



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

**REPORT ON EXAMINATION
OF THE
FARMERS MUTUAL INSURANCE COMPANY
OF
GILES COUNTY
(NAIC # 15974)
PULASKI, TENNESSEE**

**AS OF
DECEMBER 31, 2016**

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Pulaski, Tennessee
February 8, 2018

Honorable Julie Mix McPeak
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Code Annotated ("Tenn. Code Ann.") § 56-22-115, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a full-scope financial examination and market conduct review as of December 31, 2016, has been made of the condition and affairs of:

Farmers Mutual Insurance Company of Giles County

NAIC # 15974

212 West Madison Street

Post Office Box 732

Pulaski, Tennessee 38478

hereinafter and generally 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") under the rules and regulations established by the State of Tennessee. The examination commenced on September 18, 2017, and was conducted by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2011. This examination report covers the period from January 1, 2012, to the close of business on December 31, 2016, 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 the 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.

Our 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 also performed concurrently with the financial examination. See "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

Our examination included a review to determine the current status of the comments and recommendations in the previous Report on Examination, as of December 31, 2011, which covered the period from January 1, 2007, through December 31, 2011. A summary of the previous Report comment and the corrective action taken by the Company is discussed below:

Comment #1

The Company is encouraged to develop a premium aging system which would allow a true accounting of due and uncollected premium to allow a determination of any premium balances which are more than 90 days due and should be non-admitted. This would allow the uncollected premium asset to become an admitted asset for statutory financial statement purposes pursuant to SSAP No. 6.

Corrective Action

The Company uses an automated policy management system provided by Automated Insurance Management Systems (AIMS). AIMS has created a way for

the Company to account for all non-payments and past due accounts. The Company now produces regular reports to monitor policies that are past due. The Company sends a ten (10) day cancellation notice on policies over fifteen (15) days past due.

COMPANY HISTORY

The Company incorporated on March 24, 1900, under the provisions of the Tennessee Business Corporation Act. The company is a non-profit mutual benefit corporation organized as a county mutual fire insurance company ("county mutual"), pursuant to Tenn. Code Ann. Title 56, Chapter 22. The Company's purpose is to insure loss or damage to property due to fire, lightning, hail, extended coverage, and tornado. The Company commenced business on April 12, 1900.

As of December 31, 2016, the Company was licensed to transact business in the state of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(a). The Company is limited to providing coverage to residents of Giles County and counties contiguous thereto in the State of Tennessee.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in a Board of Directors ("Board"), elected annually by its policyholders ("members") at the annual members' meeting. In accordance with the Bylaws, the Board shall consist of at least six (6) directors and no more than fifteen (15) directors. A majority of the Board constitutes a quorum, as defined by the Bylaws.

The following persons were duly elected by the members to serve on the Board, as of December 31, 2016:

| <u>Director</u> | <u>Address</u> |
|------------------------|-------------------------|
| Harry W. Burns | Pulaski, Tennessee |
| Sandra G. Clark | Pulaski, Tennessee |
| Richard E. Long, Sr. | Pulaski, Tennessee |
| Richard E. Long, Jr. | Pulaski, Tennessee |
| Lane E. Rose | Pulaski, Tennessee |
| Ruby L. Petty | Pulaski, Tennessee |
| Clint W. Burns | Lawrenceburg, Tennessee |

Subsequent to the examination period, Ruby Petty retired from the Board, bringing the number of directors to six (6). One-third (1/3) of the directors are to be elected at each annual members' meeting, and each serves a term of three (3) years. Due to attrition, the Board election cycle became unbalanced with four (4) directors elected one (1) year and only one (1) director elected each of the other two (2) years. The Board has elected to extend the term of two (2) directors to resolve the issue. See "Comments and Recommendations" section of this report.

Officers

The Bylaws of the Company instruct the Board to elect annually the officers of the Company, immediately following the annual meeting of the members.

