



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

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**REPORT ON EXAMINATION**  
**OF**  
**TENNESSEE FARMERS LIFE INSURANCE COMPANY**  
**(NAIC # 82759)**  
**(NAIC Group # 694)**  
**COLUMBIA, TENNESSEE**

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**AS OF**  
**DECEMBER 31, 2020**

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Columbia, Tennessee  
May 3, 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.”) § 56-1-408, a full-scope financial examination and market conduct review, as of December 31, 2020, has been made of the condition and affairs of:

**TENNESSEE FARMERS LIFE INSURANCE COMPANY**

NAIC # 82759  
NAIC Group # 694  
147 Bear Creek Pike  
Columbia, TN 38401

hereinafter referred to as the “Company” or “TFLIC” 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 TDCI. This examination was called through the National Association of Insurance Commissioners (NAIC) Financial Examination Electronic Tracking System (FEETS). It was conducted simultaneously with the examination of two (2) other insurance companies in the Tennessee Farmers Group, all based in Columbia, Tennessee, as follows:

- Tennessee Farmers Mutual Insurance Company
- Tennessee Farmers Assurance Company

## SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2015. This examination covers the period January 1, 2016, through December 31, 2020, and includes any material transactions and/or events occurring subsequent to the examination date, which were noted during the course of 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 NAIC *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. Significant inherent risks within the Company were reviewed and assessed. Controls and mitigation for those significant risks were also reviewed. 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: Investments, Reinsurance, Underwriting/Premiums, Reserves/Claims Handling, Related Parties, and Capital and Surplus.

The Company's 2020 Annual Statement was compared with or reconciled to the corresponding general ledger account balances.

Independent information technology specialist services, provided by Lewis & Ellis, Inc. were utilized in the examination review of the Company's information technology general controls (ITGC).

The actuarial firm of Lewis & Ellis, Inc. was utilized in the examination review of the Company's reinsurance and statutory reserves, as well as the risk assessment and review of controls for reserving and pricing risks.

The independent auditors' workpapers were reviewed for the 2020 audit, and copies were incorporated into the examination, as deemed appropriate. The independent auditors were also engaged by the Company to perform testing of internal controls for purposes of compliance with the Model Audit Rule (MAR). The examiners reviewed the processes tested and requested the workpapers for specific processes identified as significant to the key activities being examined. The workpapers were provided and were utilized, where appropriate.

In September 2019, the Company engaged a consulting firm to perform Internal Audit (IA) procedures identified by the audit committee. During 2020, the firm's review was limited to two (2) specific areas, as directed by the audit committee. The examiners reviewed both areas of testing.

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

## **COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS**

There were no comments or recommendations in the prior examination report.

## **COMPANY HISTORY**

On April 6, 1973, the Tennessee Farmers Mutual Insurance Company (TFMIC) and the Tennessee Farm Bureau Federation ("TNFB Federation") subscribed to purchase nine hundred fifty thousand (950,000) and one hundred fifty thousand (150,000) shares, respectively, of the authorized common capital stock of the Company. The subscription price was \$2.00 per share for a total of \$2,200,000 in the form of \$1,100,000 capital paid in and \$1,100,000 gross paid in and contributed surplus.

The Company was issued a Certificate of Authority by the TDCI on April 30, 1973, to transact the business of Life, Disability and Credit Insurance as defined by Tenn. Code Ann. § 56-2-210. The Certificate remains in force.

The Company owned one hundred percent (100%) of the common stock of Capital, which owned one hundred percent (100%) of the stock of TF Investment Corporation (TFIC), a Nevada corporation. Effective June 30, 2017, TFIC was dissolved and merged into the Company.

On May 18, 2012, the Company purchased twelve thousand seven hundred fifty (12,750) shares of the common stock of Generation Life Insurance Company ("Generation"). This purchase represented fifty one percent (51%) of the issued and outstanding shares. The remaining forty-nine percent (49%) was owned by an affiliate, Tennessee Farmers Assurance Company (TFAC). On October 3, 2016, Generation was sold to a Swiss Re subsidiary.

