



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

**REPORT ON EXAMINATION
OF THE
MCMINN COUNTY FARMERS MUTUAL INSURANCE COMPANY
ATHENS, TENNESSEE**

**AS OF
DECEMBER 31, 2020**

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Athens, Tennessee
March 11, 2022

Honorable Carter Lawrence
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated (“Tenn. Code Ann.”) § 56-22-115, a full-scope financial examination and market conduct review, as of December 31, 2020, was initiated to determine the condition and affairs of:

MCMINN COUNTY FARMERS MUTUAL INSURANCE COMPANY

NAIC #15969
403 West Madison Avenue
Athens, Tennessee 37303

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, 2016. This examination covers the period from January 1, 2017, through December 31, 2020, 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 the *Annual Statement Instructions for Tennessee County Mutual Insurers* ("Instructions") using substantive procedures where applicable. The examination also included an assessment of prospective risks faced by the Company, based on information obtained during the course of the examination.

Change in Scope of Examination

During the examination, the examination team was able to obtain the documentation required to verify the following:

- Bank Accounts
- Certificates of Deposit
- Premiums
- Reinsurance
- Compensation expense ratio

The examination team also reviewed the Company's policies and procedures, Charter, Bylaws, minutes of meetings provided, and other corporate documents to assess whether the Company was in compliance with applicable laws, rules, and regulations.

The examination team was unable to verify all of the Company's accounts and perform the testing required to verify the information reported on the Company's annual statements. The Company did not provide the following items for any years under the examination period:

- General Ledgers
- Trial Balances
- Chart of Accounts
- Detailed listing of amounts comprising the Annual Statement line items
- Workpapers used in the creation and preparation of the Annual Statement
- Bank Reconciliations
- Workpapers used in the valuation of the Company's real estate

Because of the significance of the limitations described above, the examination team was not able to obtain sufficient audit evidence to provide a basis for a conclusion on accuracy, completeness, or reliability of the Company's financial statements. Furthermore, the Company is in violation of Tenn. Code Ann. § 56-1-411(b)(1), due to not providing free access to its books and records. See the "Comments and Recommendations" section of this report for more information on this issue.

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.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

The examination included a review to determine the current status of the comments and recommendations noted in the previous report on examination, as of December 31, 2016. A summary of the Commissioner's directives and the corrective actions taken by the Company are discussed below:

Comments

- (1) It was noted that the Company was not keeping records of its Executive Committee meeting minutes. As a good business practice, the Company was advised to record all committee meeting minutes.

Corrective Action

The Company complied with this comment and ensured that minutes of its executive committee meetings were taken.

- (2) It was found that the Company has a lack of segregation of duties in its daily operations. It was advised that the Company have segregation of duties in the check issuance process or introduce controls to mitigate the risk of misappropriation of funds.

Corrective Action

The Company still has a lack of segregation of duties; however, the Company does require two signatures on its checks, which mitigates some of the risk caused by a lack of segregation of duties.

Recommendations

- (1) It was found that the Company did not provide policy cancellation notices to policyholders who experience total losses. As a good business practice and to evidence compliance with Tenn. Code Ann. § 56-7-1901, it was recommended that the Company mail or deliver policy cancellation notices for all cancellations.

Corrective Action

Based upon the sample of Company's cancellations reviewed, the Company has complied with this recommendation.

- (2) It was found that the Company did not provide free and convenient access to all books, records, securities, documents, and any and all papers relating to the property, assets, business, and affairs as required by Tenn. Code Ann. § 56-1-411(b)(1). It was recommended that the Company provide such access to all records regarding the business and affairs of the Company.

Corrective Action

The Company has not complied with this recommendation. For more information on this finding see the “Scope of Examination” and “Comments and Recommendations” sections in this report.

- (3) It was recommended that the Company file all rating, policy form, and Bylaws amendments affecting policy provisions with the Department’s Policy Analysis Section in accordance with Tenn. Code Ann. § 56-22-109(b)(1).

