# Report of Examination

of

# The Farmers Union Mutual Fire Insurance Company of Bradley County, Tennessee

David Campbell, Secretary

P. O. Box 1016

915 25th Street NW

Cleveland, Tennessee37364-1016

Examination made as of: December 31, 2008

Examiner in Charge: Sandy M. Banks, Examiner II

Examination commenced: August 10, 2009

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Dept. of Commerce & Insurance
Company Examinations

EXHIBIT
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Date of Report: June 21, 2010

Examined as of: December 31, 2008

Last Examination as of: December 31, 2003

Commissioner Leslie A. Newman
Department of Commerce and Insurance
State of Tennessee
Nashville, Tennessee 37243

Commissioner:

Pursuant to your instructions, I have made an examination and submit the following report of the conditions and affairs of the

**Farmers Union Mutual Fire Insurance Company of Bradley County, Tennessee**

**Cleveland, Tennessee**

**Officers**

| Title | Name | Address | Term |
|---|---|---|---|
| President | John Eads | Cleveland, TN | January 2008 |
| Vice President | John H. Johnson | Cleveland, TN | January 2008 |
| Secretary & Treasurer | David Campbell | Cleveland, TN | January 2009 |

**Directors:**

| Name | Address | Term Expires |
|---|---|---|
| John Eads, President | Cleveland, TN | January 2008 |
| John H. Johnson, Vice President | Cleveland, TN | January 2008 |
| David Campbell, Secretary & Treasurer | Cleveland, TN | January 2009 |
| David Beaty | Cleveland, TN | January 2010 |
| Robert Still | Cleveland, TN | January 2009 |
| Milton Humberd, Jr. | Cleveland, TN | January 2010 |
| Lester Elkins | Georgetown, TN | January 2010 |
| Charles P. Hannah | Cleveland, TN | January 2011 |

**Compensation of officers, directors, appraisers, adjusters, et al:**

The president receives $500 per year and $50 per called meeting, the vice president receives $500 per year and $50 per called meeting, the manager/secretary/treasurer receives $41,700.00 plus mileage, the Company's agent / clerk receives $25,100.00 per year, and the second clerk $21,500. The directors receive $500 per year (semi-annually) and $50 per called meeting and the Company's attorney receives a $200 retainer if services are rendered during the year. In 2008 all employees received a $1,000 bonus and received a cost of living adjustment approved by the Board of Directors.

**Report of changes in the Constitution or By-Laws, policy forms, or other agreements during the period covered by this examination.**

The Company's Bylaws were changed with regard to the number of Policyholders, in a meeting to meet a quorum, from 15 to 10, in the Directors Meeting, held June 15, 2006 and affirmed in Policyholders meeting January 13, 2007.

Company was approved to amend its Certificate of Authority on September 15, 2005 by adding counties contiguous to Bradley County in the 2nd degree. Lines of Business: Fire, lightning, hail, extended coverage and tornado. Counties to be added: Monroe, Loudon, Roane, Rhea, Bledsoe, Sequatchie, and Marion.

**If copies have not been filed with the Department of Commerce and Insurance, are they filed with the work papers of this report?**

The minutes of the Directors Meeting held on June 12, 2008 indicate that TDCI approved the rate schedule and forms with optional deductible.

**Report on reinsurance assumed and / or ceded.**

| | |
|---|---|
| Type: | Aggregate Excess of Loss |
| Reinsurer: | Brokered by Guy Carpenter |
| Term: | Continuous contract, effective January 1, 2008. |
| Coverage: | Reinsurer is liable in the aggregate in respect of losses occurring during the term of this Contract for 90% of the Ultimate Net Loss over and above an initial Ultimate Net Loss equal to the greater of $99,200 or 74% of Gross Net Earned Premium Income, subject to a limit of liability to the Reinsurer of 90% of the lesser of $343,700 or 90% of 171% of Gross Net Earned Premium Income. The Company's maximum retention on any single loss was $25,000. |