The Company owned five and one tenths percent (5.1%) of TFHC, Inc. Effective July 1, 2019, TFHC, Inc. was merged into an affiliate, TFAC.

The Company's immediate and ultimate parent is TFMIC, a Tennessee domiciled property and casualty insurance company. TFMIC maintains a forty-nine and eight tenths percent (49.8%) interest in the Company. Additional owners of the Company are as follows: TNFB Federation – five percent (5.0%), and Tennessee Rural Health Improvement Association – three percent (3.0%). The remaining stock is owned by employees, agents, and the public.

As of December 31, 2020, the Company has one hundred million (100,000,000) shares of common stock authorized, with twenty-five million, four hundred fifty-seven thousand, eight hundred twenty-seven (25,457,827) shares of one dollar (\$1.00) par value common stock issued and outstanding.

## **MANAGEMENT AND CONTROL**

### **MANAGEMENT**

#### **Shareholders**

Notice of meetings may be communicated to each shareholder, either personally, orally, or by mail not less than ten (10) days nor more than two (2) months before the date of such meeting. The notice shall specify the place, day, and hour of annual and special meetings, and, in the case of a special meeting, shall state the purpose or purposes for which the meeting is called and the person or persons calling the meeting. The annual meeting of the shareholders shall be held at the call of the President or the Chief Executive Officer (CEO) on a date, and at such time and place, and may be selected by the President or the CEO and designated in the call of the meeting, subject to approval by the Board.

Special meetings of the shareholders may be called at any time by the President, the CEO, a majority of the Board, or the holder or holders of not less than ten percent (10%) of all the shares entitled to vote at such meeting.

A majority of the outstanding shares of stock entitled to vote, represented in person or by proxy, shall constitute a quorum for the transaction of business.

Each shareholder of record entitled to vote, shall be entitled to one (1) vote for each share of stock standing in their name and may vote either in person or by proxy.

Any action that may be taken at a meeting of the shareholders may be taken without a meeting, if all of the shareholders entitled to vote on such action consent, in writing, to taking that action without a meeting. The written consent shall set forth the action taken and shall be signed by each shareholder entitled to vote, indicating each signing shareholder's vote or abstention on the action.

#### **Directors**

The business and affairs of the corporation shall be managed and controlled by a Board which is elected annually. In accordance with the Bylaws, the Board shall consist of not less than five (5) nor more than twenty-five (25) directors.

The following persons had been duly elected and were serving as members of the Board on December 31, 2020:

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Jeff Aiken	Farmer President and Chairman, TNFB Federation
William "Eric" Mayberry	Farmer
Brenda Baker	Farmer
Willard Brown	Farmer
Joseph Allen Bryant	Farmer
John Chester	Farmer
Robert Earhart	Farmer
Charles Hancock	Farmer
James Haskew, Jr.	Farmer
Jason Luckey	Farmer
Joshua Ogle	Farmer
David Richesin	Farmer
Jack Sanders	Farmer
Mike Scudder	Farmer
Terry Snyder	Farmer
Catherine Via	Farmer

Each director must be a member in good standing of the TNFB Federation. No director, except for the President, may be a current agent or employee of the Company or any affiliate.

### **Officers**

The Bylaws of the Company provide that the Board shall elect annually a President, a Vice President, a CEO, a Secretary, a Controller, a Chief Financial Officer or Treasurer, an Assistant Secretary, and such additional officers as the CEO may propose and the Board approves. Except for the offices of President, CEO and Secretary, any position may, in the event of a vacancy, remain unfilled by the Board in their discretion.

The following officers were duly elected and were serving in the positions indicated for the Company on December 31, 2020:

<b><u>Name</u></b>	<b><u>Title</u></b>
Jeff Aiken	President
William "Eric" Mayberry	Vice President
Jeff Pannell	Chief Executive Officer
Julie Bowling	Secretary and General Counsel
Jerry Cook	Chief Financial Officer and Treasurer

## **Committees**

The Board may by resolution appoint an Executive Committee or any other committee(s) for any purpose(s) to the extent permitted by law. The powers of the committee(s) shall be specified in the resolution of the appointment.

