



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

**REPORT ON EXAMINATION
OF THE
TENNESSEE INSURANCE GUARANTY ASSOCIATION
NASHVILLE, TENNESSEE**

**AS OF
DECEMBER 31, 2021**

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Nashville, Tennessee
March 8, 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.”) § 56-12-113, a full-scope financial examination, as of December 31, 2021, has been made of the condition and affairs of:

TENNESSEE INSURANCE GUARANTY ASSOCIATION
3100 West End Ave #670
Nashville, Tennessee 37203-5805

hereinafter referred to as the “Association” 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 Association 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 Generally Accepted Accounting Principles using

substantive procedures where applicable. The examination also included an assessment of prospective risks faced by the Association, based on information obtained during the course of the examination.

The examination reviewed the Association's business policies and practices, management and corporate matters, and reviewed and evaluated assets, liabilities, and disbursements. In addition, our examination included tests to provide reasonable assurance that the Association 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.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

There were no comments or recommendations noted in the prior examination report as of December 31, 2016.

ASSOCIATION HISTORY

The Association was organized as a not-for-profit unincorporated association pursuant to, and operates in accordance with, the Tennessee Insurance Guaranty Association Act (Tenn. Code Ann. §§ 56-12-101, *et seq.*), effective July 1, 1971. Under the provisions of this Act, the TDCI appointed five (5) members to the Board of Directors ("Board"). These five (5) members then submitted a Plan of Operation ("Plan"), on November 21, 1971, to the Commissioner, who approved the Plan effective December 17, 1971.

The current operations of the Association are governed by an updated Plan, which was approved by the Commissioner, effective December 17, 1997. Detail is included under the caption, "Plan of Operation," in this report.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

The Board shall consist of five (5) member insurers (members) who shall serve terms as established in the plan of operations and are appointed by the Commissioner of TDCI in accordance with Tenn. Code Ann. § 56-12-106(a).

The following persons were duly elected and serving as directors on the Association's Board, as of December 31, 2021:

<u>Director</u>	<u>Company Affiliation</u>
John Mize	State Volunteer Mutual Insurance Company
Lisa Pierce	Allstate Insurance Company
Shawn Johnson	State Farm Insurance
Art Orgeron	Cincinnati Insurance Companies
Ed Lancaster (retired)	Tennessee Farmers Mutual Insurance Company

Officers

The Bylaws of the Association instruct the Board to appoint the officers of the Association immediately following the annual meeting of the members. The Board shall hold an annual meeting at the office of TDCI the second Tuesday in May, unless the Board upon proper notice designates some other date or place. At that meeting, the Board shall elect a Chairman, a Vice Chairman, and a Secretary from among its members. Each officer shall serve a term of one (1) year.

The following individuals were serving as officers of the Association as of December 31, 2021:

<u>Name</u>	<u>Title</u>
John Mize	Chairman
Lisa Pierce	Vice Chairman
Shawn Johnson	Secretary

ADMINISTRATION

The Board hires an Executive Secretary who reports to the Board and oversees the office to make sure the employees have the resources needed and ensures that the Association is statutorily fulfilling its obligations. W. Davidson Broemel served as the Executive Secretary of the Association from 1986 until retirement on December 31, 2019. Lorrie Brouse was appointed as the Executive Secretary effective January 1, 2020.

The administrative functions of the Association are performed by the home office staff consisting of five (5) employees and a contract accountant. An Administrator is selected by the Executive Secretary. The Administrator interfaces with the liquidators, files quarterly and monthly reports, completes performance evaluations, updates the employee handbook, and updates administrative policies. Jane Murphy served as the Administrator until her retirement on December 31, 2021. Kerry Nations became the Administrator effective January 1, 2022.

Certain necessary services are performed by outside contractors or third-party administrators, such as an independent audit, claims administration, claims reserving review, and claims handling practices review.

ANTITRUST STATEMENT AND CONFLICT OF INTEREST POLICY

Based upon the National Conference of Insurance Guaranty Association's antitrust policy, the Board implemented its own "Antitrust Policy and Compliance Statement" to comply fully with all laws and regulations applicable to its operations.

The Board consists of representatives that may be in competition. It is the policy of the Board to discourage and prohibit the disclosure of competitive information that might, under certain circumstances, be alleged to violate federal or state antitrust laws. The antitrust statement further describes other prohibited behaviors and contains a discussion of information that could give the appearance of facilitating anti-competitive conduct.

The Association's Conflict of Interest Policy prohibits the directors, officers, and the Executive Secretary from permitting private interests that conflict with the discharge of their duties to the Association. A director, officer, or the Executive Secretary should not use knowledge gained from their responsibilities and duties to the Association to further their personal interests.

Potential conflicts of interests are to be disclosed to the Chairman of the Board or the Executive Secretary. Conflict of interest statements are signed annually by the Board, officers, and the Executive Secretary, certifying that they have disclosed any situations that could create a possible conflict. No conflicts were noted as a result of the review of the annual disclosure forms during the examination.

CORPORATE RECORDS

The minutes of the meetings of the Association's members and Board were reviewed for the period under examination. The minutes were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies.

