$2,000,000. For this examination, as of December 31, 2021, the Company maintains surplus sufficient to satisfy this 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, Robert Panah, CFE, CISA, MCM, FLMI, Assurity Resources, Inc., and Wesley R. Campbell, FCAS, FSA, MAAA, Apex Actuarial Solutions, LLC participated in the performance of this examination.

Respectfully submitted,



Sarah L. Bridendall, CFE, CISA, CIE,
ALMI, AMCM, ACS, CICSR, AIRC,
CCP, MHP, HCAFA, FAHM, ARA
Examiner-in-Charge
Assurity Resources, Inc.
Representing the State of Tennessee



A. Jay Uselton, CFE
Department Designee
Tennessee Department of Commerce and Insurance

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Farmers Mutual of Tennessee located in Knoxville, Tennessee, dated May 26, 2023, and made as of December 31, 2021, 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.

Sarah L. Bridendall

Sarah L. Bridendall, CFE, CISA, CIE, ALMI, AMCM, ACS, CICSR, AIRC, CCP, MHP, HCAFA, FAHM, ARA
Examiner-in-Charge
Assurity Resources, Inc.
Representing the State of Tennessee

State Tennessee

County Henry

Subscribed to and sworn before me

this 28 day of June, 2023

[Signature]

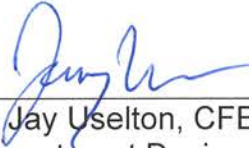
(NOTARY)



My Commission Expires: 12/28/2026

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Farmers Mutual of Tennessee located in Knoxville, Tennessee, dated May 26, 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.



A. Jay Uselton, CFE
Department Designee
State of Tennessee

State of Tennessee

County of Davidson

Subscribed to and sworn before me

this 28th day of June, 2023

Mandy Johnson

(NOTARY)



My Commission Expires: 7/7/2025

EXHIBIT B



P.O. Box 3428 • Knoxville, TN 37927
www.fmtinsurance.com
800.824.9555

June 28, 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 of Tennessee

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Farmers Mutual of Tennessee, made as of December 31, 2021.

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

Sincerely,

A handwritten signature in black ink that reads "Wesley R. Gainey". The signature is written in a cursive style with a large, prominent "W" and "G".

Wesley R. Gainey
President