The following persons served as the Company's officers, as of December 31, 2016:

| <u>Name</u> | <u>Title</u> |
|--------------------|--------------------------------|
| Harry W. Burns | President, Director |
| Lane E. Rose | Vice-President |
| Sandra G. Clark | Secretary, Treasurer, Director |

Committee

The Board installed an Executive Committee to provide oversight for the affairs of the Company. The following persons served on the Executive Committee, as of December 31, 2016:

| <u>Name</u> | <u>Title</u> |
|--------------------|--------------------------------|
| Harry W. Burns | President, Director |
| Lane E. Rose | Vice-President |
| Sandra G. Clark | Secretary, Treasurer, Director |

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 meetings are held the first Monday of March each year. Special meetings of the members shall be held at the call of the Board. Meetings 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, irrespective of the number of policies owned by any member. No member shall be entitled to more than one (1) vote, whether such policy is held individually, jointly, or otherwise. Members are allowed to vote by mail. Pursuant to the Bylaws, a quorum for the transaction of business consists of those members actually present and in attendance at the meeting, provided there are as many as ten (10) or more members of the Company in attendance. The affirmative vote of a plurality of members present shall be necessary to pass any action.

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

CONFLICTS OF INTEREST AND PECUNIARY INTEREST

The Company is required to comply with Tenn. Code Ann. § 56-3-103 prohibiting officers and directors of insurance companies from having a pecuniary interest in the investment or disposition of funds of a domestic insurance company. The Company did not have a formal conflict of interest policy. See "Comments and Recommendations" section of this report.

A review of the Company's compliance with Tenn. Code Ann. § 56-3-103 found no director or officer of the Company had a pecuniary interest in the investment or disposition of Company funds.

AFFILIATED COMPANIES

The Company is licensed as a "county mutual insurance company," owned by its members. It does not have any subsidiaries or affiliates and does not meet the definition of a holding company system as defined by Tenn. Code Ann. § 56-11-101(b)(7).

CORPORATE RECORDS

Constitution and Bylaws

The Constitution and Bylaws recite the general and specific powers of the Company in detail. The Constitution and Bylaws were reviewed and are such as are generally found in companies of this type and contain no unusual provisions. The Bylaws may be amended or repealed, or new Bylaws may be drafted and adopted, by the affirmative vote of two-thirds (2/3) of the Directors at any regular or special meeting provided a copy of the proposed amendment has been filed with the Secretary not less than sixty (60) days before any such meeting. There were no amendments to the Constitution and Bylaws during the period of examination.

Meeting Minutes

The minutes provided a brief summary of the actions of the Board. During the period of examination, there were five (5) annual meetings of members, eighteen (18) regular Board meetings and one (1) Executive Committee meeting. Minutes of the referenced meetings were reviewed. Investment transactions were approved by the Board pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

SERVICE AGREEMENTS

The Company had several verbal agreements in place during the period under examination. See the "Comments and Recommendations" section later in the Report.

Financial and Tax Preparation Services

Greg Lemon, CPA of Lawrenceburg, Tennessee provides limited accounting services related to regulatory filings and federal income tax filings.

Policy Management Services

AIMS of Richmond, Virginia provides policy management and premium accounting software and support services.

EMPLOYEE BENEFITS

The Company reimburses its only employee, the Secretary/Treasurer, for her Medicare supplement payments. This is the only benefit offered. There are no pension plans.

FIDELITY BOND AND OTHER INSURANCE

The Company is listed as a named insured on a policy providing employee dishonesty (fidelity) coverage. The Company's fidelity coverage exceeds the minimum amount suggested in the NAIC Handbook.

The fidelity coverage and other insurance policies were reviewed and the Company is listed as a named insured on the following other insurance coverages as of December 31, 2016:

| | |
|--------------------------------|--|
| Forgery and Alteration | Release of Protected Information |
| Property, Liability & Medical | Directors & Officers Liability |
| Employment Practices Liability | Insurance Company Professional Liability |

All of the above policies were issued by companies licensed to transact business in the State of Tennessee or by authorized surplus lines insurers.

TERRITORY AND PLAN OF OPERATION

Territory

The Company's current Certificate of Authority was issued by the TDCI on September 3, 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 all counties contiguous to Giles County in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(f)(1). The Company writes policies in Giles, Lawrence, Lincoln, Marshall, and Maury counties in Tennessee.