The Association operates under an approved Plan pursuant to Tenn. Code Ann. §§ 56-12-101, *et seq.* There were no amendments to the Plan during the examination period.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Association matches seventy-five percent (75%) of the first six percent (6%) that the employee contributes to a 401(k) savings plan. Employees are eligible to join the plan on the first enrollment date after the employee's one (1) year anniversary. Only full-time

employees (working over 1,000 hours per year) can join the savings plan. Employees are fully vested in employee contributions immediately and fully vested in employer match in five (5) years.

The employees are provided with employer-paid short and long-term disability, term life insurance and accidental death & dismemberment insurance.

The Association contributes eighty percent (80%) of the premium for the employee and fifty percent (50%) of the premium for one (1) of the employee's dependents for medical insurance. The employee portion is paid via a pre-tax payroll deduction. Dental and vision plans are paid one hundred percent (100%) by the employee for either employee or dependent coverage. Coverage typically begins the month after hire.

Other benefits available for employees include holidays, sick leave, and vacation leave.

PLAN OF OPERATION

The Association was organized pursuant to, and operates in accordance with, Tenn. Code Ann. §§ 56-12-101, *et seq.* The purpose of the Association is to provide a mechanism for the payment of covered claims under certain insurance policies, to avoid excessive delay in payment and financial loss to claimants or policyholders because of the insolvency of an insurer, and to provide a process for the Association to assess the cost of such protection among insurers.

The Association's scope of responsibility includes insurers who write different kinds of direct insurance with the exception of annuity, life, health, title, warranty, surety bonds, disability, credit, mortgage guaranty, ocean marine, excess insurance and other lines as cited in § 56-12-103. The Association covers insurance issued on an assessable basis by insurers licensed to transact insurance in the State of Tennessee (member insurers).

The Association has the responsibility to settle covered claims of insurers as of the date the insurer is declared insolvent and any claims arising thirty (30) days after the determination of insolvency, except as limited by Tenn. Code Ann. § 56-12-107(a)(1)(A). Covered claims are unpaid claims and certain unearned premium claims, subject to policy limits and a statutory deductible. The Association shall pay the full amount of any covered claim arising from a workers' compensation policy. Claim settlement amounts for other coverage are subject to statutory limits or the policy limits, whichever is lower.

Funds for payment of claims are obtained from liquidation distributions from the estate of an insolvent insurance company and from assessments declared by the Board.

Assessments of member insurers are periodically called as funds are required to settle claims, and are based on the net direct premiums written by the member insurer during the year preceding the related assessment, subject to certain limitations. To the extent that liquidation distributions and assessment funds are insufficient to discharge claim obligations, additional assessments may be called by the Board. The Association may also issue bonds to obtain additional funding for claim obligations arising from natural catastrophic events, per Tenn. Code Ann. § 4-31-802.

To the extent that assets exceed the ultimate cost of claim obligations, the excess may be distributed to member insurers or applied to future assessments by the Association.

As of December 31, 2021, there were thirty-six (36) active and four (4) inactive insolvencies being administered by the Association.

LITIGATION AND CONTINGENT LIABILITIES

The Association is not party to any pending legal proceedings, nor were any commitments or contingencies found, that would materially affect the Association's financial position or operating results as of December 31, 2021.

ACCOUNTS AND 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 Association's financial statements. Accounting records were confirmed with the Generally Accepted Accounting Principles and appeared to reflect properly the operations during the period under examination.

The Association's 2021 Audited Financial Statement was reconciled to the corresponding general ledger account balances.

The brokerage firms and investment advisers used by the Association were reviewed to confirm whether the companies were registered in Tennessee. There was one (1) brokerage firm and one (1) investment adviser that were not registered in Tennessee. It is unlawful to transact business from, in, or into, Tennessee as a broker-dealer, agent, investment adviser, or investment adviser insurance representative, except for certain circumstances per Tenn. Code Ann. § 48-1-109. See the "Comments and Recommendations" section later in the report.

The Association's books and records are located in Nashville, Tennessee.

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in this examination report. Management stated in its Letter of Representation that there were not any events subsequent to December 31, 2021, that could have a material effect on the Association's financial condition.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities and net assets, a statement of activities, and changes in net assets as of December 31, 2021, as reported by the Association in its 2021 Audited Financial Statements.

ASSETS

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$4,576,894	\$1,620,503
Investments, at fair value	168,845,698	168,916,605
Accrued interest receivable	617,750	815,339
Claims reimbursements receivable, net of allowance for doubtful reimbursements of \$16,998 and \$6,522 at December 31, 2021 and 2020, respectively	96,275	340,371
Furniture, fixtures, and equipment, net	<u>126,961</u>	<u>165,729</u>
Total Assets	<u>\$174,263,578</u>	<u>\$171,858,547</u>

LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
Liabilities:		
Reserve for claims and claim adjustments	\$68,908,502	\$75,091,305
Prepaid future medical expenses	631,571	703,246
Other liabilities	<u>95,061</u>	<u>62,474</u>
Total liabilities	69,635,134	75,857,025
Net assets:		
Without donor restrictions:		
Workers' compensation account	26,749,262	19,986,236
All other insurance accounts	<u>77,879,182</u>	<u>76,015,286</u>
Total net assets	<u>104,628,444</u>	<u>96,001,522</u>
Total Liabilities and Net Assets	<u>\$174,263,578</u>	<u>\$171,858,547</u>

