



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

---

**REPORT ON EXAMINATION  
OF THE  
FARMERS MUTUAL FIRE INSURANCE COMPANY  
OF  
JEFFERSON COUNTY  
(NAIC # 15972)  
DANDRIDGE, TENNESSEE**

---

**AS OF  
DECEMBER 31, 2018**

## TABLE OF CONTENTS

Introduction.....	1
Scope of Examination.....	1
Compliance With Previous Examination Findings .....	2
Company History .....	2
Management and Control .....	3
Management.....	3
Control .....	3
Conflicts of Interest and Pecuniary Interests.....	4
Corporate Records.....	4
Service Agreements.....	5
Territory and Plan of Operation .....	5
Growth of Company.....	6
Loss Experience .....	6
Accounts and Records .....	6
Market Conduct Activities .....	7
Subsequent Events .....	8
Financial Statements .....	9
Assets .....	9
Liabilities and Policyholders' Surplus .....	9
Statement of Income .....	10
Policyholder's Surplus Account.....	11
Analysis of Changes in Financial Statements.....	12
Comments and Recommendations .....	12
Conclusion.....	14
Affidavit.....	15

Dandridge, Tennessee  
October 25, 2019

Honorable Hodgen M. Mainda  
Commissioner  
Tennessee Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated ("Tenn. Code Ann.") § 56-22-115, a full-scope financial examination and market conduct review, as of December 31, 2018, has been made of the condition and affairs of:

**FARMERS MUTUAL FIRE INSURANCE COMPANY of JEFFERSON COUNTY**

NAIC # 15972  
1205 Gay Street  
Dandridge, Tennessee 37725

hereinafter referred to as the "Company" and a report thereon is submitted as follows:

## **INTRODUCTION**

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or "Department"). The examination was conducted by duly authorized representatives of the Department.

## **SCOPE OF EXAMINATION**

The last examination of the Company was made as of December 31, 2013. This examination covers the period from January 1, 2014, through the close of business on December 31, 2018, and includes any material *transactions and/or events occurring* subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* ("Handbook"), as deemed appropriate. The examination sought to evaluate the overall financial statement presentation and

management's compliance with statutory accounting principles and annual statement instructions. The examination also included an assessment of prospective risks faced by the Company, based on information obtained during the course of the examination.

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

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

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

## **COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS**

The examination included a review to determine the current status of the comments and recommendations in the previous report on examination, as of December 31, 2013, which covered the period from January 1, 2009, through December 31, 2013. No comments or recommendations were noted during the previous examination.

## **COMPANY HISTORY**

The Company was incorporated on June 7, 1909, under the Tennessee Business Corporation Act as a non-profit mutual benefit corporation. The Company commenced business on August 4, 1909. On September 11, 2008, the Company was issued its most recent Certificate of Authority to transact the business of insurance pursuant to Tenn. Code Ann. § 56-22-101, *et seq.* The Company's original business purpose was to insure loss or damage to property due to fire, lightning, hail, extended coverage, and tornado to residents of Jefferson County, Tennessee.

## MANAGEMENT AND CONTROL

### MANAGEMENT

#### Directors

Management of the Company is vested in a Board of Directors ("Board") with staggered terms. Directors are elected for a term of three (3) years. In accordance with the Bylaws, the Board shall consist of at least seven (7) directors.

The following persons were duly elected and serving as directors of the Company's Board as of December 31, 2018:

<u>Director</u>	<u>Address</u>
Luther Carroll Batson	Dandridge, Tennessee
Larry Ramsey	Newport, Tennessee
Julianne Martin	Dandridge, Tennessee
Teena Hammer	Dandridge, Tennessee
Bill Smelcer	White Pine, Tennessee
Mark Smelcer	White Pine, Tennessee
Sonya West	Dandridge, Tennessee
Carol Burgin	Dandridge, Tennessee

#### Officers

The Bylaws of the Company instruct the Board to elect annually a President, Vice President, Secretary and Treasurer. The President, Vice President, Secretary and Treasurer must be chosen from the Board. Each officer shall serve a term of one (1) year.

The following persons were serving as the Company's officers as of December 31, 2018:

<u>Name</u>	<u>Title</u>
Luther Carroll Batson	President
Larry Ramsey	Vice President
Julianne Martin	Secretary/Treasurer

The Company does not have any committees.