During the examination, it was noted that the Company had issued a policy in Perry County. Pursuant to Tenn. Code Ann. § 56-22-106(f)(1) and the Company's Certificate of Authority, the Company is not permitted to issue policies in Perry County. The examiner informed the Company of this violation and the Company canceled the policy with proper notice. See "Comments and Recommendations" section of this report.

Plan of Operation

The Company provides its members with coverage on dwellings, rental homes, mobile homes, farm buildings, livestock, personal property, farm machinery, and churches in case of loss due to fire, lightning, hail, extended coverage, and tornado. 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 a verbal agreement with Farmers. See the "Comments and Recommendations" section later in the Report.

The Company has three rate tiers for dwellings based on certain criteria such as age, condition, and value. The standard deductible is \$500, and the policyholder has the option of paying premium rates that are lower in exchange for a higher deductible.

The Company's agent performs a visual inspection, photographs the property, and determines its value prior to the issuance of a policy. The agent also reviews the county tax assessor's website to assess property value. The Company's President approves or rejects all policy applications prepared by the agent. Upon the signing of the completed application by the Company's President and collection of the initial billed premium, the policy is bound. The policy is issued upon the signature of the President and Secretary and then mailed to the member.

GROWTH OF COMPANY

The following comparative data reflects the growth of the Company for the period under review as reported by the Company in its respective Annual Statements:

| <u>Year</u> | <u>Net Premiums Earned</u> | <u>Net Incurred Losses</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Policyholders' Surplus</u> | <u>Net Income</u> |
|-------------|----------------------------|----------------------------|------------------------|--------------------|-------------------------------|-------------------|
| 2016 | \$294,087 | (\$134,052) | \$1,226,790 | \$232,407 | \$994,320 | \$301,998 |
| 2015 | \$291,223 | \$213,126 | \$921,631 | \$345,165 | \$620,635 | (\$52,953) |
| 2014 | \$306,546 | \$168,890 | \$1,323,171 | \$344,245 | \$820,706 | (\$6,761) |
| 2013 | \$316,830 | \$170,993 | \$1,087,861 | \$267,717 | \$827,467 | (\$1,216) |
| 2012 | \$284,779 | \$355,737 | \$1,292,797 | \$259,672 | \$837,189 | (\$193,929) |

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 respective Annual Statements:

| <u>Year</u> | <u>Net Premiums Earned</u> | <u>Net Losses + LAE</u> | <u>Loss Ratio</u> | <u>Premiums Written</u> | <u>Other Expenses</u> | <u>Expense Ratio</u> | <u>Combined Ratio</u> |
|-------------|----------------------------|-------------------------|-------------------|-------------------------|-----------------------|----------------------|-----------------------|
| 2016 | \$294,087 | (\$133,322) | (45.3%) | \$294,087 | \$145,679 | 49.5% | 4.2% |
| 2015 | \$291,223 | \$213,572 | 73.3% | \$291,223 | \$148,819 | 51.1% | 124.4% |
| 2014 | \$306,546 | \$168,890 | 55.1% | \$306,546 | \$149,766 | 48.9% | 104.0% |
| 2013 | \$316,830 | \$170,993 | 54.0% | \$316,830 | \$138,932 | 43.9% | 97.8% |
| 2012 | \$284,779 | \$355,737 | 124.9% | \$284,779 | \$141,173 | 49.6% | 174.5% |

The Company experienced a gain in 2016. This was due to receiving reinsurance that had been previously non-admitted due to being 90 days past due. The reinsurance payment was held until pending litigation between the Company and a policyholder was adjudicated. The reinsurer wanted to determine the final amount due before paying on the claim.

ACCOUNTS AND RECORDS

The Company engaged Greg Lemon, CPA to assist the Company with certain accounting services, preparation of income tax returns, and preparation of certain regulatory filings.

The Company's 2016 annual statement was reconciled to the corresponding general ledger account balances. All of 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. These test checks and reviews revealed no material discrepancies.

