



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF
STATE VOLUNTEER MUTUAL INSURANCE COMPANY
BRENTWOOD, TENNESSEE

AS OF
DECEMBER 31, 2022

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Brentwood, Tennessee
April 1, 2024

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.”) § 56-1-408, a full-scope financial examination and market conduct review, as of December 31, 2022, has been made of the condition and affairs of:

STATE VOLUNTEER MUTUAL INSURANCE COMPANY

NAIC # 33049
5005 Maryland Way, Suite 300
Brentwood, Tennessee 37027

hereinafter referred to as the “Company” or “SVMIC” 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. This examination was called through the National Association of Insurance Commissioners (NAIC) Financial Examination Electronic Tracking System (FEETS).

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2017. This examination covers the period January 1, 2018, through December 31, 2022, and includes any material transactions and/or events occurring subsequent to the examination date. The Company is not part of a holding company group that includes other insurance entities; therefore, no examination coordination with any other states was necessary.

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 NAIC in the *Financial Condition Examiners Handbook* (“Handbook”), as deemed appropriate. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management’s compliance with statutory accounting principles and annual statement instructions.

All significant risks were considered when planning which key activities and accounts would be examined. The key activities included: Capital and Surplus; Investments; Reinsurance Ceded; Reserves/Claims Handling; and Underwriting.

Independent information technology (IT) specialist services, provided by Noble Consulting Services, Inc., were utilized in the examination review of the Company’s information technology general controls (ITGC).

The actuarial firm of Taylor-Walker Consulting, LLC, (“Taylor-Walker”) was utilized in the examination review of the Company’s loss and claims reserves. In addition, actuarial specialists from Noble Consulting Services, Inc. provided support to Taylor-Walker.

The Company’s certified public accountant (CPA) workpapers were reviewed for the 2022 audit and incorporated into the examination, as deemed appropriate.

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

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

The examination included a review to determine the current status of the comments and recommendations from the previous report of examination dated May 31, 2019, which covered the period from January 1, 2013, through December 31, 2017. The previous full-scope examination contained one (1) comment, detailed below, which was remediated prior to the conclusion of the prior examination.

Comments

1. As of December 31, 2017, the Company's custodial agreements for its Supplemental Executive Retirement Plan, Supplemental Executive Thrift Plan, and Deferred Compensation Plan for Non-Employee Officers, Directors, and Committee Members with Charles Schwab Bank did not contain the provisions required by Tennessee Compilation of Rules and Regulations (Tenn. Comp. R. & Regs.) § 0780-01-46-.02.

Corrective Action

Subsequent to the examination date and prior to the completion of the examination, these custodial agreements were amended to include all the necessary provisions.

COMPANY HISTORY

The Company was incorporated under the laws of Tennessee on December 1, 1975. The Company was granted a Certificate of Authority on April 2, 1976, and commenced business on May 15, 1976, as a Tennessee property and casualty mutual insurance company. The Company's principal line of business is underwriting professional liability risks for physicians.

On November 24, 2020, the Company became part of a holding company system upon the creation of SVMIC Risk Purchasing Group, LLC (SVMIC RPG), a wholly-owned subsidiary of the Company. SVMIC RPG was created to allow the Company to price business more competitively in certain states.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

The Company's Bylaws state that the business and affairs of the company shall be managed by a Board of Directors ("Board") who shall be elected at the annual meeting of the members. The Bylaws state that the number of directors shall consist of not less than thirteen (13) and not more than nineteen (19), as the members shall determine. Directors serve three (3)-year terms.

