



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

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**REPORT ON EXAMINATION**  
**OF**  
**FIRST ACCEPTANCE INSURANCE COMPANY OF TENNESSEE, INC.**  
**(NAIC # 12825)**  
**(NAIC Group # 3362)**  
**NASHVILLE, TENNESSEE**

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**AS OF**  
**DECEMBER 31, 2020**

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Nashville, Tennessee  
December 17, 2021

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, 2020, has been made of the conditions and affairs of:

**FIRST ACCEPTANCE INSURANCE COMPANY OF TENNESSEE, INC.**

NAIC # 12825  
NAIC Group # 3362  
3813 Green Hills Village Drive  
Nashville, TN 37215

hereinafter referred to as the “Company” or “FAICTN” 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 coordinated with other states pursuant to National Association of Insurance Commissioners (NAIC) guidelines. This examination was called through the NAIC's Financial Examination Electronic Tracking System (FEETS). This examination was part of a coordinated examination led by the State of Texas. The State of Georgia also participated in the coordinated examination. Each state conducted examinations of companies domiciled in their respective states. Further description of the coordination effort between the states is discussed below under the heading "Scope of Examination".

## SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2015. This full-scope examination covers the period January 1, 2016, through December 31, 2020, and includes any material transactions and/or events occurring subsequent to the examination date.

The Company is part of the First Acceptance Insurance Group (“Group”), with the State of Texas as the Group's lead state. A coordinated examination of the Group was performed, as of December 31, 2020, led/facilitated by the State of Texas. There were no examination sub-groups. Georgia and Tennessee were the participating states. Staff from all three (3) states participated in the work for the examination and collaborated on the work performed. For a complete list of all the insurance companies in the Group, see the “Abbreviated Organizational Chart” section of this report.

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, 2020. 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; Claims; Premium/Underwriting; Related Party; Capital and Surplus; and Reserving.

The Company’s 2020 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 by the lead state 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 and other members of the Group do not have an Internal Audit (IA) Department.

The TDCI relied upon the work of the coordinated examination actuary from the Texas Department of Insurance 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 2020 audit and copies were incorporated into the examination, as deemed appropriate.

## **COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS**

The previous full-scope examination report dated May 1, 2017, which covered the period from January 1, 2011, through December 31, 2015, contained one (1) comment and three (3) recommendations.

The examination comment was related to three (3) uncollected conflict of interest statements during the prior examination period. FAICTN officers and directors completed all conflict of interest forms for the years under this examination period.

The first recommendation related to the complaint registers which were found to be lacking a complete record of each complaint and missing the processing time for each complaint. For the current examination, complaint registers were found to be in compliance with Tenn. Code Ann. § 56-8-104(11) and Tenn. Comp. R. & Regs. 0780-01-05. The complaint registers include an explanation of the complaints as well as the Company's disposition and conclusion. Each of the fields is adequately detailed to describe the issues raised and the responses. Each complaint was adequately responded to, and the appropriate action was taken.

The second recommendation was that the Company should ensure all producers/agents utilized by the Company are properly appointed. A review of the Company's licensed producers/agents as of December 31, 2020, identified three (3) producers/agents who were found to not have been appointed by the Company to act on its behalf. See the "Comments and Recommendations" section of the report.

The third recommendation concerned the Company's privacy notice which referenced the Company's non-responsibility for unauthorized access to a customer's personal

information. The Company has complied with the directive to delete this reference and no further concerns were noted.

## **COMPANY HISTORY**

FAICTN was incorporated as a for-profit insurance company under the Tennessee Business Corporation Act on June 30, 2006. Formed as a wholly-owned subsidiary of First Acceptance Insurance Company, Inc. (FAIC), a Texas-domiciled property and casualty insurance company, the Company was issued a Certificate of Authority by the TDCI on December 21, 2006, to engage in the business of property, casualty, and surety insurance. FAIC is a wholly-owned indirect subsidiary of First Acceptance Corporation (FAC), a publicly traded corporation, of which fifty-seven and three-tenths percent (57.3%) is owned by Gerald J. Ford, the ultimate controlling person of the Company.