The Company's custodial agreement was reviewed for compliance with Tenn. Comp. R. & Regs. 0780-01-46-.02. Upon review of the custodial agreement, the examiner found that not all of the required terms were included in the Company's custodial agreement with SunTrust Bank ("SunTrust"). See "Comments and Recommendations" section of this report.

Pursuant to Tenn. Comp. R. & Regs. 0780-1-78-.04(3), the Company was not required to file financial reports audited by a certified public accountant during the period under examination.

The Company was not required to file the Management's Discussion and Analysis Report (MD&A) section of the NAIC *Annual Statement Instructions for Property and Casualty Companies*, pursuant to Tenn. Comp. R. & Regs. 0780-01-37.

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

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's books and records are located in Pulaski, Tennessee.

STATUTORY DEPOSIT

Pursuant to Tenn. Code Ann. § 56-20-117, the Company was not required to pledge a deposit to the Commissioner of the TDCI in order to lawfully conduct business in the State of Tennessee.

LITIGATION AND CONTINGENT LIABILITIES

The Company is not party to any pending legal proceedings, nor were any commitments or contingencies found that would materially affect the Company's financial position or operating results as of December 31, 2016.

REINSURANCE

Specific and Aggregate Excess of Loss Reinsurance

The Company has an excess of loss reinsurance treaty in effect with Farmers for the purpose of limiting exposure on larger risks. Under the terms of this agreement, the Company retains the first \$25,000 of each risk per occurrence and reinsures up to \$3,500,000 through a series of three (3) layers of coverage.

Subsequent to the period under examination, the Company changed reinsurers, moving from Farmers to a group of authorized reinsurers brokered by Guy Carpenter. Under the terms of this agreement, the Company retains the first \$25,000 of each risk per occurrence up to one thousand percent (1,000%) of the Company's Gross Premium net of the premium ceded to the reinsurers.

Both of the agreements were 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). These agreements appear to transfer risk in accordance with SSAP No. 62 and NAIC guidelines. The agreements were found to meet the requirements set forth in Tenn. Code Ann. § 56-22-110.

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a market conduct review was made of the Company, as of December 31, 2016. The following areas were addressed:

Policy Forms and Underwriting Practices

Pursuant to Tenn. Code Ann. §§ 56-5-303, 56-5-304, 56-5-305, and 56-22-109(b)(1), the Company's policy forms in effect from January 1, 2012, through December 31, 2016, were approved by the TDCI on December 06, 2006.

The Company's premium rates increased during the examination period. The increase was approved by the TDCI on February 13, 2013.

Advertising

The Company does not advertise. The Company's reputation and products are communicated to potential policyholders via word of mouth and referrals from other local insurance offices.

Policy Cancellation

The Company mails a premium notice to its members thirty (30) days before the due date. Policyholders are given thirty (30) days to make their premium payment. Then policyholders are given a five (5) day grace period before a cancellation notice is sent to the member and lienholder(s). The cancellation notice gives the policyholder a ten (10) day notice that their policy will be canceled.

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

All claims closed during 2016 were examined for compliance with the Company's policy terms and Tenn. Code Ann. § 56-8-105.

The Company's Agent adjusted all claims tested. Tested claims were handled properly, in accordance with policy provisions and applicable statutes.

Complaint Register

The Company did not maintain a complaint register that was compliant with Tenn. Code Ann. § 56-8-104 (11). The Company did have a record of their complaints, but did not have a formal complaint register with all of the required information per the statutes. See "Comments and Recommendations" section of this report.

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in this examination report. Our review confirmed the Company's disclosures in its Letter of Representation. Management stated in its Letter of Representation that they were not aware of any events subsequent to December 31, 2016, that could have a material effect on the Company's financial condition.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income as of December 31, 2016, together with a reconciliation of policyholders' surplus for the period under review, as reported by the Company:

| | <u>ASSETS</u> | | |
|---|--------------------|--------------------------------|--------------------------------|
| | <u>Assets</u> | <u>Non-Admitted Assets</u> | <u>Net Admitted Assets</u> |
| Bonds | \$348,609 | | \$348,609 |
| Real estate (properties occupied by the company) | 5,000 | | 5,000 |
| Cash, cash equivalents, and short-term investments | 879,264 | | 879,264 |
| Premium receivables and agents balances over 90 days past due | <u>6,083</u> | <u>\$6,083</u> | <u>0</u> |
| Totals | <u>\$1,232,873</u> | <u>\$6,083</u> | <u>\$1,226,790</u> |

