



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

**REPORT ON EXAMINATION
OF THE
FARMERS UNION MUTUAL FIRE INSURANCE COMPANY
OF
BRADLEY COUNTY
(NAIC # 15975)
Cleveland, Tennessee**

**AS OF
DECEMBER 31, 2018**

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Cleveland, Tennessee
March 12, 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 UNION MUTUAL FIRE INSURANCE COMPANY OF BRADLEY COUNTY
NAIC # 15972
915 25th Street NW
Cleveland, Tennessee 37311

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 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 confirming 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. A summary of the Commissioner's directives and the corrective actions taken by the Company is discussed below:

Comment #1

The Company does not have a conflict of interest policy to govern the actions of all directors, officers, and employees. It is suggested that the Company implement such a policy and require annual disclosures of conflicts or possible conflicts of interest.

Corrective Action

The Company has not created a written conflict of interest policy to govern the actions of all directors, officers, and employees. For additional details, see the "Comments and Recommendations" section later in this report.

Recommendation #1

During the previous examination, it was reported that the Company reflected prepaid reinsurance premiums as an "Aggregate write-ins for other than invested assets" on page 2, line 16 in its 2009 through 2013 annual statements. The reported amounts did not

meet the definition of prepaid reinsurance premiums pursuant to Section 44 of NAIC Statement of Statutory Accounting Principles (SSAP) No. 62R - Property and Casualty Reinsurance. It was recommended that the Company account for prepaid reinsurance premiums in accordance with SSAP No. 62R – Property and Casualty Reinsurance, and report “Aggregate write-ins for other than invested assets” pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and annual statement Instructions.

Corrective Action

The Company has not corrected this issue and is still incorrectly accounting for their prepaid reinsurance premiums and write-ins for other than invested assets. For additional details, see the “Comments and Recommendations” section later in this report.

Recommendation #2

It was recommended that the Company account for unearned premiums pursuant to SSAP No. 53 – Property Casualty Contracts – Premiums, and report unearned premium in accordance with Tenn. Code Ann. § 56-22-109(a)(4) and Instructions.

Corrective Action

The Company has accounted for their unearned premiums in accordance with Tenn. Code Ann. § 56-22-109(a)(4) and Instructions during the examination period.

Recommendation #3

It was recommended that the Company report advance premium pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and Instructions.

Corrective Action

The Company has accounted for their advance premiums in accordance with Tenn. Code Ann. § 56-22-109(a)(4) and Instructions during the examination period.

Recommendation #4

It was recommended that the Company report taxes, licenses, and fees payable pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and Instructions.

Corrective Action

The Company has accounted for their taxes, licenses, and fees payable in accordance with Tenn. Code Ann. § 56-22-109(a)(4) and Instructions during the examination period.

COMPANY HISTORY

The Company was incorporated on October 14, 1914, under the Tennessee Business Corporation Act as a non-profit mutual benefit corporation. The Company commenced business on October 14, 1914. On September 15, 2005, 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 Certificate of Authority is valid until suspended or revoked and allows the Company to transact business operations in all counties contiguous to Bradley County to the second degree in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(f)(1). The Company currently writes policies in Bradley, Hamilton, McMinn, Meigs, Polk, and Rhea Counties in Tennessee. 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 Bradley County, Tennessee.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in a Board of Directors ("Board"). Directors are elected for a term of three (3) years. In accordance with the Bylaws, the Board shall consist of not less than six (6) or more than fifteen (15) 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>
John F. Eads	Cleveland, Tennessee
David Campbell	Cleveland, Tennessee
Charles Hannah	Cleveland, Tennessee
Robert Still	Cleveland, Tennessee
Milton Humbert Jr	Cleveland, Tennessee
Charles McSpadden	Cleveland, Tennessee
David Beaty	Cleveland, Tennessee
Danna Burgner	Cleveland, 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>
John F. Eads	President
Charles Hannah	Vice President
David A. Campbell	Secretary/Treasurer

Committees

The Board appointed an Executive Committee. The following individuals were serving on the Executive Committee, as of December 31, 2018:

<u>Name</u>	<u>Title</u>
John F. Eads	President
Charles Hannah	Vice President
David A. Campbell	Secretary/Treasurer

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 first Saturday after the second Monday in January of each year at the courthouse, or at such place as may be designated by the management.