When the Company was organized in June of 2006, it had twenty million dollars (\$20,000,000) of authorized capital stock, which consisted of ten million (10,000,000) shares of two dollar (\$2.00) par value per share common stock. Originally, the Company had five hundred thousand (500,000) shares of two dollar (\$2.00) par value per share issued and outstanding. In 2015, an additional one hundred thousand (100,000) shares of two dollar (\$2.00) par value per share common stock were purchased by FAIC to increase the capital stock for purposes of meeting the minimum capital requirement of another state. In 2020, the Company issued an additional one hundred fifty-thousand (150,000) shares at two dollar (\$2.00) par value per share to fund a license application. As of December 31, 2020, seven hundred fifty-thousand (750,000) shares of two dollar (\$2.00) par value per share common stock were issued and outstanding and wholly-owned by FAIC.

## **MANAGEMENT AND CONTROL**

### **MANAGEMENT**

#### **Directors**

The Company's Bylaws state that the business and affairs of the corporation shall be managed by a Board of Directors ("Board") who shall be elected at the annual meeting of the shareholders held for that purpose and to conduct such other business.

The Company's Bylaws state that the number of directors shall consist of not less than one (1) nor more than nine (9), as determined by the shareholders. A majority of directors constitute a quorum. Directors serve until the next annual meeting of the shareholders, and thereafter until a successor has been elected.

The following persons were duly elected by the shareholders and were serving as members of the Board, as of December 31, 2020:

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Larry E. Willeford	President of FAICTN
Michael J. Bodayle	Secretary and Treasurer of FAICTN

The Bylaws allow any action required or permitted to be taken at a meeting of the Board, or of any committee thereof, to be taken without a meeting, if prior to such action, written consent thereto is signed by all Board or committee members, and such written consent is filed with the minutes of proceedings. Such consent shall have the same force and effect as a vote at a meeting. Any or all of the directors or committee members may participate in meetings by means of conference telephone or similar communication equipment.

### **Officers**

The Bylaws provide that the officers of the Company shall be a President, a Secretary, and a Treasurer. The Board of Directors may also elect a Chairman of the Board, one (1) or more Vice-Presidents, one (1) or more Assistant Secretaries and Assistant Treasurers, and such other officers and assistant officers and agents as it deems necessary. Two or more offices may be held by the same person. None of the officers are required to be directors, except for the President.

The following officers were duly elected by the Board and were serving as officers of the Company, as of December 31, 2020:

<b><u>Name</u></b>	<b><u>Title</u></b>
Larry E. Willeford	President of FAICTN
Michael J. Bodayle	Secretary and Treasurer of FAICTN

The Board, from time to time, may designate members to constitute committees, including an Executive Committee, comprised of not less than two (2) directors. The committees shall have and may exercise such power as the Board may determine and specify in the respective resolutions appointing the committee members.

The administrative and executive functions of the Company are performed by affiliated entities, which are more fully described in this report under the heading "Agreements with Parent and Affiliates".

## **Committees**

FAICTN has not formed any Board sub-committees and relies on the holding company, FAIC, Board of Directors' sub-committees:

### **FAIC Committees**

Audit  
Compensation  
Nominating  
Corporate Governance  
Risk

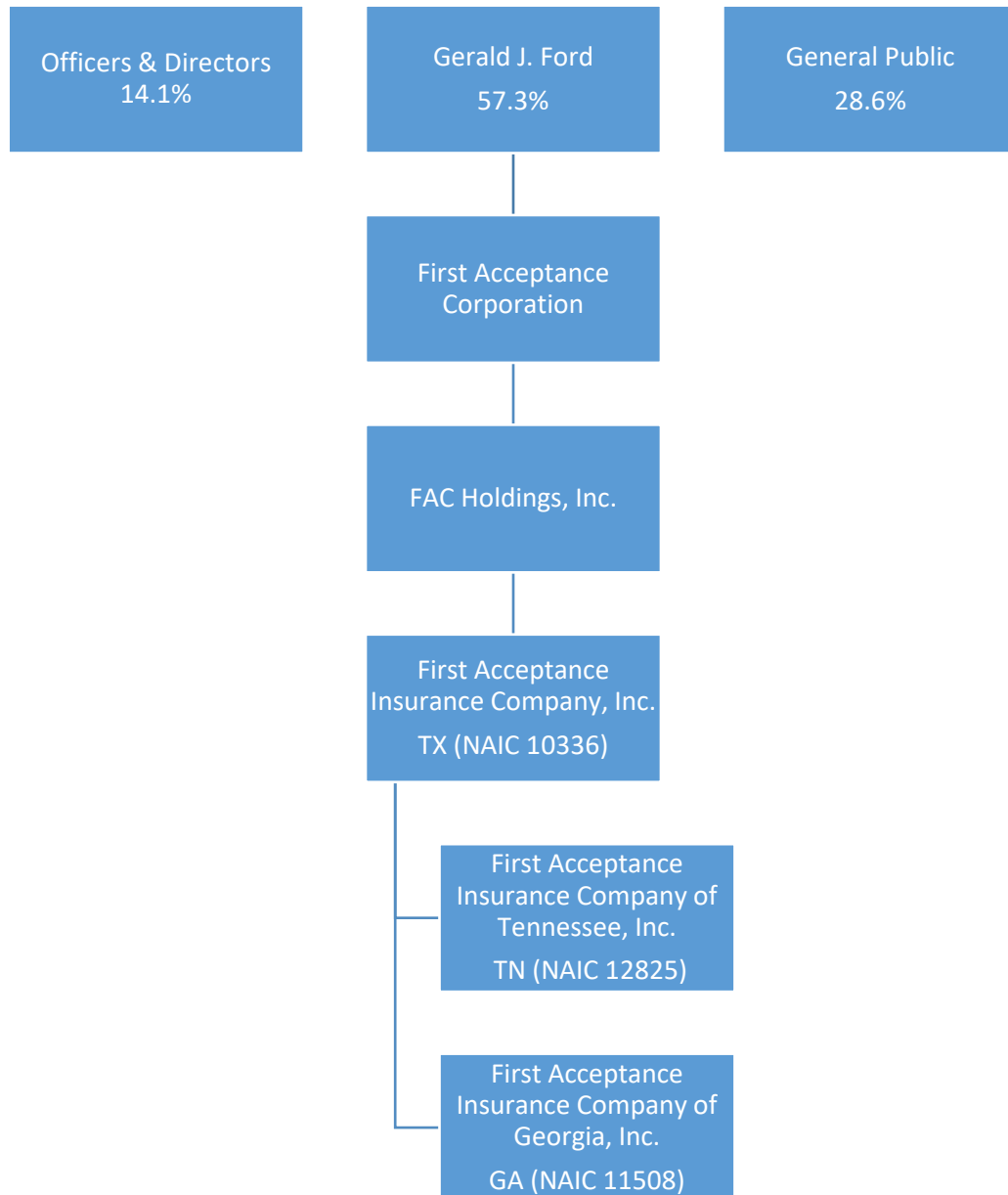
## **CONTROL**

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(7), and as such, is subject to the Insurance Holding Company System Act of 1986, set forth in Tenn. Code Ann. §§ 56-11-101, *et seq.* The Company is a wholly-owned subsidiary of FAIC, which is wholly-owned by FAC Holdings, Inc., which is wholly-owned by FAC, a publicly-traded entity. The ultimate controlling person is Gerald J. Ford, due to his fifty-seven and three-tenths percent (57.3%) ownership of FAC, as of December 31, 2020. FAC files a holding company registration statement annually, as required by Tenn. Code Ann. § 56-11-105.



## **ABBREVIATED ORGANIZATIONAL CHART**

The following abbreviated organizational chart shows all the insurance companies and their respective domiciliary states within the Group insurance holding company system:



## **DIVIDENDS**

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

## **CORPORATE RECORDS**

The minutes of meetings of the Company's shareholders, Board, and committees 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 review of the minutes indicates that all investment transactions were approved by the Board pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

There were no amendments or restatements made to the Company's Charter during the period of examination. The Charter of the Company, in effect as of December 31, 2020, is the Company's Amended and Restated Charter, which was filed with the Tennessee Secretary of State on May 6, 2010.

The Charter states the corporation is for-profit and its purpose is to engage in the business of insurance, including but not limited to property or casualty insurance, and to engage in any other lawful business under the laws of the State of Tennessee. The general provisions and powers enumerated in the Company's Charter are usual and consistent with corporations of this type.