STATEMENT OF ACTIVITIES

	<u>2021</u>	<u>2020</u>
REVENUE		
Investment income	\$2,158,501	\$5,143,896
Liquidation distributions	4,759,651	773,919
Assessments, net of uncollectible of \$0	<u>0</u>	<u>0</u>
Total revenue	<u>6,918,152</u>	<u>5,917,816</u>
CLAIMS ACTIVITY		
Claims paid	3,108,730	3,459,783
Claim adjustment expenses paid	619,318	665,856
Claim and claim adjustment expense recoveries	(480,120)	(230,913)
Decrease in reserve for claims and claim adjustments	<u>(6,182,803)</u>	<u>(4,591,768)</u>
Total claims activity	<u>(2,934,875)</u>	<u>(697,042)</u>
Less claims reimbursements	<u>137,434</u>	<u>45,768</u>
Net claims activity	<u>(3,072,309)</u>	<u>(742,810)</u>
Excess (Deficit) of revenues over claims activity	9,990,461	6,660,625
GENERAL AND ADMINISTRATIVE EXPENSES		
Salary and related expenses	715,096	732,308
Other general and administrative expenses	<u>648,443</u>	<u>663,666</u>
Total general and administrative expenses	<u>1,363,539</u>	<u>1,395,974</u>
Increase (Decrease) in net assets without donor restrictions	8,626,922	5,264,651
Net assets without donor restrictions at beginning of year	<u>96,001,522</u>	<u>90,736,871</u>
Net assets without donor restrictions at end of year	<u>\$104,628,444</u>	<u>\$96,001,522</u>

CHANGES IN NET ASSETS

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net assets without donor restrictions at beginning of year	\$96,001,522	\$90,736,871	\$51,873,267	\$55,541,816	\$54,844,964
Increase /(Decrease)in net assets without donor restrictions	<u>8,626,922</u>	<u>5,264,651</u>	<u>38,863,604</u>	<u>(3,668,549)</u>	<u>696,852</u>
Net assets without donor restrictions at end of year	<u>\$104,628,444</u>	<u>\$96,001,522</u>	<u>\$90,736,871</u>	<u>\$51,873,267</u>	<u>\$55,541,816</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Net Assets

\$104,628,444

Total net assets, as established by this examination, is the same as what was reported by the Association in its 2021 Audited Financial Statements. There were no changes made to any asset or liability items as a result of the examination performed as of December 31, 2021.

COMMENTS AND RECOMMENDATIONS

Comments

As noted in the "Accounts and Records" section of this report, an investment adviser and a broker were not registered in Tennessee as required by Tenn. Code Ann. § 48-1-109.

Subsequent to the exam as of date, the Association corrected the issue. The Association's investment adviser is registered in Tennessee and brokers that are not registered in Tennessee are no longer allowed to perform brokerage services.

Recommendations

There were no recommendations noted during the completion of this examination.

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 the Tennessee Insurance Guaranty Association.

In such manner, it was found that as of December 31, 2021, the Association had total assets of \$174,263,578, liabilities of \$69,635,134, and net assets of \$104,628,444. Tenn. Code Ann. §§ 56-12-105(d) and 56-12-107(a)(3) require the Association to have two (2) separate accounts for the purposes of assessment and the maintenance of records: a workers' compensation account and all other insurance accounts. If the Association needs additional assets, the Association has the power to assess funds per Tenn. Code Ann. § 56-12-107(a)(3). In the event of an insolvency resulting in covered claims payable by the Association in excess of its capacity to pay from assessments under Tenn. Code Ann. § 56-12-107(a)(3), the Association, in its sole discretion, may by resolution request the local development authority to issue bonds and/or notes pursuant to Tenn. Code Ann. § 4-31-801, *et seq.* per Tenn. Code Ann. § 56-12-107(b)(3).

The courteous cooperation of the officers and employees of the Association, 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,



Linda Merriweather, CISA, APIR, CGFM
Examiner-in-Charge
Tennessee Department of Commerce and Insurance

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Tennessee Insurance Guaranty Association located in Nashville, Tennessee, dated March 8, 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.

Linda Merriweather
Linda Merriweather, CISA, APIR, CGFM
Examiner-in-Charge
State of Tennessee

State of Tennessee

County of Davidson

Subscribed to and sworn before me

this 5th day of June, 2023

Mandy Johnson
(NOTARY)



My Commission Expires: 7-7-2025

EXHIBIT B

Tennessee Insurance Guaranty Association
3100 West End Avenue, Suite 670
Nashville, Tennessee 37203-5805
(615) 242-6839
www.tiga.net

June 7, 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 – Tennessee Insurance Guaranty Association

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for the Tennessee Insurance Guaranty Association, made as of December 31, 2021.

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

Sincerely,



Lorrie K. Brouse
Executive Secretary