Type: Supplemental Aggregate Excess of Loss

| | |
|---|---|
| Reinsurer: | Brokered by Guy Carpenter |
| Term: | Continuous contract, effective January 1, 2008. |
| Coverage: | Reinsurer is liable in the aggregate in respect of losses occurring during the term of this Contract for 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss equal to the sum of its retention under its Aggregate Excess of Loss Reinsurance Contract plus the reinsurers' limit of liability thereunder, subject to a limit of liability to the Reinsurer of the lesser of $1,675,000 or 1000% of Gross Net Earned Premium Income.<br>The Company shall pay the Reinsurer a deposit premium of $1,565 for the term of this Contract, paid in the amount of $391.25 on the first day of each calendar quarter. |
| Type: | Interests and Liabilities Agreement |
| Reinsurer: | Arch Reinsurance Company (37%), Aspen Insurance U.K. Limited (14.50%), Employers Mutual Casualty Company (6%), QBE Reinsurance Corporation (25%), SCOR reinsurance Company (5.50%), and TOA Reinsurance Company of America (12%).<br>Brokered by Guy Carpenter of Philadelphia, PA which is a division of Marsh Mclennan. |
| Term: | Continuous contract, effective January 1, 2008. |
| Coverage: | Property First Surplus Reinsurance Contract<br>Coverage is three times the net retained liability, per risk subject to a maximum cession of $75,000; minimum retention of $75,000; commission minimum of 30% @ 60% loss ratio, commission provisional of 40% @ 50% loss ratio; commission maximum of 50% @ 37.5% loss ratio. Minimum retention of $7,500<br>The Reinsurer's liability hereunder in respect to any one Loss Occurrence shall not exceed an amount equal to 250% of the annual ceded premium earned hereunder for the Contract year during which the loss occurred; 2.75% of brokerage paid by Reinsurers. |

*Aggregate Excess of Loss Reinsurance*

Coverage includes 90% of 171% of gross net earned premium income, or 90% of $343,700, whichever is the lesser, in excess of 74% of gross net earned premium income, or $99,200, whichever is the greater; rate of 5.449% of gross net earned premium income; $9,100 payable $2,275 quarterly deposit premium; minimum premium of $7,300; Extra Contractual Obligations 90%/10%, Excess Policy limits 90%/10%; Loss adjustment expense part of loss; 15% of brokerage paid by Reinsurers.

*Supplemental Aggregate Excess of Loss Reinsurance*

Coverage includes 100% of 1000% of gross net earned premium income or $1,675,000, whichever is the lesser in excess of amount equal to the sum of the Company's net retention plus coverage provided by the underlying Aggregate Excess of Loss Reinsurance; rate of 0.9341% of gross net earned premium income; deposit premium of $1,565, payable $391.25 quarterly; minimum premium of $1,250; Extra Contractual obligations of 90%/10%; Excess policy limits of 90%/10%; Loss

adjustment expense part of loss; 15% of brokerage paid by Reinsurers.

*Facutative Reinsurance*
All amounts on a single risk over $100,000 were reinsured or ceded to the Facultative Binding Authority Reinsurance Agreement up to $250,000 and may with special acceptance buy higher limits.

The Company's total loss recoveries on facultative-reinsurance is $28,244, and $38,169 on first surplus during 2008.

**Appraisal and classification of risks taken.**

Buildings or any group of personal property is insured for no more than two-thirds of its value but no less than one-half of its normal value. Each building and each group or class of personal property shall be insured for a stipulated amount and no blanket insurance shall be permitted except on the personal property within a specified group or class as designated in the policy according to Company By-Laws Article VII, Section 1.The agent performs the appraisal on the property prior to the issuance of a policy during the application process. Property eligible to be insured includes dwellings and contents, church buildings, farm buildings and contents, crops in barns, chicken houses, farm machinery, cattle and some unusual commercial type property.

The Company By-Laws Article VII, Section 2, states that registered animals and others may be insured individually in an amount approved by management. Livestock not included in a group may be insured by classes or groups of animals.

**Annual rate of assessment per $1,000.00 for period covered:**

See the attachment to the Exam Report for the Company's rate schedule and placement guide, effective since January 31, 2008, for all new or renewal policies written.

**Rate of membership, policy and initial fees charged.**

As of December 31, 2008, the Company had $15,350,007 of total insurance in force (net of reinsurance ceded). According to the By-Laws Article VIII, Section 1 A policy fee and other additional charges to be fixed by the Board of Directors shall be paid by the applicant at the time of making application for insurance. Policyholders have the option of paying their premiums either on an annual or semi-annually basis. No service charges were levied if premiums were paid late.