There were no changes to the Company's Bylaws during the period of examination. The Bylaws of the Company, in effect as of December 31, 2020, are the Company's original Bylaws, which were adopted by the Board on June 20, 2006.

The Bylaws provide for an annual shareholders' meeting at which a Board is elected. Officers are elected by the Board. The Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and the conduct of the affairs of the Company, the Board, and its shareholders.

## **AGREEMENTS WITH PARENT AND AFFILIATES**

The Company had the following significant agreements with its parent and affiliated companies in effect, as of December 31, 2020:

### **Intercompany Agreement**

Effective December 21, 2006, and revised on January 1, 2011, the Company entered into an intercompany agreement with FAC Holdings, Inc. and its subsidiaries to govern transactions between the various affiliates. Under the terms of the agreement, First Acceptance Services, Inc. provides claims handling services to the Company and is

reimbursed by the Company for these services at actual cost. Additionally, certain costs are incurred by the parent company and allocated as direct expenses, based on premiums written and/or square footage utilized. FAC Holdings also bills and collects premiums and fees for ancillary products for FAICTN.

### **Tax Allocation Agreement**

Effective January 1, 2011, the Company entered into a tax allocation agreement with FAC and its affiliates whereby the parties agreed to file consolidated tax returns. Under the terms of the agreement, each party paid FAC a percentage of the consolidated tax liability equal to its percentage of the sum of the separate tax liabilities. The agreement included provisions to allocate payments to the parties who would have received a refund if separate returns were filed. Settlements are to occur in cash within thirty (30) days after filing the estimated or actual return, except refunds, which are due from FAC within thirty (30) days after it receives the refund from the Internal Revenue Service.

### **Pooling Reinsurance Agreement**

Effective January 1, 2008, the Company entered into an intercompany pooling reinsurance agreement with FAIC and First Acceptance Insurance Company of Georgia, Inc. (FAICGA). Under the terms of the pooling agreement, the Company and FAICGA cede, and FAIC assumes from both companies, one hundred percent (100%) of the Company's and FAICGA's net written premium. In FAIC's capacity as lead pool insurer, FAIC combines the business assumed from the Company and FAICGA with its direct and assumed (non-pooled) gross written business. FAIC then retrocedes to the Company and FAICGA an agreed-upon percentage of the combined premium, in accordance with the underlying agreement. Losses and expenses are combined by FAIC and allocated to the Company and FAICGA by applying the same percentages. The participating insurers share percentages per the reinsurance and pooling agreement as follows: FAIC fifty-nine percent (59%), FAICGA twenty-eight percent (28%), and FAICTN thirteen percent (13%).

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1). The Company filed this Agreement for approval by the Commissioner as required by Tenn. Code Ann. § 56-11-106(a)(2) on July 13, 2007. The TDCI approved this Agreement on August 13, 2007.

### **Agency Agreement**

Effective January 1, 2018, FAICTN became a party with FAIC to an Amended Agency Agreement through which FAICTN transacts its business through FAICTN retail locations. The TDCI issued a non-disapproval letter with regards to this agreement on December 20, 2017. Effective September 1, 2018, the Agency Agreement was amended as to its

payment terms. The TDCI issued a non-disapproval letter with regards to this amendment on August 4, 2020.

## **TERRITORY AND PLAN OF OPERATION**

### **TERRITORY**

On December 31, 2020, the Company was licensed to transact business in Illinois, Indiana, Mississippi, Missouri, Ohio, Pennsylvania, Tennessee, and Virginia. Certificates of Authority granted by the licensed states were reviewed and found to be in force on December 31, 2020. As of December 31, 2020, the Company was only writing business in Tennessee. Per Schedule T in the 2020 annual statement, the Company reported \$19,479,934 in direct written premiums. Premium tax records were reviewed for Tennessee and no exceptions were noted.

### **PLAN OF OPERATION**

The Company is a stock for-profit property and casualty insurer and offers non-standard automobile insurance. Before the Company's incorporation, the parent company, FAIC, was licensed and writing business in the State of Tennessee.