Corrective Action

The Company has complied with this recommendation.

- (4) It was recommended that the Company file all amendments to its Bylaws with the Department.

Corrective Action

The Company has complied with this recommendation.

- (5) It was recommended that the Company discontinue the practice of acting as an insurance producer and accepting commissions and premium payments on the liability policies sold on behalf of Farmers Mutual of Tennessee (FMT).

Corrective Action

In order to remedy this issue, the Company entered into a written agreement that satisfied both parties and complies the Tennessee statutes, rules, and regulations. that was developed to satisfy both parties and be in compliance with Tennessee statutes, rules, and regulations.

COMPANY HISTORY

The Company was incorporated on December 21, 1908, 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 for the purpose of insuring loss or damage to property due to fire, lightning, explosion, extended coverage (including wind and hail), tornadoes, theft, vandalism, and malicious mischief to residents of Bradley, Loudon, Meigs, Monroe, Polk, Roane and McMinn counties in the State of Tennessee.

As of December 31, 2020, the Company was licensed to transact business in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(a).

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in a Board of Directors (“Board”), elected at the annual members’ meeting. In accordance with the Charter, the Board shall not be less than six (6) or more than fifteen (15) members. Directors are elected for a term of three (3) years.

The following persons were duly elected and serving as directors on the Company’s Board, as of December 31, 2020:

<u>Director</u>	<u>Address</u>
Jimmy Small	Athens, Tennessee
Alan Patrick Dyke	Athens, Tennessee
Vicki Anderson Moore	Athens, Tennessee
Horace Patton Moore III	Niota, Tennessee
Marshall David Dilbeck	Niota, Tennessee
John T. Gambill	Athens, Tennessee
James Edward Kyker	Niota, Tennessee
Sandra Annette Hutsell	Decatur, Tennessee
Michael Scott Burkett	Niota, Tennessee

Officers

The Bylaws of the Company instruct the Board to appoint the officers of the Company immediately following the annual meeting of the members. At that meeting, the Board shall elect a President, a Vice President, a Secretary, and a Treasurer. Each officer shall serve a term of one (1) year.

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

<u>Name</u>	<u>Title</u>
Jimmy Small	President
Alan Patrick Dyke	Vice President
Vicki Anderson Moore	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 at the principal office of the Company at 10:00 A.M., on the fourth Saturday of February each year, for the purpose of electing Directors of the Company and for the transaction of such other business as may be properly brought before the meeting.

Special meetings of the members of the Company may be held on the call of the President, or on the written request of five (5) members.

A written or printed notice stating the time and place of the meeting shall be delivered by mail not less than ten (10) or more than sixty (60) days before the date thereof.

Each member is entitled to one (1) vote only, irrespective of the number of policies owned by such a member. No policy is entitled to more than one (1) vote whether such policy is held individually, jointly, or otherwise. No members are allowed to vote by proxy.

During the examination period, four (4) annual meetings of the members, eleven (11) quarterly meetings of the Board, one (1) nominating committee meeting, and one (1) executive committee meeting were held. No special meetings were held. See the "Corporate Records" section of this report.

During the period under examination, the Company amended its Bylaws in 2018 and 2019. On September 13, 2018, the Company changed the regular meetings of the Board

from “twice each year before and after the annual meeting of members” to “shall meet quarterly each year”. In addition, it changed the Bylaws to allow for virtual attendance and voting for all meetings in order to meet quorum requirements. On January 26, 2019, the Company changed the annual membership meeting from the fourth Saturday of January to the fourth Saturday in February. These changes were approved by the members of the Company.

CONFLICTS OF INTEREST AND PECUNIARY INTERESTS

The Company has a formal, written conflict-of-interest policy in place. However, the Company does not have a conflict-of-interest disclosure form. As a result, adequate documentation to perform a review of the Company’s compliance with Tenn. Code Ann. § 56-3-103 was not provided. A determination of whether any director, officer, or employee of the Company had a pecuniary interest in the investment or disposition of Company funds could not be definitively made. For additional details, see the “Subsequent Events” and the “Comments and Recommendations” sections in this report.