Special meetings of the members shall be held at the call of the Board and shall be called on petition of one-fourth (1/4) of the members. 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. A quorum for any membership meeting shall consist of ten percent (10%) of the membership or ten (10) members, whichever is less.

The Company's members held five (5) annual meetings, ten (10) regular meetings, and no special meetings during the examination period.

CONFLICTS OF INTEREST AND PECUNIARY INTERESTS

The Company does not have a written conflict of interest policy in place. 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.

For additional details, 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, with one exception. While reviewing the minutes, it was noted that there was no documentation of the Company's approval of investments. The Board is 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.

Charter

The Charter recites the general and specific powers of the Company in detail. The Charter, as currently stated, was inspected and found to have been duly issued and properly recorded. There were no amendments to the Charter during the period of examination.

Bylaws

The 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 majority vote of the members present at any regular or special meeting of the members. There were no amendments to the Bylaws during the period of examination.

SERVICE AGREEMENTS

The Company had several agreements in place for services during the period under examination.

The Company is operating under several verbal service agreements with various third parties. As a good business practice, the Company should formalize these verbal agreements in writing and execute with all parties. For additional details, see the "Comments and Recommendations" section later in this report.

Financial and Tax Preparation Services

Through a verbal agreement, a local certified public accounting (CPA) firm in Cleveland, Tennessee, provides limited accounting services related to regulatory filings, including preparation of statutory annual statements, quarterly statements, and federal income tax filings.

Claims Adjustment Services

Through a verbal agreement, N & C Claims, Inc. and TW Claims Group provide claims adjustment services for the Company on an as needed basis.

TERRITORY AND PLAN OF OPERATION

Territory

The Company's current Certificate of Authority was issued by the TDCI on September 15, 2005, 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 Bradley County to the second degree in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(f)(1). The Company currently writes policies in Bradley, Hamilton, McMinn, Meigs, Polk, and Rhea 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.

The Company's policies are typically written for sixty-seven percent (67%) of the replacement value of the property insured, subject to policy limits of \$450,000 per specific loss. The policy period for each policy is one (1) year, with premiums being due annually on the policy anniversary date, except for policyholders who choose to pay semi-annually. The standard deductible is \$500; however, members also have the option of paying lower premium rates for a \$1,000 deductible policy.

Liability coverage, provided through an agreement with Farmers Mutual of Tennessee ("Farmers"), a Tennessee property and casualty insurer, is also available to the members of the Company if they wish to purchase this additional protection. The four (4) types of liability coverage offered include: 1) Personal Liability, 2) Commercial Liability (Premises Only-Landlords), 3) Farm Personal Liability, and 4) Farm Employee Liability.

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	\$102,446	\$2,268,494	\$160,048	\$2,108,446	(\$4,666)
2017	\$174,082	\$2,271,949	\$169,614	\$2,102,335	\$44,713
2016	\$177,599	\$2,253,887	\$168,507	\$2,085,380	(\$14,809)
2015	\$161,889	\$2,256,191	\$163,009	\$2,165,431	(\$1,224)
2014	\$151,308	\$2,338,877	\$172,222	\$2,166,655	\$47,432

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 & LAE</u>	<u>Loss Ratio</u>	<u>Other Expenses</u>	<u>Expense Ratio</u>	<u>Combined Ratio</u>
2018	\$109,637	\$22,49	20.51%	\$127,224	116.04%	136.55%
2017	\$174,082	\$38,17	21.92%	\$115,680	66.45%	88.37%
2016	\$177,599	\$33,49	18.86%	\$195,377	110.01%	128.87%
2015	\$181,254	\$10,14	5.59%	\$202,500	111.72%	117.31%
2014	\$155,462	\$9,483	6.09%	\$145,128	93.35%	99.44%

REINSURANCE

The Company has three (3) reinsurance agreements with multiple reinsurers brokered by Guy Carpenter, including property first surplus; aggregate excess of loss; and property facultative pro-rata reinsurance agreements. All of the reinsurers are licensed carriers approved to transact business in the State of Tennessee.