### CONTROL

The Company's Bylaws define a "member" as a person having insurance with the Company. The Company is equally owned by its members. The Company has never issued any shares of capital stock or established guaranteed capital.

The annual meeting of the members shall be held on the last Saturday in July of each year at the Company's Office. Special meetings of the members shall be held at the call

of the Board and shall be held at the office of the Company, or at such place as the Board may designate. Pursuant to the Bylaws, members are given advance notice of the date, time, and location of all membership meetings.

Each member is entitled to one (1) vote in person or by ballot transmitted by mail as may be provided by the Bylaws in any election for directors or upon any other items. No member shall vote by proxy. At an annual or special meeting, the members present shall constitute a quorum.

The Company's members held five (5) annual meetings and no special meetings during the examination period.

### **CONFLICTS OF INTEREST AND PECUNIARY INTERESTS**

Pursuant to Tenn. Code Ann. § 56-3-103, officers or directors must not be pecuniarily interested in investment or disposition of funds of a domestic insurance company. During the course of the examination, three (3) instances of non-compliance with Tenn. Code Ann. § 56-3-103 were noted. Three (3) loans, consisting of a 12-month term with a zero percent (0%) to two percent (2%) interest rate, were made in 2016, 2017, and 2018. The loans were approved by the Board. The Company justified the loans because the loans would earn more interest for the Company. The 2016 loan, which had an interest rate of zero percent (0%) did not earn the Company any interest; however, it is noted that this loan was taken out on *August 16, 2016*, and repaid on *December 7, 2016*. All three (3) loans were repaid in full, and Management has committed to prohibiting this practice in the future. For additional details, please see the "Comments and Recommendations" section later in this report.

### **CORPORATE RECORDS**

The minutes of the meetings were reviewed and appear to reflect properly the acts of the respective bodies. While reviewing the minutes, it was noted that there was no documentation of the Company's approval of investments. The Directors are required to approve all investments made by the Company in accordance with Tenn. Code Ann. § 56-3-408(b)(1). For additional details, see the "Comments and Recommendations" section later in this report.

During the period of examination, several amendments were made to the Bylaws, including a change to allow for more than seven (7) board members. All amendments were reasonable. However, the Company's response to the General Interrogatories in its 2017 Annual Statement indicated there were no changes to the Bylaws, despite there being an amendment on July 29, 2017. For additional details, see the "Comments and Recommendations" section later in this report.

## **SERVICE AGREEMENTS**

The Company had several agreements in place for services during the period under examination. The prices and terms associated with these agreements appear to be fair, based on the services provided.

During the period of examination, the Company had several agreements in place that were “verbal” agreements. As a good business practice, the Company should formalize these verbal agreements by reducing them to writing and executing with all parties. For additional details, see the “Comments and Recommendations” section later in this report.

## **Financial and Tax Preparation Services**

A local CPA firm, in Dandridge, Tennessee, provides limited accounting services related to regulatory filings, including preparation of statutory annual statements, quarterly statements, and federal income tax filings.

## **Policy Management Services**

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

# **TERRITORY AND PLAN OF OPERATION**

## **Territory**

The Company’s current Certificate of Authority was issued by the TDCI on September 11, 2008, and authorized the transaction of the business of fire, lightning, hail, extended coverage, and tornado in the State of Tennessee. The Certificate of Authority is valid until suspended or revoked and allows the Company to transact business operations in Jefferson County and all counties contiguous thereto in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(f)(1). The Company writes policies in Cocke, Grainger, Hamblen, Jefferson, Knox, and Sevier counties in Tennessee.

## **Plan of Operations**

The Company provides its members with coverage on dwellings, rental homes, modular homes, mobile homes, farm buildings, livestock, *personal property*, *farm machinery*, and churches.

Members have the option of paying premiums annually, semi-annually, or quarterly.

Liability coverage, provided by Farmers Mutual of Tennessee (“Farmers”), is also available to the members of the county mutual, if they wish to purchase this additional protection through the Company. This additional protection has been arranged by the Company through an agreement with Farmers.