CORPORATE RECORDS

The minutes of the meetings of the Company’s members, Board, and committees were reviewed for the period under examination. During a review of the minutes, it was noted that there was no documentation of the Company’s approval of investments. Pursuant to Tenn. Code Ann. § 56-3-408(b)(1), the Board is required to approve all investments made by the Company. For additional details, see the “Comments and Recommendations” section later in this report.

In addition, it was noted that the Company only had three (3) quarterly Board meetings in 2020, which is not in compliance with its Bylaws. 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 reviewed 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 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. As noted previously in this report, the Company amended its Bylaws twice during the examination period, changing the date of its annual membership and quarterly Board meetings and to allow for virtual attendance and voting.

SERVICE AGREEMENTS

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

Tax Preparation Services

A local certified public accounting firm, in Sweetwater, Tennessee, provides limited accounting services related to tax filings.

Claims Adjustment Services

N & C Claims, Inc. of Sarasota, Florida, provides claims-adjustment services for the Company.

Insurance Management Systems

The Company uses BrightCore to process policies, customer billings, and endorsements; issue late notices, cancellations, and mortgage clauses; and track new and renewal policies.

TERRITORY AND PLAN OF OPERATION

TERRITORY

The Company's current Certificate of Authority was issued by the TDCI on June 12, 2009, 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 McMinn 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 McMinn, Bradley, Loudon, Meigs, Monroe, Polk, and Roane counties in Tennessee.

PLAN OF OPERATION

The Company provides its members with coverage on dwellings and related structures, personal property, commercial buildings, farm buildings and farm personal property, cattle, and farm products in case of loss due to fire, lightning, hail, extended coverage, and tornado.

Policies are typically written for eighty percent (80%) of the replacement value of the property insured, subject to policy limits of \$100,000 per specific loss. The policy period for each policy is one (1) year. Policyholders have the option of paying premium annually, semi-annually, quarterly, or monthly. The standard deductible is \$1,000 and applies

separately to each specific item listed on the policy. The aggregate amount deducted from loss for any one occurrence shall not exceed \$1,000.

The Company writes business through two (2) licensed in-house agents who receive a commission for all new business. The Company's agents are duly licensed in property-and-casualty insurance in Tennessee.

Liability coverage, provided through an agreement with FMT, a Tennessee property-and-casualty insurer, is also available to the members of the Company. The four (4) types of liability coverage offered include: 1) personal liability, 2) commercial liability, 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 its annual statements, as 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</u>
2020	\$374,127	\$498,804	\$184,324	\$314,480	\$26,118
2019	\$374,127	\$487,746	\$117,438	\$370,308	(\$8,126)
2018	\$332,743	\$457,991	\$94,858	\$363,135	(\$69,323)
2017	\$317,440	\$590,510	\$114,832	\$475,678	\$77,972

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 annual statements, as filed with the TDCI:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Incurred Losses & LAE</u>	<u>Loss Ratio</u>	<u>Other Expenses</u>	<u>Expense Ratio</u>	<u>Combined Ratio</u>
2020	\$296,895	\$75,933	25.58%	\$254,127	85.59%	111.17%
2019	\$244,074	\$41,566	17.03%	\$251,846	103.18%	120.21%
2018	\$268,027	\$113,362	42.29%	\$268,845	100.31%	142.60%
2017	\$335,028	\$80,757	24.10%	\$222,627	66.45%	90.55%

REINSURANCE

Specific and Aggregate Excess of Loss Reinsurance

In accordance with Tenn. Code Ann. §§ 56-22-110 and 56-22-106(d), the Company has maintained Specific and Aggregate Excess of Loss coverage through an insurance broker, Guy Carpenter & Company, LLC (GC) since 2015. For the purpose of limiting its exposure on larger risks, the Company ceded risk through two (2) reinsurance agreements with a consortium of reinsurers through GC. Ten (10) companies supported the reinsurance program in 2020. These companies are licensed to do business in Tennessee. For the aggregate excess of loss reinsurance contract, the reinsurance covers one hundred percent (100%) of the Ultimate Net Loss over and above an initial Ultimate Net Loss equal to fifty percent (50%) of Gross Net Earned Premium Income, subject to a limit of liability to the Reinsurer of \$2,000,000.