The following persons were serving as members of the Board, as of December 31, 2022:

| <u>Name</u> | <u>Principal Occupation</u> |
|------------------------|--|
| Hugh Francis, III, MD | General and Vascular Surgery, Memphis Surgery Associates |
| Robert Berkompas, MD | Internal Medicine, Saint Thomas Medical Group |
| John Mize, FCAS, MAAA | President and Chief Executive Officer, State Volunteer Mutual Insurance Company |
| Matthew Perkins, MD | Internal Medicine and Pediatrics, Tennessee Medicine and Pediatrics PC |
| Melanie Blake, MD, MBA | Internal Medicine, Galen Medical Group |
| Craig Myers, MD | Obstetrics/Gynecology, Generations OB/GYN |
| Katrina Hood, MD | Pediatrics, Pediatric and Adolescent Associates PSC |
| John Lytle, MD | Orthopedic Surgery, South Arkansas Orthopaedic Center |
| Antwan Robinson, MD | Clinical Cardiology, Jackson Clinic, PA |
| Chad Couch, MD, MBA | Urology, President of Northeast Market CEO, Bristol Regional Medical Center |
| Michael McAdoo, MD | Family Medicine, Milan Medical Center PC |
| Elise Schriver, MD | Pulmonary and Critical Care Medicine, University Pulmonary and Critical Care |
| Russell Miller, CAE | Chief Executive Officer, Tennessee Medical Association |
| Jane Sneed, MD | Pediatrics, The Children's Clinic |
| Brady Allen, MD | Emergency Medicine, Ascension Saint Thomas |
| Lisa Young, MD | Invasive Cardiology, Sutherland Cardiology Clinic, Inc. |

Officers

The Bylaws provide that the officers of the corporation shall consist of a Chairman, Vice Chairman, President and Chief Executive Officer (CEO), one (1) or more other Vice Presidents, a Secretary, a Treasurer, and such other officers as the Board may determine.

The following persons were serving as officers of the Company, as of December 31, 2022:

| <u>Name</u> | <u>Title</u> |
|-----------------------------|---|
| Hugh Francis, III, MD | Chair of the Board |
| Matthew Perkins, MD | Vice Chair of the Board |
| Katrina Hood, MD | Secretary of SVMIC |
| Chad Couch, MD, MBA | Treasurer of SVMIC |
| John Mize, FCAS, MAAA | President and CEO |
| Michael Ricciardelli, CPA | Chief Financial Officer |
| Stephen Dickens, JD, FACMPE | Vice President, Medical Practice Services |
| Sherie Edwards, JD, MBA | Vice President, Corporate and Legal |
| Joseph Lebryk | Vice President, Business Development |
| Andy Meyers | Vice President, Information Systems |
| Kenneth Rucker, JD | Vice President, Claims |
| Rochelle Weatherly, JD | Vice President, Risk Education and Evaluation Services |
| Jackie Boswell, MBA, FACMPE | Assistant Vice President, Medical Practice Services |
| Robin Buter, BSN, RN, LNCC | Assistant Vice President, Evaluation Services |
| Dan Himmelberg, JD | Assistant Vice President, Claims |
| Julie Loomis, RN, JD | Assistant Vice President, Risk Education |
| Judy Musgrove | Assistant Vice President, Marketing and Communications |
| Deborah Rose, RN, LNC | Assistant Vice President, Medical Information Services |
| Alisa Wamble, JD | Assistant Vice President, Claims |
| Tom Werner, FCAS, MAAA | Assistant Vice President, Actuarial and Business Analytics |
| Patrick McBride, CPA | Director, Financial Reporting and Assistant Corporate Secretary |
| Renee Lewis | Director, Claims Operations and Assistant Corporate Secretary |
| Jessica Elston | Controller |

COMMITTEES

By vote, the Board may designate five (5) or more directors, two (2) of whom shall be the Chairman and Vice Chairman of the Board, to constitute an Executive Committee of the Board. The Board may designate and establish such other committees as it deems necessary.

The following committees were in place as of December 31, 2022:

| | |
|-----------------------------------|-------------------------------|
| Arkansas Advisory Committee | Executive Committee |
| Audit Committee | Innovation Task Force |
| Benefits Administrative Committee | Investment Committee |
| Budget Committee | Risk Management Committee |
| Claims Management Committee | Succession Planning Committee |
| Compensation Committee | Underwriting Committee |

CONTROL

The Company is a mutual company, and as such, is owned by its policyholders, known as “members.” Effective November 24, 2020, the Company became subject to the holding company requirements of the Insurance Holding Company System Act of 1986, set forth in Tenn. Code Ann. §§ 56-11-101, *et seq.*, upon the registration of the SVMIC RPG with the Secretary of State. SVMIC RPG is one hundred percent (100%) owned by SVMIC.