**Date of last assessment.**

The Company makes advance assessments of its members thirty days prior to the policy renewal date.

**Amount delinquent.**

There were no delinquencies noted. The Company cancels policies after the thirty (30) day grace period.

**Did that assessment provide for all losses, expenses and other liabilities, including borrowed money?**

Yes

**Amount of money borrowed since date of last assessment.**

The Company did not borrow any money during the period of examination.

**Exhibit of Risks**

| | | Amount |
|---|---|---|
| 1. | In force, December 31, 2007 | $47,534,862 |
| 2. | Written or Renewed | 5,330,750 |
| 3. | Expirations or Cancellations During Yr | 5,034,500 |
| 4. | Gross In force, Current Yr | 47,831,112 |
| 5. | Amount Re-insured | 32,481,105 |
| 6. | Net in force, Dec. 31, 2008 | $15,350,007 |
| 7. | Policy Count | 1,220 |

## Balance Sheet

There follows a statement of assets and liabilities as of December 31, 2008 together with a reconciliation of surplus, as established by this examination.

## Assets

| | Admitted Assets Per Company | Examination Adjustments | Net-Admitted Assets Per Examination |
|---|---|---|---|
| Bonds and Long-term Certificates of Deposit | $1,800,035 | $ | $1,800,035 |
| Common Stocks | 7,672 | | 7,672 |
| Cash and Cash Equivalents | *308,489 | | *308,489 |
| Interest, Dividends and Real Estate Income Due and Accrued | 7,722 | (78) | 7,644 |
| Aggregate Write-Ins For Other than Invested Assets | 72,765 | 103 | 72,868 |
| TOTAL ASSETS | $ 2,196,683 | $25 | $2,196,708 |

*Includes $400 of petty cash

## Liabilities, Surplus and Other Funds

| | Liabilities and Surplus Per Company | Examination Adjustments | Liabilities and Surplus Per Examination |
|---|---|---|---|
| Unearned Premiums | $187,971 | * $316 | $188,287 |
| Taxes Licenses & Fees | | | 2,813 |
| TOTAL LIABILITIES | 190,784 | 316 | 191,100 |
| Policyholders' Surplus | 2,005,899 | (316) | 2,005,608 |
| TOTAL LIABILITIES & POLICYHOLDER'S SURPLUS | $ 2,196,683 | $316 | $2,196,708 |

*Error in accounting.

## STATEMENT OF INCOME & POLICYHOLDERS' SURPLUS ACCOUNT

*Underwriting Income*

| | |
|---|---|
| 1. Net Premiums and assessments earned | $190,290 |
| 2. Net losses incurred | 29,485 |
| 3. Loss expenses incurred including claims adjustment expenses | |
| 4. Other underwriting expenses incurred | |
| 4.1. Commission and brokerage: | |
| a. Directors and officers compensation and allowances | |
| b. Agents compensation and allowances | |
| c. Non-employee compensation and allowances | |
| d. Commissions received on reinsurance ceded | |
| e. Net commissions and brokerage | |
| 4.2 Field supervisory expenses | 2,727 |
| 4.3 Salaries and related items | |
| a. Employees' Salaries | 94,687 |
| b. Directors' and Officers' Salaries | |
| c. Payroll taxes | 10,441 |
| d. Total salaries and related items | 105,128 |
| 4.4 Directors fees | 5,070 |
| 4.5 Advertising and subscriptions | 1,351 |
| 4.6 Boards, bureaus and association dues | 740 |
| 4.7 Surveys and underwriting reports | |
| 4.8 Employee relations welfare | |
| 4.9 Insurance and fidelity bonds | 4,951 |
| 4.10Travel and travel items | 7,115 |
| 4.11Rent and rent items | 12,000 |
| 4.12Equipment | 374 |
| 4.13Cost or Depreciation of EDP equipment and software | |
| 4.14Printing and Stationery | 4,865 |
| 4.15Postage, telephone and telegraph | 12,416 |
| 4.16Legal and auditing fees | 4,327 |
| 4.17Taxes, licenses, and fees: | |
| a. State and local insurance taxes | 4,048 |
| b. Insurance department licenses and fees | |
| c. All other (excluding federal income tax and real estate) | 1,495 |
| d. Total taxes, licenses and fees | 5,543 |
| 4.18Real estate expenses and repairs | |
| 4.19Real estate taxes | |
| 4.20Aggregate write-ins for underwriting expenses | |
| 4.21Total underwriting expenses incurred | 166,607 |
| 5. Total underwriting deductions | 196,092 |
| 6. Net underwriting gain or (loss) | (5,802) |