For the property facultative pro rata reinsurance program, the maximum cession is \$275,000, and the minimum net retention is \$25,000.

Effective September 1, 2018, the Company entered into a Home Field Advantage Program Multiple Line Reinsurance Agreement with The Hartford Steam Boiler Inspection and Insurance Company. Pursuant to this agreement, the Company cedes one hundred percent (100%) of the Company's liability for business specifically defined in the "Business Covered" sections of each schedule attached to the agreement.

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 effectuate proper transfer of risk in accordance with NAIC Statement of Statutory Accounting Principles (SSAP) No. 62 (Property and Casualty Reinsurance) and other NAIC guidelines. The agreements were found to meet the requirements set forth in Tenn. Code Ann. § 56-22-110.

ACCOUNTS AND RECORDS

During the review of the Company's accounts and records, several discrepancies were noted as detailed below.

During the review of the Company's 2020 annual statement, instances of noncompliance with the Instructions and Tenn. Code Ann. § 56-22-109 were noted. Due to the issues discussed in the "Scope of Examination" section of the report, the examination team was unable to determine the full extent of the issues. For additional details, see the "Comments and Recommendations" section later in this report.

During the review of the Company's real estate, it was noted that the Company has not had an appraisal performed on its building during the last five (5) years. NAIC SSAP – No. 40R (Real Estate Investments), requires all properties held for the production of income maintain an appraisal that is no more than five (5) years old as of the reporting date. For additional details, see the "Comments and Recommendations" section later in this report.

During a review of the Company's admitted assets, it was noted that the Company was not correctly admitting its real estate investments in accordance with Tenn. Code Ann. § 56-3-405(1), which limits the Company from having more than ten percent (10%) of its admitted assets in real estate investments. For additional details, see the "Comments and Recommendations" section later in this report.

During the review of the Company's annual statement filings, it was noted that the Company was delinquent in the submission of its annual and quarterly filings during the examination period, in violation of Tenn. Code Ann. § 56-22-109. 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 the filing of an actuarial opinion by a qualified actuary with the Commissioner on or before March 1.

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

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a limited market conduct review was made of the Company, as of December 31, 2020. 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 as of December 31, 2020, were approved by the TDCI on October 17, 2018, and on February 6, 2020. The Company's premium rates in effect on December 31, 2020, were approved by the TDCI on October 17, 2018, and on February 6, 2020.

A sample of 2020 written premium was tested for rate accuracy for specific lines of coverage. Several instances were noted where the written premium shown on the declaration page was based on the old premium rates in place prior to the most recent rates approved by the TDCI.

Producer Licensing

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

Advertising

The Company's advertising during the period of examination consisted of pens, calendars, radio ads, and newspaper ads. 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)(2).

The Company adheres to the non-renewal provisions contained in Tenn. Code Ann. §§ 56-7-1901, 56-7-1902, and 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. During this review, it was noted that some of the Company's claims were not adequately documented. As a result, a conclusion regarding the timeliness of the contact and resolution of some of the claims could not be made. The Company is not in compliance with Tenn. Code Ann. § 56-8-104(10), which requires that an insurer maintain its books, records, documents, and other business records in such an order that data regarding claims, rating, underwriting, and marketing are accessible and retrievable for examination

by the TDCI. 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 period under examination, the Company did not have a complaint log. However, during the examination, the Company created a complaint log with the required information noted in Tenn. Code Ann. § 56-8-104(11). For additional details, see the “Comments and Recommendations” section later in this report.