The Company primarily writes private passenger non-standard auto insurance (sixty-five percent (65%) auto liability and thirty-four percent (34%) auto physical damage) in Tennessee for customers who are unable to qualify for standard markets due to the customers' driving history, or who are unable to financially afford the payment terms of standard markets. The Company also offers a renters' policy (reflected as homeowners' multi-peril, comprising the remaining one percent (1%) of business written), which it sells to its automobile insurance customers.

The Company primarily writes six-month policies for which policyholders typically pay in equal monthly installments. Business is solicited through digital and local advertising. Policies are written by affiliated employee agents through approximately twenty-four (24) affiliate-owned retail stores in Tennessee. In addition, a small number of policies are written through captive relationships with independent agents in the Memphis area of Tennessee.

FAICTN engages in an intercompany pooling agreement with two other members of the Group. The Group primarily writes private passenger non-standard automobile insurance. Underwriting results are pooled and shared amongst the Group's members based on fixed percentages. As a result, the net underwriting performance of each of the companies is reflective of their share of the combined premiums and losses of the pool. The pooling of underwriting results increases each Company's geographic diversification

and tends to stabilize underwriting performance over the long term. The pool operates under centralized operations through cost allocation and claims management agreements.

## **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>
2020	\$37,258,216	\$22,522,742	\$14,735,474	\$26,843,655	\$1,860,118
2019	\$33,566,906	\$21,238,255	\$12,328,651	\$24,793,432	\$2,174,224
2018	\$34,170,233	\$24,070,527	\$10,099,706	\$25,884,850	\$2,112,286
2017	\$27,540,194	\$20,869,987	\$6,670,207	\$22,257,996	\$183,518
2016	\$31,438,756	\$24,974,670	\$6,464,086	\$24,255,385	(\$4,476,036)

## **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>
2020	\$26,843,655	\$11,897,320	\$27,044,179	98.4%
2019	\$24,793,432	\$11,946,420	\$24,725,275	95.3%
2018	\$25,884,850	\$13,968,561	\$25,860,579	99.0%
2017	\$22,257,996	\$12,662,197	\$23,915,048	108.3%
2016	\$24,255,385	\$12,824,140	\$30,993,004	135.8%

In August of 2016, the Company initiated actions "to stabilize the ratio of net premiums written to statutory capital and surplus to within regulatory guidelines" and closed fifty-three (53) stores, filed and received approval for a substantial rate increase, and adjusted the rating programs to intentionally reduce premium writings.

## **REINSURANCE AGREEMENTS**

### **Assumed Reinsurance**

Effective January 1, 2008, the Company entered into a reinsurance pooling agreement. Under the terms of the agreement, the Company assumes a thirteen percent (13%) portion of the business pooled from FAIC. See "Ceded Reinsurance" below.

### **Ceded Reinsurance**

Effective January 1, 2008, the Company entered into a reinsurance pooling agreement. Under the terms of the agreement, the Company cedes one hundred percent (100%) of its direct written premiums to FAIC. FAIC also has a one hundred percent (100%) quota share reinsurance agreement with Old American County Mutual Fire Insurance Company ("Old American"). Direct written premiums ceded by the Company are combined with direct written premiums of FAIC, business assumed from Old American and direct written premiums of FAICGA. The Company receives its thirteen percent (13%) share from this pooled business.

In addition, the Company entered into an excess of loss reinsurance agreement with General Reinsurance Corporation ("General Re"), Stamford, Connecticut, which was canceled as of June 30, 2019. Under the terms of the agreement, the Company ceded bodily injury losses in excess of statutory limits to the reinsurer. The agreement covered the affiliate pooled business and included the business assumed from Old American.

### **Other Considerations**

All the Company's financially significant reinsurance agreements were reviewed during this or prior examinations 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 agreements appear to effectuate the proper transfer of risk in accordance with Statement of Statutory Accounting Principles (SSAP) No. 62 and NAIC guidelines. In addition, there were no unauthorized reinsurers as of December 31, 2020.

## **ACCOUNTS AND RECORDS**

During the examination, certain balances were tested, and amounts were traced from the Company's trial balance to the annual statement. All the Company's investment securities were confirmed with the custodian of such securities, as of the date of this examination. All 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 books and records are located in Nashville, Tennessee.

