



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

---

**REPORT ON EXAMINATION  
OF THE  
FARMERS MUTUAL FIRE INSURANCE COMPANY  
OF  
UNION COUNTY  
(NAIC # 15972)  
MAYNARDVILLE, 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 .....	4
Conflicts of Interest and Pecuniary Interests.....	4
Corporate Records.....	4
Service Agreements .....	4
Territory and Plan of Operation .....	5
Growth of Company.....	5
Loss Experience .....	6
Reinsurance .....	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
Policyholders' Surplus Account.....	11
Analysis of Changes in Financial Statements.....	12
Comments and Recommendations .....	12
Conclusion.....	14
Affidavit.....	15

Dandridge, Tennessee  
March 4, 2020

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 UNION COUNTY**  
NAIC # 15971  
140 Court Street  
Maynardville, Tennessee 37807

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 for Tennessee County Mutual Insurers ("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 evaluated assets and liabilities. 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.

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 November 22, 1913, under the Tennessee Business Corporation Act as a non-profit mutual benefit corporation. The Company commenced business on December 10, 1913. On November 3, 2012, 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 business purpose was to insure loss or damage to property due to fire, lightning, hail, extended coverage, and tornado to residents of Union County, Tennessee. Subsequently, counties contiguous to Union, including Claiborne, Grainger, Campbell, Anderson, and Knox have been added to the Company's territory.

## **MANAGEMENT AND CONTROL**

### **MANAGEMENT**

#### **Directors**

Management of the Company is vested in a Board of Directors ("Board") with staggered terms. Directors are elected by a voice vote by a majority of the members or policyholders present at the annual meeting, for a term of three (3) years. In accordance with the Bylaws, the Board shall consist of at least five (5) directors.

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

<b><u>Director</u></b>	<b><u>Address</u></b>
James Sexton	Maynardville, Tennessee
Warren Dykes	Maynardville, Tennessee
Ruth Sexton	Maynardville, Tennessee
Timothy Atkins	Maynardville, Tennessee
Noah Sexton	Maynardville, Tennessee

#### **Officers**

The annual meeting of the members shall be held on the second Monday in January of each year at the Company's Office.

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 officers were duly elected by the Board and were serving as officers of the Company as of December 31, 2018:

<b><u>Name</u></b>	<b><u>Title</u></b>
James Sexton	President
Warren Dykes	Vice President
Ruth Sexton	Secretary/Treasurer

#### **Committees**

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.

Annual and special meetings of the members shall be held at the call of the President 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.

The Company's members held five (5) annual meetings and one (1) special meeting during the examination period.

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

The Company has a Conflict of Interest policy which governs the actions of all directors, officers, and employees. The Company's policy requires directors, officers and employees to annually sign the policy to acknowledge their understanding. The policy also requires the disclosure of any existing or potential conflicts.

Pursuant to Tenn. Code Ann. § 56-3-103, officers or directors are prohibited from having a pecuniary interest in the investment or disposition of funds of a domestic insurance company. The Company is in compliance with Tenn. Code Ann. § 56-3-103.

## **CORPORATE RECORDS**

The minutes of meetings were reviewed and appear to reflect the acts of the Company, with one exception. The Board is required to approve all investments made by the Company in accordance with Tenn. Code Ann. § 56-3-408(b)(1). It was noted that there was no documentation of the Board's approval of investments during the examination period. Subsequent to the examination date, as of January 27, 2020, the Board gave the Secretary/Treasurer full authority to buy and sell all investments at her sole discretion without further action from the Board. See the "Comments and Recommendations" section later in this report.

The Bylaws and Charter provide for the regulation of the business and for the conduct of the affairs of the Company, the Board, and the members.

## **SERVICE AGREEMENTS**

The Company did not have any service agreements in place during the period under examination.

## TERRITORY AND PLAN OF OPERATION

### Territory

The Company's current Certificate of Authority was issued by the TDCI on November 3, 2012, 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 Union 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 Union, Claiborne, Grainger, Campbell, Anderson, and Knox counties in Tennessee.

### Plan of Operation

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

Each policy is issued for one (1) year. Policyholders' premiums are due annually on the policy anniversary date. There is no deductible.