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). The agreements appear to effectuate proper transfer of risk in accordance with 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

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). During the review of the Company's accounts and records, a number of discrepancies were noted as detailed below.

During the review of the Company's 2014, 2015, 2016, and 2017 annual statements, errors were noted in the Company's treatment of non-admitted assets. The Company had not been correctly charging non-admitted assets to surplus and as a result, the Company's assets were overstated during these years. The Company was not in compliance with the Instructions and Tenn. Code Ann. § 56-22-109. For additional details, see the "Comments and Recommendations" section later in this report.

During the review of the Company's Policyholders' Surplus Account in the Company's 2016 amended annual statement, it was noted that the amount reported for "Policyholders' surplus, December 31, previous year" did not agree with the amount reported as the ending policyholders' surplus amount on the Company's 2015 annual statement. This is not in compliance with the Instructions and Tenn. Code Ann. § 56-22-109. For additional details, see the "Comments and Recommendations" section later in this report

During the review of the Company's claims, it was noted that the Company was not correctly accounting for their open and unpaid claims in accordance with SSAP No. 55 and with the annual filing Instructions. In the Company's 2015 and 2018 annual statements, the Company reported that it had no open and unpaid claims as of December 31, 2015, or December 31, 2018. However, upon review of the Company's claims for these years, it was found that there was one (1) claim in each year that was open and unpaid as of the end of the year. For additional details, see the "Comments and Recommendations" section later in this report.

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 Cleveland, Tennessee.

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a limited market conduct review was made of the Company, as of December 31, 2018. 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 June 3, 2013. No rate changes were made during the examination period.

During a review of the Company's insurance applications, it was noted that the applications were not complete, which is not in compliance with Tenn. Code Ann. § 56-8-104. For additional details, see the "Comments and Recommendations" section later in this report.

Producer Licensing

During a review of producer licensing and appointments, it was noted that one of the Company's agents did not have an active license during the examination period, this is not in compliance with Tenn. Code Ann. § 56-6-103. This issue was addressed and corrected during the examination. For additional details, 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.

Upon completion of this testing, it was noted that many of the claims chosen for review were not documented properly. This is not in compliance with Tenn. Code Ann. § 56-8-104. For additional details, see the "Comments and Recommendations" section later in this report.

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>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds and Long-term			
Certificates of Deposit	\$2,012,713		\$2,012,713
Preferred stocks	9,520		9,520
Cash and cash equivalents	242,147		242,147
Interest, dividends, and real estate income due and accrued	4,114		4,114
Aggregate write-ins for other than invested assets	<u>82,195</u>	<u>82,195</u>	<u>0</u>
Total admitted assets	<u>\$2,350,689</u>	<u>\$82,195</u>	<u>\$2,268,494</u>

LIABILITIES AND POLICYHOLDERS' SURPLUS

Unearned premiums	\$151,107
Advance premiums	<u>8,941</u>
Total liabilities	\$160,048
Policyholders' surplus	<u>2,108,446</u>
Total liabilities and policyholders' surplus	<u>\$2,268,494</u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Net premiums and assessments earned \$109,637

DEDUCTIONS

Net losses incurred 16,590
Loss expenses incurred including claims adjustment expenses 5,900
Total underwriting expenses incurred 127,224
Total underwriting deductions 149,714
Net underwriting gain or (loss) (40,077)