SUBSIDIARIES AND AFFILIATED COMPANIES

The Company has established or acquired subsidiaries as detailed below:

SVMIC Risk Purchasing Group, LLC (SVMIC RPG)

SVMIC RPG was created on November 24, 2020, to allow the Company to price business more competitively in states that it otherwise would not be able to. Policies are written through the SVMIC RPG on SVMIC policy forms. All transactions are completed at the SVMIC level, and no money flows through the SVMIC RPG company. The SVMIC RPG is currently licensed in Tennessee and Virginia but is only active in Virginia.

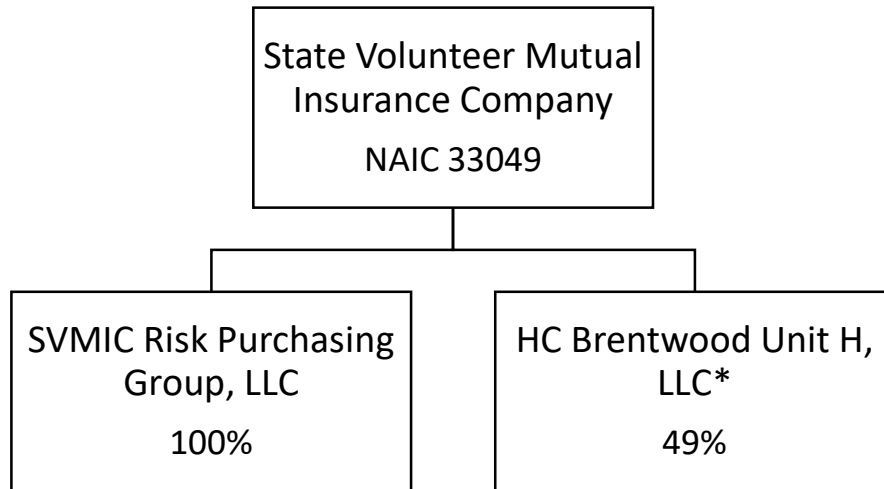
HC Brentwood Unit H, LLC (Unit H)

Unit H was created on April 18, 2017, with the purpose of (i) owning, holding, improving, leasing, and disposing of certain real property, and (ii) carrying on any activities incidental to the foregoing. The real property referred to in the agreement is the office building in which SVMIC’s home office is located. Transactions between SVMIC and Unit H are limited to capital contributions and a lease agreement. Pursuant to the Amended and Restated Operating Agreement of Unit H between SVMIC and Hill Unit H JV, LLC, SVMIC maintains forty-nine percent (49%) ownership of Unit H and shares in the net profits and

losses of Unit H based on its ownership percentage. As SVMIC’s ownership interest in Unit H exceeds ten percent (10%), control of Unit H is presumed to exist per Tenn. Code Ann. § 56-11-101 and Statement of Statutory Accounting Principles (SSAP) No. 25. During the examination, it was found that SVMIC had not appropriately disclosed Unit H as an affiliate per the aforementioned law and SSAP, respectively. The Company failed to report transactions with Unit H in Note 10 and failed to include it in Schedule Y to the Annual Statement in each year under examination. See the “Comments and Recommendations” section of this Report for additional details.

ORGANIZATIONAL CHART

The following organizational chart shows the affiliated entities within the SVMIC holding company system:



*The Company has not historically included HC Brentwood Unit H, LLC in its Schedule Y – Organizational Chart. See “Comments and Recommendations” section of this Report for additional details.

CORPORATE RECORDS

The minutes of meetings of the members, directors, and committees were reviewed for the period under examination. The minutes were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

Charter

The Company's Charter was amended as of January 21, 2020, to change its principal address as a result of the Company moving into a new office building. No other amendments or restatements were made to the Company's Charter during the period of examination.

Bylaws

No amendments to the Bylaws were enacted during the period of examination.