## **MARKET CONDUCT ACTIVITIES**

A market conduct review was made of the Company, as of December 31, 2020, 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. Company procedures and policies relating to privacy were reviewed to determine compliance with Tenn. Code Ann. § 56-8-104(19). No issues were noted.

### **Complaint Handling Standards**

The Company maintains a complaint register, as required by various state Unfair Trade Practices Acts, and the register and the accompanying files are maintained for a minimum of five (5) years in accordance with statutory requirements. 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") and were found to be in compliance.

### **Marketing and Sales Standards**

A sample of the Company's advertising materials was selected for examination including store signage, billboards, brochures, handouts, internet materials, and emails issued by the Company to target consumers, agents, and brokers. Advertising items were examined in accordance with Tenn. Code Ann. § 56-8-104(1) and the Market Handbook and were found to comply.

### **Producer Licensing Standards**

Tenn. Code Ann. §§ 56-6-101, *et seq.*, requires the Company to sell its products and services through producers/agents who are properly licensed and appointed by the Company. In the examination of producer/agent licensing, a comparison was made of the Company's producers/agents utilized during the examination period to the TDCI listing of appointed producers/agents. Three (3) producers/agents were found to not have been appointed by the Company to act on its behalf. See the "Comments and Recommendations" section of the 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 for automobile contracts 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. Underwriting procedures and policy administration conducted by the Company appear to be in compliance with established Company guidelines.

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.

### **Claims Handling Standards**

In the examination of claims handling practices, the Company's efficiency of claims handling, the accuracy of payment, adherence to contract provisions, and compliance with applicable statutes and rules were examined. In conducting the examination, random samples were selected from claims with benefit payments and claims denied by the Company. 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. No events were noted that 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, 2020, that could have a material effect on the Company's financial condition. Our review confirmed the Company's disclosures in its 2020 Annual Statement and its Letter of Representation.



## FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, surplus, and other funds, and a statement of income, as of December 31, 2020, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2020 Annual Statement.

### ASSETS

	<u>Assets</u>	<b>Non-Admitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$13,929,209		\$13,929,209
Cash and cash equivalents	14,949,938		14,949,938
Investment income due or accrued	91,534		91,534
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	511,086		511,086
Deferred premiums and agent's balances and installments booked but deferred and not yet due	4,821,418		4,821,418
Reinsurance:			
Amounts recoverable from reinsurers	1,213,759		1,213,759
Net deferred tax asset	539,102		539,102
Receivables from parent, subsidiaries and affiliates	1,202,170		1,202,170
Aggregate write-ins for other than invested assets	40,124	\$40,124	0
<b>Totals</b>	<b>\$37,298,340</b>	<b>\$40,124</b>	<b>\$37,258,216</b>

## LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses		\$9,679,643
Reinsurance payable on paid losses and loss adjustment expenses		1,582,089
Loss adjustment expenses		2,217,677
Commissions payable, contingent commissions and other similar charges		27,326
Other expenses		83,047
Taxes, licenses and fees		25,233
Unearned premiums		8,368,742
Advance premium		38,265
Payable to parent, subsidiaries and affiliates		461,168
Aggregate write-ins for liabilities		<u>39,552</u>
Total Liabilities		\$22,522,742
Common capital stock	\$1,500,000	
Gross paid in and contributed surplus	12,500,000	
Unassigned funds (surplus)	<u>735,474</u>	
Total Capital and Surplus		<u>14,735,474</u>
<b>Totals</b>		<u>\$37,258,216</u>

## STATEMENT OF INCOME

Premiums earned		\$26,843,655
Deductions:		
Losses incurred	\$13,464,192	
Loss adjustment expenses incurred	3,920,688	
Other underwriting expenses incurred	9,659,297	
Aggregate write-ins for underwriting deductions	<u>                  2</u>	
Total underwriting deductions		<u>27,044,179</u>
Net underwriting gain (loss)		(200,524)
Net investment income earned		354,618
Finance and service charges not included in premiums		<u>1,706,024</u>
<b>Net Income (Loss)</b>		<u><b>\$1,860,118</b></u>