On December 31, 2020, the standing committees of the Board and respective committee members were as follows:

### **Investment Committee**

The Investment Committee has the authority to approve the investment policy and strategy for the Company.

Jeff Aiken

Jerry Cook

David Bell

Jeff Pannell

Julie Bowling

### **Audit Committee**

The Audit Committee assists the Board in fulfilling board oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, and the audit process.

William "Eric" Mayberry (Chair)

Jack Sanders

Buddy Bryant

Catherine Via

Jason Luckey

The management, administrative, and other necessary services for operations are performed through a Management Services Agreement with TFMIC. The Company is a direct writer, marketing its insurance products through captive agents in offices located throughout Tennessee counties for purposes of writing new business and servicing existing policies. The offices are staffed by licensed agents who operate as independent contractors. All underwriting activities are performed by TFMIC through the Management Services Agreement.

## **CONTROL**

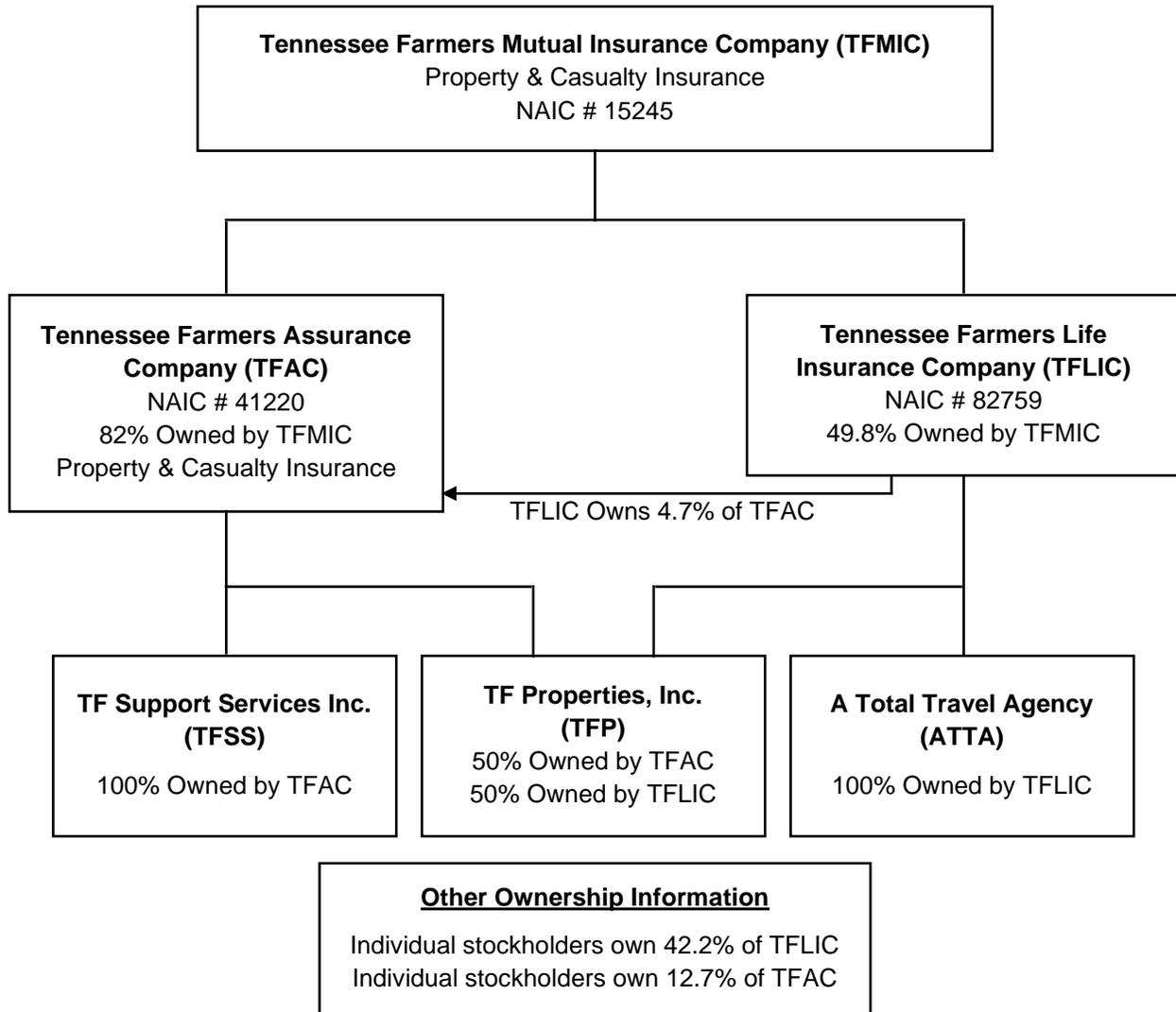
The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(7), and as such, is subject to the Insurance Holding Company System Act of 1986, set forth in Tenn. Code Ann. §§ 56-11-101, *et seq.* The Company's immediate and ultimate parent is TFMIC. See "Organization Chart" below for details on all owners of the Company. The Company files a holding company registration statement annually, as required by Tenn. Code Ann. § 56-11-105.