AGREEMENTS WITH PARENT, SUBSIDIARIES, AND AFFILIATES

The Company had the following significant agreement with an affiliated company in effect as of December 31, 2022:

Operating Agreement of HC Brentwood Unit H, LLC

Effective July 27, 2018, the Company entered into an agreement with Hill Unit H JV, LLC to create the entity HC Brentwood Unit H, LLC, a Tennessee limited liability company. The purpose of the created entity is to (i) own, hold, improve, lease and dispose of certain real property, and (ii) to carry on any activities incidental to the foregoing. The real property referred to in the agreement is the office building in which SVMIC's home office is located. SVMIC maintains forty-nine percent (49%) ownership of HC Brentwood Unit H, LLC, while Hill Unit H JV, LLC maintains fifty-one percent (51%) ownership.

The Company is not a party to any intercompany agreements.

TERRITORY AND PLAN OF OPERATION

TERRITORY

As of December 31, 2022, the Company was licensed to transact business in twenty-four (24) states. Certificates of Authority granted by the licensed states were reviewed and found to be in force as of December 31, 2022.

| | | | |
|----------|-----------|----------------|----------------|
| Alabama | Iowa | Mississippi | South Carolina |
| Arkansas | Kansas | Missouri | Tennessee |
| Florida | Kentucky | Nebraska | Texas |
| Georgia | Louisiana | North Carolina | Virginia |
| Illinois | Maryland | Ohio | West Virginia |
| Indiana | Michigan | Oklahoma | Wisconsin |

Tennessee premium tax records were reviewed for the Company, and no exceptions were noted.

PLAN OF OPERATION

The Company is a mutual non-profit property and casualty insurance company. The Company's principal line of business is providing medical professional liability insurance for physicians, physician groups, healthcare facilities, and other providers. The main policy offered by the Company is a modified claims-made professional liability policy for physicians and surgeons. Under a claims-made policy, coverage is provided for claims asserted while a policy is in effect relating to occurrences which took place during the period the policyholder had continuous coverage with the Company.

The principal markets for the Company's professional liability coverage are Arkansas, Georgia, Kentucky, and Tennessee.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to the examination, according to its annual statements, as filed with the TDCI:

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Capital and Surplus</u> | <u>Premiums Earned</u> | <u>Net Income</u> |
|--------------------|-----------------------------------|---------------------------|---------------------------------------|-----------------------------------|------------------------------|
| 2022 | \$1,385,631,300 | \$618,800,089 | \$766,831,212 | \$106,124,549 | \$21,669,344 |
| 2021 | \$1,415,225,049 | \$637,087,487 | \$778,137,562 | \$107,112,696 | \$17,076,614 |
| 2020 | \$1,321,878,067 | \$616,184,343 | \$705,693,724 | \$103,019,582 | \$23,852,809 |
| 2019 | \$1,278,382,458 | \$606,647,547 | \$671,734,911 | \$110,973,519 | \$22,074,074 |
| 2018 | \$1,243,393,506 | \$619,438,555 | \$623,954,951 | \$119,710,341 | \$28,541,515 |

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements, the ratios of losses incurred to direct premiums earned, for the period subject to the examination were as follows:

| <u>Year</u> | <u>Losses Incurred</u> | <u>LAE Incurred</u> | <u>Premiums Earned</u> | <u>Loss Ratio</u> |
|--------------------|-----------------------------------|--------------------------------|-----------------------------------|------------------------------|
| 2022 | \$32,164,647 | \$51,666,935 | \$106,124,549 | 78.99% |
| 2021 | \$32,344,549 | \$52,854,540 | \$107,112,696 | 79.54% |
| 2020 | \$31,940,430 | \$49,284,863 | \$103,019,582 | 78.84% |
| 2019 | \$39,352,981 | \$46,118,704 | \$110,973,519 | 77.02% |
| 2018 | \$34,068,481 | \$54,953,852 | \$119,710,341 | 74.36% |

REINSURANCE AGREEMENTS

Reinsurance Assumed

The Company assumed an immaterial amount of business during the examination period.