## 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 financial statements filed with the TDCI:

<u>Year</u>	<u>Gross Premiums Written</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholder Surplus</u>	<u>Net Income</u>
2018	\$305,225	\$877,798	\$173,717	\$704,081	\$88,459
2017	\$286,339	\$812,411	\$178,855	\$633,556	\$58,733
2016	\$296,736	\$749,080	\$177,985	\$571,095	\$57,327
2015	\$240,942	\$694,946	\$180,216	\$514,730	\$29,296
2014	\$278,266	\$686,127	\$197,446	\$488,681	\$27,824

## LOSS EXPERIENCE

The following comparative data reflects the loss experience of the Company for the period under review, as reported by the Company in its financial statements filed with the TDCI:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Incurred Losses &amp; LAE</u>	<u>Loss Ratio</u>	<u>Other Expenses</u>	<u>Expense Ratio</u>	<u>Combined Ratio</u>
2018	\$299,945	\$61,272	20.43%	\$182,244	60.76%	81.19%
2017	\$286,659	\$77,205	26.93%	\$185,116	64.58%	91.51%
2016	\$298,903	\$99,817	33.39%	\$171,161	57.26%	90.62%
2015	\$238,067	\$57,205	24.03%	\$176,020	73.94%	97.97%
2014	\$269,155	\$79,633	29.59%	\$182,904	65.95%	95.54%

## ACCOUNTS AND RECORDS

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). Our review did not disclose any deficiencies in these 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 Company's financial statements. General ledger balances were reconciled with the financial statements, and were reviewed for completeness of disclosure and conformity to NAIC Accounting Practices and Procedures, as permitted by Tenn. Comp. R. & Reg. 0780-01-78-.04(1).

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

The Company was exempt from Tenn. Comp. R. & Regs. 0780-1-78.04(4), which requires filing an actuarial opinion by a qualified actuary with the Commissioner on or before March 1.

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

## **MARKET CONDUCT ACTIVITIES**

A limited market conduct review was made of the Company, as of December 31, 2018, in conjunction with this examination. The following items were addressed:

### **Policy Forms and Underwriting Practices**

Pursuant to Tenn. Code Ann. §§ 56-5-103, 56-5-104, 56-5-105, and 56-22-109(b)(1), the Company's policy forms in effect from January 1, 2014, through December 31, 2018, were approved by the TDCI on May 28, 2014.

The Company's premium rates in effect from January 1, 2014, through December 31, 2018, were approved by the TDCI on September 17, 2012. No rate changes were made during the examination period.

During a review of the Company's insurance applications, it was noted that the applications did not have the fraud statement required by Tenn. Code Ann. § 56-53-111. This issue was addressed and corrected during the examination. For additional details, see the "Comments and Recommendations" section later in this report.

During a review of producer licensing and appointments, it was noted that two (2) of the Company's seven (7) producers were not appointed by the Company, as required by Tenn. Code Ann. § 56-6-115. This issue was addressed and corrected during the examination. For additional details, please see the "Comments and Recommendations" section later in this report.

### **Advertising**

The Company's advertising during the period of examination consisted of a flyer that was displayed in newspapers and local businesses. The Company's reputation and products are also communicated to potential members by the Board and the Company's agents via word of mouth.

### **Policy Cancellation**

The Company mails a notice to its members at least thirty (30) days before cancellation. All cancellations reviewed included proper notice of cancellation as required by Tenn. Code Ann. § 56-22-109(b)(3).

The Company adheres to the non-renewal provisions contained in Tenn. Code Ann. §§ 56-7-1901 and 56-7-1902, in accordance with Tenn. Code Ann. § 56-22-109(b)(2), which relate to the notice of intention to non-renew and the reason(s) for non-renewal.

### **Privacy of Non-Public Personal Information**

The Company's policy for the disclosure of non-public personal information was reviewed. There were no instances noted of non-compliance with Tenn. Comp. R. & Regs. 0780-01-72.

### **Claims Review**

A sample of claims was reviewed for unfair claims practices as defined by Tenn. Code Ann. § 56-8-105. Testing included timeliness of contact and resolution, adequacy of claims documentation, claims handling procedures, and reasonableness of denials. No issues were noted during the claims review.

### **Complaint Handling**

The Company's complaint handling practices were reviewed for compliance with Tenn. Code Ann. § 56-8-104(11). It was noted that during the examination period, the Company did not maintain a complaint log as required by this statute. This issue was corrected during the examination, as the Company documented its complaint handling procedures and created a complaint log in accordance with Tenn. Code Ann. § 56-8-104(11). For additional details, see the "Comments and Recommendations" section later in this report.

## **SUBSEQUENT EVENTS**

No subsequent events were noted during the course of the examination.

## FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income, as of December 31, 2018, together with a reconciliation of policyholders' surplus for the period under review, as reported by the Company in its 2018 annual statement:

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds and Long-term Certificates of Deposit	\$621,886		\$621,886
Cash	222,498		222,498
Premium Receivables and Agents Balances	26,163		26,163
Interest, Dividends, and Real Estate Income Due and Accrued	4,462		4,462
Prepaid expenses	3,549	\$3,549	0
Aggregate Write-Ins for Other Than Invested Assets	<u>2,789</u>		<u>2,789</u>
<b>Total Admitted Assets</b>	<u>\$881,347</u>	<u>\$3,549</u>	<u>\$877,798</u>

### LIABILITIES AND POLICYHOLDERS' SURPLUS

Gross Losses and Claims Reported, Unpaid	\$5,000
Unearned Premiums	58,789
Advance Premiums	101,570
Commissions Payable and Similar Charges	675
Accounts Payable and Accrued Expenses Payable	6,289
Amounts Withheld or Retained for Account of Others	<u>1,394</u>
<b>Total Liabilities</b>	<b>\$173,717</b>
Policyholders' Surplus	<u>704,081</u>
<b>Total Liabilities and Policyholders' Surplus</b>	<b><u>\$877,798</u></b>

## STATEMENT OF INCOME

### UNDERWRITING INCOME

Net premiums and assessments earned	<u>\$299,945</u>
-------------------------------------	------------------

### DEDUCTIONS

Net Losses incurred	58,097
Loss expenses incurred including claims adjustment expenses	3,175
Other underwriting expenses incurred	<u>182,244</u>
Total underwriting deductions	<u>243,516</u>
Net underwriting gain (loss)	56,429

### INVESTMENT INCOME

Net investment income earned	18,229
Net realized capital gains (losses) less capital gains tax	<u>(2,256)</u>
Net investment gain (loss)	15,973

### OTHER INCOME

Finance and service charges not included in premiums	4,225
Aggregate write-ins for miscellaneous income	<u>11,832</u>
Total other income	<u>16,057</u>
Net income after dividends to policyholders and before federal income taxes	88,459
Federal income taxes incurred	<u>0</u>
<b>Net Income</b>	<u><b>\$88,459</b></u>

**POLICYHOLDER'S SURPLUS ACCOUNT**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Policyholders' Surplus					
December 31, previous year	<u>\$633,556</u>	<u>\$571,095</u>	<u>\$514,730</u>	<u>\$488,681</u>	<u>\$461,998</u>
Net income or (loss)	88,459	58,733	57,327	29,296	29,541
Change in net unrealized capital gains or (losses)	(17,847)	3,791	(394)	(3,119)	(2,623)
Change in non-admitted assets from prior years	(87)	(63)	(568)	(328)	(235)
Net change in capital and surplus for the year	<u>70,525</u>	<u>62,461</u>	<u>56,365</u>	<u>25,849</u>	<u>26,683</u>
Policyholders' Surplus					
December 31, current year	<u>\$704,081</u>	<u>\$633,556</u>	<u>\$571,095</u>	<u>\$514,730</u>	<u>\$488,681</u>

## ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus

\$704,081

Total policyholders' surplus, as established by this examination, is the same as what was reported by the Company in its 2018 Annual Statement. There were no changes made to any asset or liability item as a result of our examination performed as of December 31, 2018.

## COMMENTS AND RECOMMENDATIONS

### Comments

1. As noted in the "Management and Control" section of this report, the Company had several agreements in place that were "verbal" agreements. As a good business practice, the Company should formalize these verbal agreements by reducing them to writing and executing with all parties.
2. As noted in the "Market Conduct Activities" section of this report, the Company did not maintain a complaint log as required by Tenn. Code Ann. § 56-8-104. The Company did not have any formal complaint procedures as described in Tenn. Code Ann. § 56-8-104(11). The Company has not received any formal complaints, but agreed to create a complaint log and formal complaint procedures in order to comply with the aforementioned statute.

In order to remedy this issue, the Company has established a complaint log.

3. As noted in the "Market Conduct Activities" section of this report, the Company's application form did not contain the fraud statement required by Tenn. Code Ann. § 56-53-111. The statute states that all insurance applications shall contain the following disclosure:

"It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits."

The company added the required statement to its application form during the examination and is now in compliance with the aforementioned statute.