The Company owns one hundred percent (100%) of the stock of A Total Travel Agency, Inc. (ATTA), and fifty percent (50%) of TF Properties, Inc.

On December 31, 2020, TFMIC held investments in American Agricultural Insurance Company (AAIC) and FBP 2015 Holding Company (FBP), which were thirteen percent (13.0%) and twenty-one percent (21.0%) of the respective ownerships. Based on Statement of Statutory Accounting Principles (SSAP) No. 25, the two (2) entities are affiliates (related parties) of TFMIC, and therefore affiliates to the Company and TFAC. These entities were not disclosed in various annual statement schedules and exhibits, as required by the NAIC *Annual Statement Instructions*. As such, the Company was not in compliance with Tenn. Code Ann. § 56-1-501. See “Comments and Recommendations” section later in this report.

## **ORGANIZATIONAL CHART**

The following organizational chart shows the Company's parent and subsidiaries, as of December 31, 2020:



## **DIVIDENDS**

During the period of examination, the Company did not declare or pay any cash stockholder dividends. The Company declared a three percent (3%) stock dividend in each of the years under the examination, except for 2019, in which a two percent (2%) stock dividend was declared.

## **CORPORATE RECORDS**

The minutes of meetings of the Company's shareholders, Board, and committees were reviewed for the period under examination. They 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 Charter of the Company, in effect as of December 31, 2020, is the Company's Amended Charter which was filed with the Secretary of State on July 14, 2005. The Charter provides for the operation of a for-profit corporation with a perpetual existence and establishes its location in Columbia, Maury County, Tennessee.

The Charter states that the purpose of the Company is "to insure the lives of persons and engage in the general business of life insurance." The Company made no amendments to its Charter during the period of examination.

### **Bylaws**

The Restated Bylaws of the Company, in effect as of December 31, 2020, were restated April 9, 1992, in order to comply with Tennessee Corporation Act of 1986 and alleviate any technical deficiencies that may have accumulated since the Company was incorporated. The Bylaws were last amended on April 4, 1994. No amendments have been enacted during the period of examination.

The current Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board, and its shareholders.

## **AGREEMENTS WITH PARENT AND AFFILIATES**

The Company had the following significant agreements with its parent and affiliated companies in effect, as of December 31, 2020:

### **Management Services Agreement**

On December 21, 1973, the Company entered into a Management Services Agreement with TFMIC effective September 1, 1973. Under terms of the agreement, TFMIC performs all management, administrative, and other services that are reasonably necessary for the operation of the Company. These services include, but are not limited to, the following: employees, legal, claims, managerial, and accounting. The agreement ending date was December 31, 1973, with the option to renew on an annual basis.