**CAPITAL AND SURPLUS ACCOUNT**

	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Capital and Surplus					
December 31, previous year	<u>\$12,328,651</u>	<u>\$10,099,705</u>	<u>\$6,670,207</u>	<u>\$6,464,086</u>	<u>\$9,897,566</u>
Net income or (loss)	1,860,118	2,174,224	2,112,286	183,518	(4,476,036)
Change in net deferred income tax	(368,780)	645,618	262,263	0	0
Change in non-admitted assets	615,485	(590,896)	54,948	22,603	42,557
Capital changes: Paid in	300,000	0	1,000,000	0	1,000,000
Aggregate write-ins for gains and losses in surplus	0	0	1	0	(1)
Net change in capital and surplus for the year	<u>2,406,823</u>	<u>2,228,946</u>	<u>3,429,498</u>	<u>206,121</u>	<u>(3,433,480)</u>
Capital and Surplus					
December 31, current year	<u>\$14,735,474</u>	<u>\$12,328,651</u>	<u>\$10,099,705</u>	<u>\$6,670,207</u>	<u>\$6,464,086</u>

## ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$14,735,474

Total capital and surplus, as established by this examination, is the same as reported by the Company in its 2020 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2020.

## COMMENTS AND RECOMMENDATIONS

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

### Comments

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

### Recommendations

1. During the review of the Company's licensed producers/agents for compliance with Tenn. Code Ann. § 56-6-115, examiners identified three (3) employees acting as producers/agents on the Company's behalf who had not been correctly appointed through the Department. These producers/agents were appointed to FAIC, but not to FAICTN.

It is recommended the Company ensure all producers/agents utilized by the Company are properly appointed to FAICTN in accordance with Tenn. Code Ann. § 56-6-115.

## 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 First Acceptance Insurance Company of Tennessee, Inc.

In such a manner, it was found that as of December 31, 2020, the Company had admitted assets of \$37,258,216 and liabilities, exclusive of capital and surplus, of \$22,522,742. Thus, there existed for the additional protection of the policyholders, the amount of \$14,735,474 in the form of common capital stock, gross paid in and contributed surplus and unassigned funds. Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum capital of \$1,000,000 and a minimum surplus of \$1,000,000. For this examination, as of December 31, 2020, the Company maintains capital and surplus sufficient to satisfy those requirements.

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

In addition to the undersigned, John Romano, CPA, CITP, CIA, CFE, CSM, and Michelle January, MCM, Financial Examiner from Baker Tilly US, LLP; and Rhonda Bowling-Black, CFE, ARe, MCM, Market Conduct Supervisor, from the State of Tennessee; participated in the work of this examination.

Respectfully submitted,



Rick Buchwald, CFE  
Examiner-in-Charge  
Baker Tilly US, LLP  
Representing the State of Tennessee



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

## AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of First Acceptance Insurance Company of Tennessee, Inc. located in Nashville, Tennessee, dated December 17, 2021, and made as of December 31, 2020, 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.



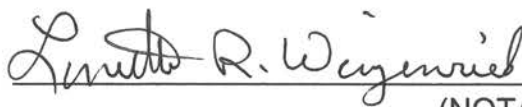
Rick Buchwald, CFE  
Examiner-in-Charge  
Baker Tilly US, LLP  
Representing the State of Tennessee

State of Maryland

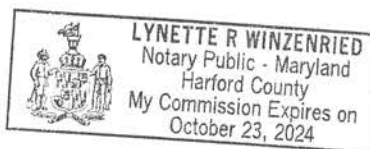
County of Harford

Subscribed to and sworn before me

this 12<sup>th</sup> day of May, 2022

  
(NOTARY)

My Commission Expires: 10/23/2024



# AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of First Acceptance Insurance Company of Tennessee, Inc. located in Nashville, Tennessee, dated December 17, 2021, and made as of December 31, 2020, 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 Davidson

Subscribed to and sworn before me

this 19th day of May, 2022

Mandy Johnson  
(NOTARY)



My Commission Expires: July 7, 2025



# **EXHIBIT B**



May 20, 2022

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 – First Acceptance Insurance Company**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for First Acceptance Insurance Company of Tennessee, Inc., made as of December 31, 2020.

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

Sincerely,

Mike Bodayle  
VP, Secretary-Treasurer