## 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>Policyholders' Surplus</u>	<u>Net Income (Loss)</u>
2018	\$71,676	\$1,555,338	\$37,414	\$1,517,924	(\$18,629)
2017	\$71,494	\$1,572,341	\$36,936	\$1,535,405	\$21,210
2016	\$75,290	\$1,549,612	\$35,417	\$1,514,195	(\$65,231)
2015	\$79,550	\$1,611,298	\$31,872	\$1,579,086	(\$52,097)
2014	\$81,062	\$1,663,570	\$32,265	\$1,631,306	(\$61,022)

## 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 Losses &amp; LAE</u>	<u>Loss Ratio</u>	<u>Other Expenses</u>	<u>Expense Ratio</u>	<u>Combined Ratio</u>
2018	\$71,342	\$41,102	57.61%	\$70,047	97.73%	155.34%
2017	\$71,812	\$1,606	2.24%	\$65,565	91.71%	93.95%
2016	\$72,010	\$78,988	109.6%	\$66,388	88.18%	197.78%
2015	\$79,751	\$1,446	1.81%	\$141,602	178.00%	179.81%
2014	\$81,056	\$78,510	96.86%	\$71,428	88.12%	184.98%

## REINSURANCE

The Company has a reinsurance agreement with Farmers Mutual of Tennessee. The agreement contains:

1. Property Per Risk Excess of Loss Reinsurance – 100% of \$50,000 in excess \$50,000 per risk, each loss occurrence.
2. Aggregate Excess of Loss Reinsurance – ultimate net losses in the aggregate for each calendar year in excess of the greater of 100% of the Company's gross net premium income or \$75,000 and shall not exceed 100% of the lesser of 100% of the Company's gross premium income or \$115,000.

The agreement was found to contain such language as recommended by the NAIC and as required for reinsurance credit pursuant to Tenn. Code Ann. § 56-2-207(a)(2). This agreement appears to effectuate proper transfer of risk in accordance with Statement of Statutory Accounting Principles (SSAP) No. 62 and NAIC guidelines. The agreement was found to meet the requirements set forth in Tenn. Code Ann. § 56-22-110.

## 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 Company's financial statements. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. 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. & Regs. 0780-01-78-.04(1).



The Company is not required to have audited financial statements, as written premiums are less than \$1,000,000 and there are less than one thousand (1,000) policyholders, per Tenn. Comp. R. and Regs. 0780-01-78-.04.

The Company was exempt from filing an actuarial opinion by a qualified actuary with the Commissioner on or before March 1, pursuant to Tenn. Comp. R. & Regs. 0780-1-78-.04(4).

The Company has exceeded the thirty percent (30%) compensation expense ratio every year in the examination period. This is a violation of Tenn. Comp. R. & Regs. 0780-1-78-.04. For additional details, please see the "Comments and Recommendations" section later in this report.

A bookkeeper is paid a flat fee to prepare the trial balance.

The Company's books and records are located in Maynardville, 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 December 27, 2006. 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 contain the fraud warning and were in compliance with Tenn. Code Ann. § 56-53-111.

During a review of producer licensing and appointments, it was noted that the Company's only producer was appointed by the Company, as required by Tenn. Code Ann. § 56-6-115.

### **Advertising**

The Company did not advertise during the period of examination. The Company's reputation and products were only communicated to existing or potential members by the Board and the Company's agent 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 the Company did not maintain a complaint log as required by this statute during the examination period. 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, please see the "Comments and Recommendations" section later in this report.

## **SUBSEQUENT EVENTS**

The Company has filed Form A, to merge with Farmers Mutual of Tennessee.

## 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:

### ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds and Long-term Certificates of Deposit	\$1,283,958		\$1,283,958
Properties occupied by the company	2,531		2,531
Cash and cash equivalents	265,131		265,131
Interest, dividends, and real estate income due and accrued	3,750		3,750
Prepaid expenses	<u>250</u>	<u>\$282</u>	<u>(32)</u>
<b>Total Admitted Assets</b>	<b><u>\$1,555,620</u></b>	<b><u>\$282</u></b>	<b><u>\$1,555,338</u></b>

### LIABILITIES AND POLICYHOLDERS' SURPLUS

Unearned premiums		32,541
Aggregate write-ins for liabilities		<u>4,873</u>
<b>Total Liabilities</b>		<b><u>37,414</u></b>
<b>Policyholders' Surplus</b>		<b><u>1,517,924</u></b>
<b>Total Liabilities and Policyholders' Surplus</b>		<b><u>\$1,555,338</u></b>

## STATEMENT OF INCOME

### UNDERWRITING INCOME

Net premiums and assessments earned	<u>\$71,342</u>
-------------------------------------	-----------------

### DEDUCTIONS

Net Losses incurred	0
Loss expenses incurred including claims adjustment expenses	41,102
Other underwriting expenses incurred	<u>70,047</u>
Total underwriting deductions	<u>111,149</u>
Net underwriting gain (loss)	<u>(39,807)</u>

### INVESTMENT INCOME

Net investment income earned	18,407
Net realized capital gains (losses) less capital gains tax	<u>0</u>
Net investment gain (loss)	18,407

### OTHER INCOME

Aggregate write-ins for miscellaneous income	<u>2,771</u>
Total other income	<u>2,771</u>
Net income after dividends to policyholders and before federal income taxes	(18,629)
Federal income taxes incurred	<u>0</u>
<b>Net income</b>	<b><u>(\$18,629)</u></b>