LIABILITIES & POLICYHOLDERS' SURPLUS

| | |
|--|--------------------|
| Loss adjustment expenses | \$730 |
| Unearned premiums | 199,245 |
| Ceded reinsurance premiums payable | 20,916 |
| Amount withheld or retained by company for account of others | <u>11,579</u> |
| Total liabilities | 232,470 |
| Policyholders' surplus | <u>994,320</u> |
| Total liabilities & policyholders' surplus | <u>\$1,226,790</u> |

STATEMENT OF INCOME

UNDERWRITING INCOME

| | |
|--------------------------------------|------------------|
| Premiums earned | <u>\$301,467</u> |
| DEDUCTIONS | |
| Net losses incurred | (134,052) |
| Loss adjustment expenses incurred | 731 |
| Other underwriting expenses incurred | <u>145,679</u> |
| Total underwriting deductions | <u>12,357</u> |
| Net underwriting gain (loss) | 289,109 |

INVESTMENT INCOME

| | |
|--|----------|
| Net investment income earned | 11,631 |
| Net realized capital gains (losses) less capital gains tax | <u>0</u> |
| Net investment gain (loss) | 11,631 |

OTHER INCOME

| | |
|---|-------------------------|
| Finance and service charges not included in premiums | 0 |
| Aggregate write-ins for miscellaneous income | <u>1,258</u> |
| Total other income | <u>1,258</u> |
| Net income before dividends to policyholders and federal income taxes | 301,998 |
| Federal income taxes incurred | <u>0</u> |
| Net income | <u><u>\$301,998</u></u> |

POLICYHOLDERS' SURPLUS ACCOUNT

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|------------------|------------------|------------------|------------------|--------------------|
| Policyholders' Surplus | | | | | |
| December 31, previous year | <u>\$620,635</u> | <u>\$820,706</u> | <u>\$827,467</u> | <u>\$837,189</u> | <u>\$1,067,614</u> |
| Net income or (loss) | 301,998 | (52,953) | (6,761) | (1,216) | (193,929) |
| Change in non-admitted assets from prior year | 71,687 | (147,117) | 0 | 35,983 | 0 |
| Cumulative effect of changes in accounting principles | 0 | 0 | 0 | (44,489) | (36,497) |
| Net change in capital and surplus for the year | <u>373,685</u> | <u>(200,070)</u> | <u>(6,761)</u> | <u>(9,722)</u> | <u>(230,426)</u> |
| Policyholders' Surplus | | | | | |
| December 31, current year | <u>\$994,320</u> | <u>\$620,635</u> | <u>\$820,706</u> | <u>\$827,467</u> | <u>\$837,189</u> |

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus

\$994,320

Total policyholders' surplus, as established by this examination, is the same as what was reported by the Company in its 2016 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2016.

COMMENTS AND RECOMMENDATIONS

Comments

1. The Board of Directors, per the Bylaws, is to elect one-third (1/3) of the Board each year for a three (3) year term. Due to attrition, the Board was no longer electing a third of its members each year. The Board resolved to extend the term of two Board members to bring the Board elections back into its proper cycle. This decision is compliant with TCA 48-58-105(d). See "Management and Control" section of this report.
2. The Company does not have a formal conflict of interest policy to govern the actions of its officers and directors. As a good business practice and to evidence compliance with Tenn. Code Ann. §56-3-103, the Company is advised to implement such a policy and require annual disclosures of conflicts or potential conflicts of interest. See "Management and Control" section of this report.
3. As noted in the "Service Agreements" section, the Company has several verbal agreements in place with its service providers. As a "best practice," the Company should consider formalizing these verbal agreements by reducing them to writing.
4. Farmers Mutual Insurance Company of Giles County did not have authority to sell policies in Perry County per their Certificate of Authority and Tenn. Code Ann. § 56-22-106(f)(1). They sold a policy in Perry County in 2015. The examiner discussed the violation with the Company and they canceled the policy, giving proper notice. See "Territory and Plan of Operation" section of this report.
5. The Company's custodial agreement was not compliant with Tenn. Comp. R. & Regs. 0780-01-46-.02. Upon review of the custodial agreement, the examiner found that not all of the required terms were included in the Company's custodial agreement with SunTrust. The Company amended the custodial agreement to add the required terms. See "Accounts and Records" section of this report.