SUBSEQUENT EVENTS

Due to the Company not providing convenient and free access to its books, records, securities, documents, and any and all papers relating to the property, assets, business and affairs of the Company, the examination team was unable to obtain the needed documentation to perform the typical subsequent-events testing that is normally performed during an examination. For more information on this issue see the “Scope of Examination” and “Comments and Recommendations” sections of this report.

During the Board meeting on July 27, 2021, the Company’s Board voted to allow Vicki Moore, a Board member and the Secretary and Treasurer of the Company, to buy the Company’s agency book of business and its assets, which included two (2) bank accounts, computer hardware, software, peripherals, furniture, and fixtures, excluding any liabilities. Vicki Moore transferred \$5,000 of the assets she received from this transaction as payment for the above items to the Company on December 31, 2021.

It is noted that Vicki Moore is a Board member and officer of the Company. This transaction is a violation of Tenn. Code Ann. § 56-3-103(a), which states that “No director or other officer of any domestic insurance company organized under the laws of this state, and no member of a committee having any authority in the investment or disposition of its funds, shall accept, or be the beneficiary of, either directly or remotely, any fee, brokerage, commission, gift, or other consideration for or on account of any loan, deposit, purchase, sale, payment, or exchange made by or in behalf of the company, or be pecuniarily interested in the purchase, sale, or loan, either as borrower, principal, coprincipal, agent, or beneficiary, except that if a policyholder, the person shall be entitled to all the benefits accruing under the terms of the contract; provided, that this section shall not forbid the collection by attorneys of reasonable fees for the examination of titles and investigations of loans and investments.” For additional details, see the “Conflicts of

Interest and Pecuniary Interests” and the “Comments and Recommendations” sections in this report.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income, as of December 31, 2020, together with a reconciliation of policyholders’ surplus for the period under review, as reported by the Company in its 2020 annual statement:

	<u>ASSETS</u>		
	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Common stocks	\$9,442		\$9,442
Properties occupied by the company	127,511		127,511
Cash and cash equivalents	421,119		421,119
Premium receivables and agents’ balances	3,379		3,376
Interest, dividends, and real estate income due and accrued	1,500		1,500
Premium receivables and agent’s balances over 90 days past due	141	\$141	0
Non-admitted assets due to investment limitation	<u>64,003</u>	<u>64,003</u>	<u>0</u>
Total Admitted Assets	<u>\$562,947</u>	<u>\$64,144</u>	<u>\$498,804</u>

LIABILITIES AND POLICYHOLDERS' SURPLUS

Unearned premiums	\$160,647
Advance premiums	8,933
Commissions payable, contingent commission and other similar charges	1,611
Accounts payable and accrued expenses payable	1,701
Taxes, licenses, and fees (excluding federal income taxes)	5,102
Federal income taxes payable and interest thereon	5,253
Amounts withheld or retained by company for account of others	<u>1,077</u>
Total liabilities	184,324
Policyholders' surplus	<u>314,480</u>
Total Liabilities and Policyholders' Surplus	<u>\$498,804</u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Net premiums and assessments earned \$296,895

DEDUCTIONS

Net Losses incurred 70,804

Loss expenses incurred including claims adjustment
expenses 5,129

Commissions and brokerage 24,300

Salaries and related items 101,830

Director fees 1,050

Advertising and subscriptions 25,667

Board, bureaus, and association dues 2,874

Surveys and underwriting reports 317

Insurance and fidelity bonds 8,192

Rent and rent items 1,541

Equipment 1,780

Postage, telephone, and telegraph 13,835

Taxes, licenses, and fees 4,717

Real estate expenses and repairs 13,563

Real estate taxes 1,776

Aggregate write-ins for underwriting expenses 52,684

Total underwriting expenses incurred 254,127

Total underwriting deductions 330,060

Net underwriting gain (loss) (33,165)