Under the terms of the agreement, the Company remits a quarterly payment to TFMIC for all services, supplies, equipment, and other facilities furnished in an amount equal to

the costs or deductions incurred by TFMIC. A cost study is performed periodically to determine the allocation of TFMIC employees' salaries for each member of the group. The agreement calls for settlement to be remitted on a quarterly basis.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1).

### **Tax Allocation Agreement**

The Company entered into a Tax Allocation Agreement with its subsidiary, ATTA, effective December 31, 2017. Under the terms of the agreement, the subsidiary shall establish a liability to the Company for the amount of federal income tax that relates to the subsidiary's contribution to the total consolidated federal income tax liability. In the event that a subsidiary incurs a net operating loss, thus providing a tax benefit to the consolidated group, the Company shall credit to the subsidiary the amount of the tax benefit attributable to the subsidiary's net operating loss. Amounts are to be settled no later than forty-five (45) days after the date on which the consolidated tax return is required to be filed.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1).

### **Equipment Lease Agreement**

The Company entered into Lease Agreements with TFMIC and ATTA on January 1, 2020. Under the terms of each agreement, the lease expires on December 31, 2020, and automatically renews unless either party gives notice to discontinue. The Company purchases most of the equipment used within the holding company group, and then leases the equipment to various members. Expense is calculated based upon the expected useful life of the equipment and any other expense associated with the equipment.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1).

### **Agent Incentive Expense Reimbursement Agreement**

The Company entered into a Reimbursement Agreement with TFMIC on January 1, 2017. The Company provides sales incentives to the top Life product producing agents. These agents are also responsible for the production of property and casualty (P&C) premiums. TFMIC pays a bonus to the Company in consideration of the costs associated with the sales incentive and the increased P&C premium associated with these incentives. The methodology for determining the bonus is based on the profitability of the additional P&C

premiums but is not to exceed twenty percent (20%) of the annual cost of the agents' sales incentives provided by the Company.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1).

Based upon the review of affiliated transactions, the examiners noted three (3) related party transactions (two (2) leases for office space and one (1) for expense reimbursement), for which there were no formal related party agreements in place. The Company was not in compliance with SSAP No. 25, paragraph 8, which states "Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date." As such, the Company was not in compliance with Tenn. Code Ann. § 56-1-501. See "Comments and Recommendations" section later in this report.

## **TERRITORY AND PLAN OF OPERATION**

### **TERRITORY**

As of December 31, 2020, and as of the date of this report, the Company was licensed to transact business in the state of Tennessee. The Certificate of Authority was reviewed and found to be in order.

The Company currently has no applications pending for admission to any other states or territories.

Premium tax records were reviewed for Tennessee and no exceptions were noted.

### **PLAN OF OPERATION**

The Company markets individual interest-sensitive universal life, term, whole life insurance plans, and a variety of individual annuity plans primarily to members of the TNFB Federation. Life insurance policies are issued with medical examination requirements or on a non-medical examination basis. The annuities are issued on both a qualified and non-qualified basis. The annuity plans include flexible premium deferred annuities, single premium deferred annuities, and single premium immediate annuities.

The insurance business of the Company is produced by a sales and production staff under the supervision of a Chief Marketing Officer assisted by Regional Agency Managers. The Company's captive agents are independent contractors serving as either Agency Managers or Agents. These agents also market business for TFMIC and are assigned to the County Farm Bureau offices located in the ninety-five (95) counties of the

State of Tennessee. Business is also written by Customer Service Representatives located at the Company's home office.

During the period under review and through the date of this report, all policy preparation was performed in the home office and was subject to the underwriting rules adopted by the Company and promulgated in accordance with approved rates. The adjustment of claims is also performed in the home office.