Reinsurance Ceded

To mitigate the severity of loss events from medical professional liability coverages, the Company maintains a comprehensive reinsurance program which includes primary and secondary excess of loss agreements, two (2) catastrophe treaties, and a cyber quota share agreement that provides SVMIC policyholders with a limited amount of coverage in the case of a cyber breach event, of which the losses are partially ceded to the reinsurer.

The Company retains the first \$1,000,000 of losses incurred and the first \$2,000,000 of loss adjustment expenses incurred per event and cedes the remaining risk of policy limits written through the reinsurance treaties described above.

The reinsurers are Axis Reinsurance Company, Berkley Insurance Company, Convex Insurance UK, Endurance Assurance Corporation, Hannover Ruck SE, Houston Casualty Company, Markel Global Reinsurance Company, Odyssey Reinsurance Company, Safety National Casualty Corporation, Transatlantic Reinsurance Company, XL Re Europe, and various Lloyd's syndicates. Each of the subscribing reinsurers participates on a percentage basis.

Each of the treaties transferred risk in accordance with SSAP No. 62R.

ACCOUNTS AND RECORDS

During the course of the examination, certain balances were tested, and amounts were traced from the Company's trial balance to the annual statement. Minor differences were noted in the Company's financial statements attributable to rounding. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. The Company's risk-based capital filings were reviewed. These test checks and reviews revealed no material discrepancies.

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

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2022, in conjunction with the financial examination. The following items were addressed:

Operations and Management Standards

Company antifraud initiatives were examined and found to comply with Tenn. Code Ann. § 56-53-111.

Company procedures and policies relating to privacy of consumer information were examined to ensure the Company had developed and implemented written policies and procedures for the management of confidential and personal insurance information. As a result of the examination, no issues or concerns were noted.

Complaint Handling Practices

During the examination, both the Company's complaint handling procedures and the complaints it received were reviewed. The complaints received were reviewed to ensure the Company takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language. No issues were noted.

Marketing and Sales Standards

Advertising, sales, and training materials used by the Company were examined for compliance with Tenn. Code Ann. § 56-8-104 (1, 2, and 3) and the NAIC *Market Regulation Handbook* ("Market Handbook") and were found to be in compliance.

Producer Licensing Standards

Tenn. Code Ann. §§ 56-6-101, *et seq.*, requires the Company to sell its products and services through producers who are properly licensed and appointed by the Company. In the examination of producer licensing, a random sample of producers was selected, and their state-issued licensure and appointment by the Company were verified. As a result of examination, no issues or concerns were identified.

Policyholder Services Standards

The Company's timeliness of policy issuance, premium billing, response to policyholder requests, provision of adequate disclosures, and compliance with applicable statutes and rules were examined. The Company was found to be in compliance with the relevant market conduct standards set forth within the Market Handbook and Tenn. Code Ann. § 56-8-104.

Underwriting and Rating Standards

In the examination of the Company's underwriting procedures and policy administration, a sample of in-force policies were reviewed for compliance with Tenn. Code Ann. §§ 56-5-105, 56-5-106, and 56-8-104, and Tenn. Comp. R. & Regs. 0780-01-34. It was found that one (1) in-force policy was written with rates that were not in accordance with the Company's approved rating plan. See the "Comments and Recommendations" section of this report for additional details.

Claims Handling Standards

In the examination of claims handling practices, the Company's efficiency of claim handling, accuracy of payment, adherence to contract provisions, and compliance with applicable statutes and rules were examined. In conducting the examination, random samples were selected from claims approved and claims resisted by the Company. No exceptions were identified regarding prompt settlements upon receipt of proper evidence of the Company's liability.

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in the examination report. Management stated in its Letter of Representation that they were not aware of any events subsequent to December 31, 2022, that could have a material effect on the Company's financial condition. Our review confirmed the Company's disclosures in its 2022 Annual Statement and in its Letter of Representation.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, surplus and other funds, and a statement of income, as of December 31, 2022, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2022 Annual Statement, with the exception of certain instances where totals differ slightly due to rounding.