INVESTMENT INCOME

Net investment income earned 6,021

Net investment gain (loss) 6,021

OTHER INCOME

Finance and service charges not included in premiums 2,678

Aggregate write-ins for miscellaneous income 55,836

Total other income 58,514

Net income after dividends to policyholders and before
federal income taxes 31,371

Federal income taxes incurred 5,253

Net Income \$26,118

POLICYHOLDERS' SURPLUS ACCOUNT

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Policyholders' Surplus December 31, previous year	<u>\$370,308</u>	<u>\$363,135</u>	<u>\$475,678</u>	<u>\$343,992</u>
Net income or (loss)	26,118	(8,126)	(69,323)	78,051
Change in non-admitted assets from prior year	1,636	2,569	2,351	16,740
Aggregate write-ins for gains and losses in surplus	<u>(83,582)</u>	<u>12,730</u>	<u>(45,571)</u>	<u>36,895</u>
Net change in capital and surplus for the year	<u>(55,828)</u>	<u>7,173</u>	<u>(112,543)</u>	<u>131,607</u>
Policyholders' Surplus December 31, current year	<u>\$314,480</u>	<u>\$370,308</u>	<u>\$363,135</u>	<u>\$475,678</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus

\$314,480

The Company reported \$314,480 for policyholders' surplus in its 2020 annual statement. There were no changes made to any asset or liability item as a result of the examination performed as of December 31, 2020. This was due to the limitations noted in the "Scope of Examination" section of the report, as this examination was unable to make a conclusion on the accuracy of the Company's reported assets and liabilities.

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 provide signed conflict-of-interest disclosure forms for any year of the examination. Maintaining a conflict-of-interest disclosure form and requiring annual disclosures of officers and directors is considered a best practice, because it documents the Company's compliance with Tenn. Code Ann. § 56-3-103, which prohibits Company directors, officers, and employees from having a pecuniary interest in any funds of the Company.

It is suggested that the Company require a conflict-of-interest disclosure form and require annual disclosures from its officers, directors, and employees.

2. As noted in the "Market Conduct Activities" section of this report, the Company did not maintain a complaint log as required by Tenn. Code Ann. § 56-8-104.

The Company created a complaint log during the examination period.

Recommendations

1. As noted in the "Scope of Examination" and "Compliance with Previous Examination Findings" sections of this report, the Company did not provide convenient and free access to its books, records, securities, documents, and any and all papers relating to the property, assets, business, and affairs of the Company. This is in violation of Tenn. Code Ann. § 56-1-411(b)(1), which requires that every company, corporation, association, or person being examined, its officers, directors, and agents, shall provide to the commissioner, the commissioner's deputy, or the person appointed by the commissioner for the purpose of the examination, convenient and free access to all books, records, securities, documents, and any and all papers relating to the property, assets, business, and affairs of the company.

It is recommended that the Company comply with Tenn. Code Ann. § 56-1-411(b)(1) by providing free and convenient access to all books, records, documents, and any and all papers relating to the property, assets, business, and affairs of the Company.

2. As noted in the “Accounts and Records” section of this report, the Company’s 2020 annual statement contained many instances of noncompliance with the *Annual Statement Instructions for Tennessee County Mutual Insurers* (“Instructions”) and Tenn. Code Ann. § 56-22-109, which resulted in several inaccuracies in the annual statement. Due to the issue discussed in the “Scope of Examination” section of this report, the examination team was unable to determine the full extent of the issues caused by the Company’s noncompliance with the Instructions and Tenn. Code Ann. § 56-22-109.

It is recommended that the Company comply with Tenn. Code Ann. § 56-22-109 and the Instructions.

3. As noted in the “Accounts and Records” section of this report, during the review of the Company’s real estate, it was noted that the Company has not had its building appraised during the last five (5) years. NAIC Statement of Statutory Accounting Principles (SSAP) – No. 40R (Real Estate Investments) requires that for all properties held for the production of income, the reporting entity must maintain an appraisal that is no more than five (5) years old as of the reporting date.