INVESTMENT INCOME

Net investment income earned 27,865
Net investment gain or (loss) 27,865

OTHER INCOME

Aggregate write-ins for miscellaneous income 7,546
Total other income 7,546
Net income after dividends to policyholders and before federal
income taxes (4,666)
Net income **(\$4,666)**

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>\$2,102,335</u>	<u>\$2,085,380</u>	<u>\$2,093,182</u>	<u>\$2,166,655</u>	<u>\$2,119,223</u>
Net income or (loss)	(4,666)	44,713	(14,809)	(1,224)	47,432
Change in net unrealized capital gains or (losses)	0	0	(28)	0	0
Change in non-admitted assets from prior years	<u>10,777</u>	<u>(27,758)</u>	<u>7,035</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>6,111</u>	<u>16,955</u>	<u>(7,802)</u>	<u>(1,224)</u>	<u>47,432</u>
Policyholders' Surplus					
December 31, current year	<u>\$2,108,446</u>	<u>\$2,102,335</u>	<u>\$2,085,380</u>	<u>\$2,165,431</u>	<u>\$2,166,655</u>

* See "Comments and Recommendations" section (Recommendation 4)

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus

\$2,108,446

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 "Compliance with Previous Examination Findings" and "Management and Control" sections of this report, the Company did not have a conflict of interest policy, nor did it require annual disclosures of conflicts of interest or potential conflicts of interest from Company officers, directors, and employees. Maintaining a conflict of interest policy and disclosure form and requiring annual disclosures is considered a best practice, as it documents the Company's compliance with Tenn. Comp. R. & Regs. 0780-01-54-.07(6) and (7), which prohibits Company officers and directors from having a pecuniary interest in any funds of the Company.

It is suggested that the Company implement such a policy and require annual disclosures of conflicts or possible conflicts of interest.

2. As noted in the "Management and Control" section of this report, the Company is operating under several verbal agreements with various third parties.

It is suggested that the Company formalize verbal agreements in writing and execute with all parties.

3. As noted in the "Accounts and Records" section of this report, the Company had not been correctly charging non-admitted assets to surplus in 2014, 2015, 2016, and 2017 and as a result, the Company's assets were overstated during these years. This is not in compliance with the Instructions and Tenn. Code Ann. § 56-22-109.

In 2017, the Company amended their 2016 and 2017 annual statements to address this issue, which put them into compliance with the Instructions and Tenn. Code Ann. § 56-22-109.

4. As noted in the "Market Conduct Activities" section of this report, one (1) of the Company's agents did not have an active license during the examination period. This is not in compliance with Tenn. Code Ann. § 56-6-103, which states that: "A person shall not sell, solicit or negotiate insurance in this state for any class or classes of insurance unless the person is licensed for that line of authority in accordance with this part."

This issue was addressed and corrected during the examination.

5. 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 during the examination period. The Company also did not have any formal complaint procedures as described in Tenn. Code Ann. § 56-8-104(11) during this time. 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.

The Company established a complaint log during the examination as is required by Tenn. Code Ann. § 56-8-104.

Recommendations

1. As noted in the "Compliance with Previous Examination Findings" section of this report, the Company reported prepaid reinsurance premiums as an "Aggregate write-ins for other than invested assets" on page 2, line 16 in its 2014 through 2018 annual statements. The reported amounts did not meet the definition of prepaid reinsurance premiums pursuant to Section 44 of SSAP No. 62R – Property and Casualty Reinsurance. This resulted in the Company overstating assets and policyholders' surplus in its 2014 through 2018 annual statements.

It is recommended that the Company account for prepaid reinsurance premiums in accordance with SSAP No. 62R – Property and Casualty Reinsurance and report "Aggregate write-ins for other than invested assets" pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and Instructions.

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 in accordance with Tenn. Code Ann. § 56-3-408(b)(1).

3. As noted in the “Accounts and Records” section of this report, the Company did not correctly account for open and unpaid claims in their 2015 and 2018 annual statements. The Company reported zero (0) open and unpaid claims for 2015 and 2018; however, upon review of the Company’s claims it was noted that there was one (1) open and unpaid claim in both 2015 and 2018. This is not in compliance with the Instructions prescribed by the Commissioner in accordance with Tenn. Code Ann. § 56-22-109 and SSAP No. 55.