ASSETS

| | <u>Assets</u> | <u>Non-Admitted Assets</u> | <u>Net Admitted Assets</u> |
|--|------------------------|----------------------------|----------------------------|
| Bonds | \$1,021,506,348 | \$521,267 | \$1,020,985,081 |
| Common Stocks | 309,370,850 | | 309,370,850 |
| Mortgage loans on real estate – | | | |
| First liens | 6,750,000 | | 6,750,000 |
| Cash, cash equivalents, and short-term investments | 17,003,143 | | 17,003,143 |
| Other invested assets | 3,671,968 | | 3,671,968 |
| Investment income due or accrued | 7,955,774 | | 7,955,774 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in the course of collection | 132,297 | 540,885 | (408,588) |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 15,514,715 | 22,387 | 15,492,327 |
| Amounts recoverable from reinsurers | 2,352,997 | | 2,352,997 |
| Other amounts receivable under reinsurance contracts | 89,584 | | 89,584 |
| Current federal and foreign income tax recoverable and interest thereon | 1,286,737 | | 1,286,737 |
| Guaranty funds receivable or on deposit | 18 | | 18 |
| Electronic data processing equipment and software | 182,971 | 119,168 | 63,803 |
| Furniture and equipment | 3,812,414 | 3,812,414 | |
| Aggregate write-ins for other than invested assets | 2,733,095 | 1,715,488 | 1,017,607 |
| Total Admitted Assets | \$1,392,362,911 | \$6,731,610 | \$1,385,631,300 |

LIABILITIES, CAPITAL, AND SURPLUS

| | |
|---|-----------------------------------|
| Losses | \$226,730,440 |
| Loss adjustment expenses | 234,269,560 |
| Other expenses | 40,839,865 |
| Taxes, licenses, and fees (excluding federal and foreign income taxes) | 1,090,418 |
| Net deferred tax liability | 9,773,822 |
| Unearned premiums | 69,742,019 |
| Advance premium | 3,626,740 |
| Dividends declared and unpaid: Policyholders | 2,735,535 |
| Funds held by company under reinsurance treaties | 29,605,690 |
| Provision for reinsurance | <u>386,000</u> |
| Total Liabilities | 618,800,089 |
| Aggregate write-ins for special surplus funds | 34,031,352 |
| Unassigned funds (surplus) | <u>732,799,859</u> |
| Total Capital and Surplus | <u>766,831,212</u> |
| Totals | <u><u>\$1,385,631,300</u></u> |

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned \$106,124,549

DEDUCTIONS

| | | |
|--------------------------------------|--------------|--------------------|
| Losses incurred | \$32,164,647 | |
| Loss adjustment expenses incurred | 51,666,935 | |
| Other underwriting expenses incurred | 25,165,876 | |
| Total underwriting deductions | | <u>108,997,458</u> |
| Net underwriting gain (loss) | | (2,872,909) |

INVESTMENT INCOME

| | | |
|-------------------------------------|------------|-------------------|
| Net investment income earned | 35,345,087 | |
| Net realized capital gains (losses) | (678,388) | |
| Net investment gain (loss) | | <u>34,666,699</u> |

OTHER INCOME

Net gain (loss) from agents' or premium balances
charged off (10,209)

| | |
|---|----------------------------|
| Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 31,783,580 |
| Dividends to policyholders | <u>6,839,792</u> |
| Net income after dividends policyholders, after capital gains tax and before all other federal and foreign income taxes | 24,943,788 |
| Federal and foreign income taxes incurred | <u>3,274,443</u> |
| Net Income | <u><u>\$21,669,344</u></u> |