6. The Company did not maintain a complaint register that was compliant with Tenn. Code Ann. § 56-8-104 (11). The Company did have a record of their complaints, but did not have a formal complaint register with all of the required information per the statutes. During the examination, the Company revised their complaint tracking process to be compliant with the statutes. See “Market Conduct Activities” section of this report.

Recommendations

1. The Company facilitates the sale of liability insurance coverage on behalf of Farmers as a service to policyholders who wish to obtain such coverage on properties insured by the Company. The Company accepts premium payment for its policies and the Farmers’ liability policies, often in one check. The Company remits the Farmers’ liability policy premiums, minus a commission, to Farmers after receiving a quarterly statement from Farmers. There is no written agreement between the Company and Farmers regarding the holding of funds. The Company should discontinue the practice of accepting premium payments for Farmers’ liability policies in the same check as payment of its premiums. Premium payments should be received in separate checks. If a single payment method is allowed for customer convenience, the payments should be made to the licensed insurance producer, who then remits the appropriate premiums to the respective insurers. The Company should obtain a written agreement from Farmers.

Further, the Company receives a commission on every Farmers’ liability policy sold. This is a violation of Tenn. Code Ann. § 56-6-113(b), which states “A person shall not accept a commission, service fee, brokerage or other valuable consideration for selling, soliciting or negotiating a contract of insurance in this state if that person is required to be licensed under this part and is not so licensed”. The Company should discontinue the practice of accepting commissions on the Farmers’ liability policies sold and should use an appropriately licensed and appointed agent for administering the Farmers’ liability policies. See “Plan of Operations section” of this report.

CONCLUSION

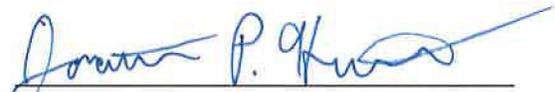
Rules and procedures as prescribed by the statutes of the State of Tennessee, and guidance from the NAIC Handbook, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Farmers Mutual Insurance Company of Giles County.

In such manner, it was determined that, as of December 31, 2016, the Company had admitted assets of \$1,226,790 and liabilities, exclusive of policyholders' surplus, of \$232,470. Thus, there existed for the additional protection of the policyholders surplus funds of \$994,320. 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, 2016, the Company maintains surplus in excess of the amount required pursuant to Tenn. Code Ann. § 56-22-105(c).

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

In addition to the undersigned, Jay Uselton, CFE and Leah Thomas, CFE, MCM, AIE, FLMI, Insurance Examiners, from the State of Tennessee, participated in the work of this examination.

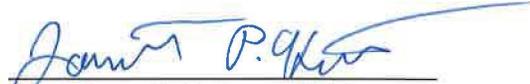
Respectfully submitted,



Jonathan P Habart, CPA
Examiner-in-Charge
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Farmers Mutual Insurance Company of Giles County located in Pulaski, Tennessee, dated February 8, 2018, and made as of December 31, 2016, 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.



Jonathan P Habart, CPA
Examiner-in-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 14th day of June, 2018

Mindy C. Walker
(NOTARY)



My Commission Expires: 7.6.2020

EXHIBIT B

Farmers Mutual Insurance Company of Giles County
P.O. Box 732
Pulaski, Tennessee 38478
Phone: 931-363-1322
Fax: 931-363-1332

June 7, 2018

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

RE: Report of Examination – Farmers Mutual Insurance Company of Giles County

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for **Farmers Mutual Insurance Company of Giles County**. By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,



Harry Winford Burns, President