It is recommended that the Company always comply with the Instructions prescribed by the Commissioner in accordance with Tenn. Code Ann. § 56-22-109 and SSAP No. 55.

4. As noted in the “Accounts and Records” section of this report, the Company did not correctly report their “Policyholders’ surplus, December 31, previous year” in their 2016 amended annual statement. In the Company’s 2016 amended annual statement, they reported \$2,093,182 as the previous year’s policyholders’ surplus, as of December 31, 2015. However, in the 2015 annual statement the policyholders’ surplus as of December 31, 2015, was reported as \$2,165,431, which is \$72,249 more than what was reported on the 2016 amended annual statement for the previous year’s policyholders’ surplus. This is not in compliance with the Instructions, which requires that the ending policyholders’ surplus balance from the prior year should be reported on the “Policyholders’ surplus, December 31, previous year” line 17, and Tenn. Code Ann. § 56-22-109.

It is recommended that the Company always comply with the Instructions prescribed by the Commissioner in accordance with Tenn. Code Ann. § 56-22-109.

5. As noted in the “Market Conduct Activities” section of this report, it was noted that the Company was not in compliance with Tenn. Code Ann. § 56-8-104(10), which states: “Failure of an insurer to maintain its books, records, documents and other business records in such order that data regarding claims, rating, underwriting and marketing are accessible and retrievable for examination by the insurance commissioner.” The Company was not in compliance with this law regarding their claims documentation and their records (applications of policies).

It is recommended that the Company always ensure that all documentation is maintained (claims documentation) and all forms and records are fully completed (policy applications) to be in compliance with Tenn. Code Ann. § 56-8-104(10).

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 Union Mutual Fire Insurance Company of Bradley County.

In such manner, it was found that as of December 31, 2018, the Company had admitted assets of \$2,268,494 and liabilities, exclusive of policyholders' surplus, of \$160,048. Thus, there existed for the additional protection of the policyholders, the amount of \$2,108,446 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 \$750,000. 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, Trang Truong, CPA, CIA, 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 Union Mutual Fire Insurance Company of Bradley County located in Cleveland, Tennessee, dated March 12, 2020, 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.

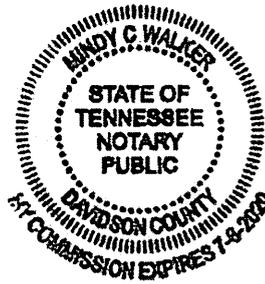
Dustin Rice
Dustin Rice
Examiner-in-Charge
State of Tennessee

State Tennessee
County Davidson

Subscribed to and sworn before me

this 18th day of June, 2020

Mindy C. Walker
(NOTARY)



My Commission Expires: 7.6.2020

EXHIBIT B

John Eads, President
Charles Hannah, Vice President

David A. Campbell
Manager, Sec. & Treas.

FARMERS' UNION MUTUAL

Fire Insurance Company of Bradley County

A County Mutual Insurance Company

915 25th Street NW • P.O. Box 1016
Cleveland, Tennessee 37364-1016

Telephone: (423) 476-8761
Fax: (423) 479-2852
Serving Policyholders Since 1914

Insurance For
Homes, Farms
& Mobile Homes

June 25, 2020

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

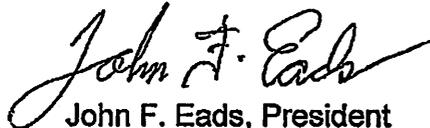
**RE: Report of Examination – Farmers Union Mutual Fire Insurance Company
of Bradley County**

Dear Ms. Little:

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

We have created a written conflict of interest policy.

Sincerely,


John F. Eads, President


David A Campbell Secretary & Treasurer

Enclosure: Conflict of interest policy