SURPLUS ACCOUNT

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Capital and surplus, December 31, previous year | \$778,137,562 | \$705,693,724 | \$671,734,911 | \$623,954,951 | \$606,774,361 |
| Net income or (loss) | 21,669,344 | 17,076,614 | 23,852,809 | 22,074,074 | 28,541,515 |
| Change in net unrealized capital gains (losses) | (42,200,723) | 48,918,261 | 17,369,821 | 32,279,086 | (12,297,939) |
| Change in net deferred income tax | (3,547,179) | (604,104) | 1,282,840 | 1,882,780 | (34,601) |
| Change in non-admitted assets | (293,116) | 321,856 | (2,413,200) | (520,468) | (494,540) |
| Change in provision for reinsurance | (322,000) | (34,000) | | 7,000 | 17,000 |
| Aggregate write-ins for gains and losses in surplus | 13,387,323 | 6,765,211 | (6,133,457) | (7,942,512) | 1,449,155 |
| Net change in capital and surplus for the year | (11,306,350) | 72,443,838 | 33,958,813 | 47,779,960 | 17,180,590 |
| Capital and surplus, December 31, current year | \$766,831,212 | \$778,137,562 | \$705,693,724 | \$671,734,911 | \$623,954,951 |

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$766,831,212

Total capital and surplus, as established by this examination, is the same as reported by the Company in its 2022 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2022.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments

No comments were noted as a result of the examination.

Recommendations

1. It was found that the Company has not been reporting Unit H, of which it owns forty-nine percent (49%), as a related party or affiliate per Tenn. Code Ann. § 56-11-101 and SSAP No. 25. As SVMIC's ownership interest in Unit H exceeds ten percent (10%), control of Unit H is presumed to exist per Tenn. Code Ann. § 56-11-101 and SSAP No. 25. During the examination, it was found that SVMIC had not appropriately disclosed Unit H as an affiliate per the aforementioned law and SSAP, respectively. The Company failed to report transactions with Unit H in Note 10 and failed to include it in Schedule Y to the Annual Statement in each year under examination per the NAIC Annual Statement Instructions.

It is recommended that the Company properly report HC Brentwood Unit H, LLC as a related party and affiliate in Note 10 and Schedule Y of its Annual Statements per the NAIC Annual Statement Instructions given that control of Unit H is presumed to exist per Tenn. Code Ann. § 56-11-101 and SSAP No. 25.

2. Tenn. Code Ann. § 56-5-106 requires that all rates charged to policyholders be in accordance with rates filed with the TDCI. In the sample of in-force policies reviewed, it was found that the rate charged by the Company for one (1) policy did not match the rating plans that were filed with the TDCI. The Company subsequently identified three (3) additional policies affected by the error and has issued refunds to such policyholders in the amount of the overcharged premiums.

It is recommended that the Company ensure that it is in compliance with Tenn. Code Ann. § 56-5-106 when charging premiums for its policies.

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 State Volunteer Mutual Insurance Company.

In such manner, it was found that as of December 31, 2022, the Company had admitted assets of \$1,385,631,300 and liabilities, exclusive of capital and surplus, of \$618,800,089. Thus, there existed for the protection of the policyholders, the amount of \$766,831,212 in the form of special surplus funds and unassigned funds. Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum surplus of \$2,000,000. For this examination, as of December 31, 2022, the Company maintains surplus sufficient to satisfy this requirement.

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, James Menck, CFE; Matt Milford, CFE; Melissa Greiner; Joseph DeVries, CFE; Emma Muambo; Carol Riley, AES, CISA, CGEIT, CRISC, CDPSE; Michael Nadeau, AES, CISA, CFE, CPA; Alan Kaliski FCAS, MAAA, of Noble Consulting Services, Inc.; and Solomon Frazier, FSA, FCAS, MAAA, of Taylor-Walker Consulting, LLC, participated in the work of this examination.

Respectfully submitted,

Shelby Lambert

Shelby Lambert (Jun 13, 2024 16:53 EDT)

Shelby Lambert, CFE, AIE, MCM
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the State of Tennessee

A. Jay Uselton

A. Jay Uselton (Jun 13, 2024 15:59 CDT)

A. Jay Uselton, CFE
Department Designee
State of Tennessee

CERTIFICATION

The undersigned certifies and says that she has duly executed the attached examination report of State Volunteer Mutual Insurance Company located in Brentwood, Tennessee, dated April 1, 2024, and made as of December 31, 2022, on behalf of the Tennessee Department of Commerce and Insurance. The undersigned further says she is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of her knowledge, information, and belief.

Shelby Lambert

Shelby Lambert (Jun 13, 2024 16:53 EDT)

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Department Designee
State of Tennessee