## **Recommendations**

1. As noted in the “Management and Control” section of this report, the Company did not comply with Tenn. Code Ann. § 56-3-103. The Company made three (3) loans to a Director, who is also an Officer, during the examination period, all of which have been repaid by the Director and Officer. Tenn. Code Ann. § 56-3-103 outlines the prohibition of officers or directors having a pecuniary interest in the investment or disposition of funds of a domestic company. It is recommended that the Company comply with Tenn. Code Ann. § 56-3-103 by ceasing all lending activities to its directors and officers.
2. As noted in the “Management and Control” section of this report, no evidence of the Board’s approval of the Company’s investments or investment transactions was provided for the examination period. This is not in compliance with the approval requirement set forth in Tenn. Code Ann. § 56-3-408(b)(1) which states: “No investment or loan, except premium finance loans, shall be made by any insurance company, unless the investment or loan has first been authorized by the board of directors or by a committee appointed by the board and charged with the duty of supervising the investment or loan.” It is recommended that the Company ensure all investment activities are reviewed and approved by the Board of Directors in accordance with Tenn. Code Ann. § 56-3-408(b)(1).
3. As noted in the “Management and Control” section of this report, the Company amended its Bylaws during the period under examination. This amendment was implemented on July 29, 2017. However, when completing the General Interrogatories in its financial statements for 2017, the Company answered “No” to Interrogatory 1(a), which asks, “Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?” It is recommended that the Company always comply with the County Mutual Annual Statement Instructions prescribed by the Commissioner in accordance with Tenn. Code Ann. § 56-22-109.
4. As noted in the “Market Conduct Activities” section of this report, the Company did not properly appoint its agents as required by Tenn. Code Ann. § 56-6-115. It is recommended that the Company appoint all of its agents within the 15-day timeframe as is outlined in Tenn. Code Ann. § 56-6-115.

## CONCLUSION

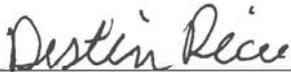
Rules and procedures as prescribed by the statutes of the State of Tennessee and guidance from the NAIC Handbook, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Farmers Mutual Fire Insurance Company of Jefferson County.

In such manner, it was found that as of December 31, 2018, the Company had admitted assets of \$877,798 and liabilities, exclusive of policyholders' surplus, of \$173,717. Thus, there existed for the additional protection of the policyholders, the amount of \$704,081 in the form of policyholders' surplus. Tenn. Code Ann. § 56-22-105(c) requires an insurer of this Company's type to maintain a minimum surplus of \$200,000. For this examination, as of December 31, 2018, the Company maintains 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, Kyle Center, Insurance Examiner, and Daniel Clements, CPA, Supervising Examiner, from the State of Tennessee, participated in the work of this examination.

Respectfully submitted,



---

Dustin Rice  
Examiner-in-Charge  
State of Tennessee

# AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Farmers Mutual Fire Insurance Company of Jefferson County located in Dandridge, Tennessee, dated October 25, 2019, and made as of December 31, 2018, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.

*Dustin Rice*

Dustin Rice  
Examiner-in-Charge  
State of Tennessee

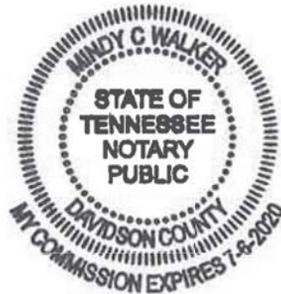
State Tennessee

County Davidson

Subscribed to and sworn before me  
this 23<sup>rd</sup> day of April, 2020

*Mindy C. Walker*  
\_\_\_\_\_  
(NOTARY)

My Commission Expires: 7.6.2020



# **EXHIBIT B**

FARMERS MUTUAL  
Fire Insurance Company  
— of Jefferson County —



*Serving the community since 1909*

1205 Gay Street, PO Box 605  
Dandridge, TN 37725  
865-397-3161 or 800-585-5543  
farmersmutualjc.net

---

April 29, 2020

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 Fire Insurance Company of Jefferson County

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Farmers Mutual Fire Insurance Company of Jefferson County, made as of December 31, 2018.

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

Please also note that all recommendations have been addressed.

Sincerely,

A handwritten signature in black ink that reads "Julianne Martin". The signature is fluid and cursive.

Julianne Martin  
Secretary/Treasurer  
Farmers Mutual Fire Insurance Company of Jefferson County