*Investment Income*

| | |
|---|---|
| 7. Net investment Income earned | 95,491 |
| 8. Net realized capital gains or (losses) from sale or maturity of assets | |
| 9. Net investment gain or (loss) | 95,491 |

*Other Income*

| | |
|---|---|
| 10. Finance and service charges not included in premiums | 2,770 |
| 11. Aggregate write-ins for miscellaneous income | 2,289 |
| 12. Total other income | 5,059 |
| 13. Dividends to policyholders | |
| 14. Net income after dividends to policyholders and before federal income taxes | 94,748 |

| | |
|---|---|
| 15. Federal income taxes incurred | |
| 16. Net income | $ 94,748 |
| *Policyholders' Surplus Account* | |
| 17. Policyholders surplus, December 31 of previous year | $ 1,914,979 |
| *Gains and (Losses) in Surplus* | |
| 18. Net Income | 94,748 |
| 19. Change in net unrealized capital gains or (losses) | (3,828) |
| 20. Change in non-admitted assets per examination | (291) |
| 21. Cumulative effect of changes in accounting principles | |
| 22. Aggregate write-ins for gains and losses in surplus | |
| 23. Policyholders surplus as of statement date (Per Examination) | $2,005,608 |

## Assets

**Schedule of Bank Deposits:**

| Name of Bank | Amount on Bank Statement | Amount of O/S Checks | Adj. Items | Balance |
|---|---|---|---|---|
| First Tennessee Bank, Cleveland, TN Business Checking | $92,170 | ($395) | $-0- | $91,775 |
| First Tennessee Bank, Cleveland, TN, Priority Business Savings | 110,420 | -0- | -0- | 110,420 |
| Sun Trust Bank, Savings | 4,589 | -0- | -0- | 4,589 |
| First National, Savings | 101,305 | | -0- | 101,305 |
| Total | $308,484 | ($395) | $-0- | $308,089 |

**Schedule and description of all other assets, including real estate, mortgage loans, bonds, etc., and interest or rents due or accrued thereon:**

Certificates of Deposit (Admitted per Examination):

| | |
|---|---|
| Sun Trust Bank | $100,000.00 |
| AmSouth Bank (Regions) | 100,000.00 |
| BB&T Trust Bank | 100,022.00 |
| Bank of Cleveland | 100,000.00 |
| Community Trust Banking Company | 100,000.00 |
| First Tennessee Bank | 100,000.00 |
| First TN Bank | 100,000.00 |
| First Bank Branch | 100,000.00 |
| Benton Banking Company (First Volunteer) | 100,000.00 |
| South East Bank & Trust | 100,000.00 |
| Southern Heritage Bank | 100,000.00 |
| State Farm Bank | 100,013.00 |
| First Volunteer Bank | 100,000.00 |
| First Bank of TN | 100,000.00 |
| Cornerstone Community Bank | 100,000.00 |
| United Community Bank | 100,000.00 |
| Athens Federal Community Bank | 100.000.00 |
| Citizens National Bank | 100.000.00 |
| Total Certificates of Deposit | $1,800,035.00 |

## Assets (continued)

Stocks (Admitted per Examination):

| | |
|---|---|
| First Assurance Bancorp (101shares) | $1,080.00 |
| Namico Insurance Company (30 shares) | 6,592.00 |
| Total Stocks | $7,672.00 |

**Assets pledged or hypothecated:**

NONE

**Comments on assets:**

Common Stocks
The Company holds thirty shares (30) of NAIMCO Stock with a book value of $1,500 and a market value of $6,591. The Company holds one-hundred and one (101) shares of Affinity Stock with a book value of $10,000, however the stock has a market value of $1,081. The decrease in value of the Affinity Stock purchased on 02/25/2008 resulted in the Company reporting a realized loss of ($3,828). The Affinity Stock has a value of $10.71 a share and the NAMICO stock has a value of $219.718 a share. In Compliance with SSAP No. 30, pp 9, the stocks are recorded at their fair value.