It is recommended that the Company comply with NAIC SSAP – No. 40R by having an appraisal performed on its real estate at least every five (5) years.

4. As noted in the “Accounts and Records” section of this report, during the review of the Company’s admitted assets, it was noted that the Company was not correctly admitting its real estate investments in accordance with Tenn. Code Ann. § 56-3-405(1), which limits the Company from having more than ten percent (10%) of its admitted assets in real estate investments.

It is recommended the Company not admit any of its real estate investments that exceed ten percent (10%) of its admitted assets, pursuant to Tenn. Code Ann. § 56-3-405(1).

5. As noted in the “Accounts and Records” section of this report, it was noted that the Company was delinquent in the submission of its annual and quarterly filings during the examination period, which is in violation of Tenn. Code Ann. § 56-22-109.

It is recommended that the Company comply with Tenn. Code Ann. § 56-22-109 by submitting its annual and quarterly statements in a timely manner.

6. 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 in violation of 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 pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

7. As noted in the “Market Conduct Activities” section of this report, the Company’s claims were not adequately documented, which resulted in key information not being recorded in the claim file. This is a violation of Tenn. Code Ann. § 56-8-104(10), which requires that an insurer maintain its books, records, documents, and other business records in such an order that data regarding claims, rating, underwriting, and marketing are accessible and retrievable for examination by the insurance commissioner.

It is recommended that the Company ensure that its claims documentation is adequately documented to ensure compliance with Tenn. Code Ann. § 56-8-104(10).

8. As noted in the “Subsequent Events” section of this report, due to the sale of Company assets to Vicki Moore, who is the Secretary and Treasurer of the Company, the Company was not in compliance with Tenn. Code Ann. § 56-3-103(a) which states that “No director or other officer of any domestic insurance company organized under the laws of this state, and no member of a committee having any authority in the investment or disposition of its funds, shall accept, or be the beneficiary of, either directly or remotely, any fee, brokerage, commission, gift, or other consideration for or on account of any loan, deposit, purchase, sale, payment, or exchange made by or in behalf of the company, or be pecuniarily interested in the purchase, sale, or loan, either as borrower, principal, coprincipal, agent, or beneficiary, except that if a policyholder, the person shall be entitled to all the benefits accruing under the terms of the contract; provided, that this section shall not forbid the collection by attorneys of reasonable fees for the examination of titles and investigations of loans and investments.”

It is recommended that the Company comply with Tenn. Code Ann. § 56-3-103(a) by ensuring that no director or officer of the Company accept, or be the beneficiary of, either directly or remotely, any gift, or other consideration for or on account of any purchase, sale, payment, or exchange made by or in behalf of the company, or be pecuniarily interested in the purchase, sale, or loan, either as borrower, principal, coprincipal, agent, or beneficiary.

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 examination of McMinn County Farmers Mutual Insurance Company.

In such manner, it was found that as of December 31, 2020, the Company reported admitted assets of \$498,804, liabilities of \$184,324, and policyholders' surplus, of \$314,480. Tenn. Code Ann. § 56-22-105(c) requires an insurer of this Company's type to maintain a minimum surplus of \$200,000. Due to the limitations noted in the "Scope of Examination" section of the report, this examination was unable to make a conclusion on the sufficiency of the Company's surplus and the Company's compliance with Tenn. Code Ann. § 56-22-105(c).

In addition to the undersigned, James Pearce, Insurance Examiner, and Jay Uselton, CFE, 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 McMinn County Farmers Mutual Insurance Company, located in Athens, Tennessee, dated March 11, 2022, and made as of December 31, 2020, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.

Dustin Rice

Dustin Rice
Examiner-in-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 26 day of May, 2022

Linda Merriweather
(NOTARY)

My Commission Expires: 3-15-2025