**POLICYHOLDERS' SURPLUS ACCOUNT**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Policyholders' Surplus					
December 31, previous year	<u>\$1,535,405</u>	<u>\$1,514,195</u>	<u>\$1,579,426</u>	<u>\$1,631,306</u>	<u>\$1,692,013</u>
Net income or (loss)	(18,629)	21,210	(65,231)	(52,097)	(61,022)
Change in net unrealized capital gains or (losses)	0	0	0	0	0
Change in non-admitted assets from prior years	0	0	0	217	315
Aggregate write-ins for gains and losses in surplus	<u>1,148</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>(17,481)</u>	<u>21,210</u>	<u>(65,231)</u>	<u>(51,880)</u>	<u>(60,707)</u>
Policyholders' Surplus					
December 31, current year	<u>\$1,517,924</u>	<u>\$1,535,405</u>	<u>\$1,514,195</u>	<u>\$1,579,426</u>	<u>\$1,631,306</u>

## ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus

\$1,517,924

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 "Market Conduct Activities" section of this report, the Company does not maintain a complaint log as required by Tenn. Code Ann. § 56-8-104. The Company does 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 created a complaint log and formal complaint procedures in order to comply with the aforementioned statute.

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 could be obtained 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 or by a committee appointed by the board and charged with the duty of supervising the investment or loan."

Subsequent to the examination date, on January 27, 2020, the Board gave full authority to the Secretary/Treasurer to buy and sell all investments at her sole discretion without further action from the Board.

**Recommendation**

1. As noted in the "Accounts and Records" section of this report, the Company has exceeded the thirty percent (30%) compensation expense ratio every year of the examination period. This is not in compliance with Tenn. Comp. R. and Regs. 0780-1-78-.04.

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total Compensation</b>	<b>\$50,458</b>	<b>\$46,352</b>	<b>\$47,711</b>	<b>\$112,044</b>	<b>\$42,062</b>
<b>Gross Premium</b>	<b>\$71,676</b>	<b>\$71,494</b>	<b>\$75,290</b>	<b>\$79,550</b>	<b>\$81,062</b>
<b>Compensation Expense Ratio</b>	<b>70%</b>	<b>65%</b>	<b>63%</b>	<b>141%</b>	<b>52%</b>

It is recommended that the Company ensures the compensation expense ratio is in accordance with Tenn. Comp. R. and Regs. 0780-1-78-.04.

## 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 Union County.

In such manner, it was found that as of December 31, 2018, the Company had admitted assets of \$1,555,338 and liabilities of \$37,414, exclusive of policyholders' surplus. Thus, there existed for the additional protection of the policyholders, the amount of \$1,517,924 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, Jody Fox, Insurance Examiner, and Daniel Clements, CPA, Supervising Examiner, from the State of Tennessee, participated in the work of this examination.

Respectfully submitted,

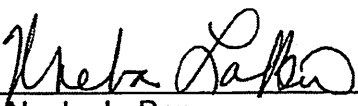


Nneka LaBon  
Examiner-in-Charge  
State of Tennessee



# AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of the Farmers Mutual Fire Insurance Company of Union County located in Maynardville, Tennessee, dated March 4, 2020, and made as of December 31, 2018, 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.

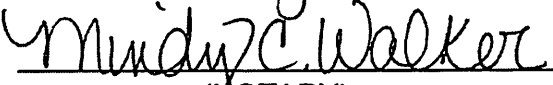
  
\_\_\_\_\_  
Nneka LaBon  
Examiner-in-Charge  
State of Tennessee

State Tennessee

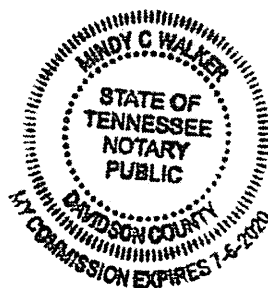
County Davidson

Subscribed to and sworn before me

this 22nd day of June, 2020

  
\_\_\_\_\_  
(NOTARY)

My Commission Expires: 7.6.2020



**The Farmers Mutual Fire Insurance Company  
Of Union County**

140 Court Street · P.O. Box 326  
Maynardville, Tennessee 37807-0326  
865-992-3552

June 23, 2020

E. Joy Little  
Director of Financial Examinations/Chief Examiner  
Tennessee Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, TN 37243-1135

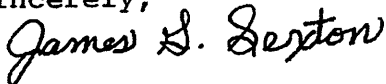
RE: Report of Examination Farmers Mutual Fire Insurance Company  
of Union County

Dear Ms. Little:

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

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

Sincerely,



James G. Sexton  
President