**Comments on claims, borrowed money and other liabilities:**

Claims appear to be paid promptly and to the satisfaction of the policyholders.

No money was borrowed during the period of examination.

**Comments on acts of officers and directors; any apparent violations of the Association's By-Laws, or of the laws of the State of Tennessee; general comments regarding the conduct of business (continued):**

The Company has a contract of representation agreement with Farmers Mutual of Tennessee, Knoxville, TN. The agreement became effective May 22, 1990. A 15% commission is payable to the County Mutual for new and renewal business on the following: farmer's comprehensive personal liability, comprehensive personal liability, and owners, landlords, and tenant's liability. Farmers Mutual of Tennessee will pay an inspection fee to the County Mutual on certain new polices for the following: 1. new policies providing liability coverages only, other than farm liability; $15 fee and 2. new policies providing farm liability and other liability coverages only; $25 fee. The agents of this County Mutual are authorized to bind up to $50,000 combined single limit for bodily injury and property damage liability; and up to $500 per person, $25,000 aggregate medical payments coverage for the following classes of insurance only: farmers comprehensive personal liability,

comprehensive personal liability, and owners, landlords and tenants liability- dwelling and farm premises only

Insurance

The Company has professional liability and Directors & Officers liability through Scottsdale Insurance Company with a limit of liability up to $1,000.000 for each claim. This policy also includes errors and omissions insurance for the Agent.

Travelers Indemnity Company provides business insurance to the Company which includes employee dishonesty. Commercial General Liability Coverage:

| | |
|---|---|
| General Aggregate | $2,000,000 |
| Products-Completed Operations Aggregate Limit | $2,000,000 |
| Personal and Advertising Injury Limit | $1,000,000 |
| Each Occurrence Limit | $1,000,000 |
| Damage to Premises Rented to You | $ 300,000 |
| Medical Payments limit (any one person) | $ 5,000 |
| Fine Arts | $ 25,000 |
| Business Personal Property | $ 28,474 with a 3% inflation guard |
| Accounts Receivable | $ 25,000 |
| Valuable Papers | $ 25,000 |

The Hartford provides the Company with workers comprehensive insurance including bodily injury by accident or disease. Limits of liability are $100,000 each accident and each employee for bodily injury by accident or disease and a $500,000 policy limit for injury by disease.

Office

Company rents office space from Lamar McKenzie who shares the building but in separate office space. The Secretary/Treasurer informed the Examiner that the Company and Mr. McKenzie have a verbal lease agreement, Gentleman's Agreement that extends past the period of this examination. The Company pays rent of $1,000 monthly.

Agents

The Company has one agent, David Campbell, who is also the Secretary/Treasurer.

**Recommendations:**

NONE

**Subsequent Events**
NONE

## Conclusion

It was determined that, as of December 31, 2008, the Company had admitted assets of $2,196,708 and liabilities, exclusive of capital, of $191,100. Thus, there existed for the additional protection of the policyholders, the amount of $2,005,608 in the form of unassigned funds (surplus).

The complete and courteous cooperation of Ms. Anita Walcheski, 1st Clerk, Ms. Alline Sturgill, 2nd Clerk and Mr. David Campbell, Manager/Secretary/Treasurer, extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

Sandy M. Banks
Insurance Examiner in Charge
State of Tennessee

**Examination Affidavit:**

The undersigned deposes and says that she has duly executed the attached examination report of The Farmers Union Mutual Fire Insurance Company of Bradley County, Tennessee dated June 22, 2010 and made as of December 31, 2008, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Sandy M. Banks
Insurance Examiner II
State of Tennessee

County Davidson
State Tennessee

Subscribed and sworn to before me
this 22nd day of
June, 2010.

Helen W. Dorsey
(Notary)

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

Commission expires: 03/03/2014