## **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 filed with the TDCI. *(Note: Immaterial differences in totals are due to rounding.)*

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Premiums and Annuity Considerations</u>	<u>Net Income</u>
2020	\$2,487,303,908	\$1,938,274,102	\$549,029,805	\$181,780,470	\$28,387,414
2019	\$2,398,767,154	\$1,893,741,587	\$505,025,567	\$173,982,737	\$38,272,867
2018	\$2,299,816,542	\$1,837,960,884	\$461,855,658	\$168,394,039	\$46,702,970
2017	\$2,276,792,705	\$1,834,685,162	\$422,107,543	\$175,419,789	\$28,678,694
2016	\$2,201,050,091	\$1,782,075,606	\$418,974,480	\$197,878,368	\$28,501,728

## **LOSS EXPERIENCE**

As developed from applicable amounts included in the Company's annual statements, the ratios of mortality, and losses and loss adjustment expenses (LAE) incurred to earned premiums, for the period subject to this examination were as follows:

<u>Year</u>	<u>Net Death Benefits</u>	<u>Less Reserves Released by Death</u>	<u>Life Actual Death Benefits Incurred</u>	<u>Divided by Expected Mortality</u>	<u>Mortality Experience Ratio</u>
2020	\$84,546,850	\$6,277,522	\$78,269,328	\$143,389,659	54.59%
2019	\$64,264,100	\$5,384,357	\$58,879,743	\$137,204,933	42.91%
2018	\$59,397,994	\$3,542,220	\$55,855,774	\$135,067,997	41.35%
2017	\$56,894,100	\$3,257,929	\$53,636,171	\$125,130,445	42.86%
2016	\$52,572,524	\$2,813,965	\$49,758,559	\$118,450,502	42.01%

## Accident & Health

<u>Year</u>	<u>Net Incurred Claims</u>	<u>Net Premiums Earned</u>	<u>Loss Experience Ratio</u>
2020	\$630,000	\$3,686,718	17.09%
2019	\$590,000	\$3,653,752	16.15%
2018	\$430,000	\$3,621,816	11.87%
2017	\$870,000	\$3,557,064	24.46%
2016	\$430,000	\$3,484,559	12.34%

## **REINSURANCE AGREEMENTS**

The Company's reinsurance agreements were reviewed and found to contain the standard provisions for arbitration, cancellation, errors and omissions, exclusions, insolvency, offset, settlement, taxes, and termination. The following summary describes the significant reinsurance agreements in effect, as of December 31, 2020:

### **Reinsurance Assumed**

#### Tennessee Farmers Mutual Insurance Company

The Company assumes, through two (2) quota share agreements, one hundred percent (100%) of the automobile blanket accidental death policies issued by TFMIC, effective January 1, 1989. These agreements cover liabilities that existed on and after January 1, 1989.

The company assumes, through a quota share agreement, one hundred percent (100%) of the property blanket accidental death policies issued by TFMIC, effective February 1, 1990. This agreement covers liabilities that existed on and after February 1, 1990.

### **Reinsurance Ceded**

#### Excess of Loss Agreement

Since 2006, the Company reinsures all new business applications on an excess of loss basis with SCOR Global Life USA Reinsurance Company (SCOR), (formerly known as Generali USA Life Reassurance Company) and RGA Reinsurance Company (RGA). The business is divided between the two (2) companies using an alphabetical split, whereby SCOR reinsures surnames beginning with letters A through L and RGA reinsures surnames beginning with M through Z. The Company's retention is a maximum of \$250,000 on any one life. The retention is graded down to zero dollars (\$0.00) as the insured's issue age increases or as the insured's medical risk profile worsens.

### Accidental Death Carve Out/Catastrophe Reinsurance

In 2005, the Company began to reinsure its accidental death exposure in a separate agreement. This agreement is also utilized as the Company's catastrophe coverage. Effective January 1, 2020, the reinsurers included in the agreement were SCOR, fifty percent (50%) and Zurich American Insurance Company, fifty percent (50%). For 2020, the attachment point at which benefits under the agreement are paid is \$7,600,000.

### Other Considerations

All of the Company's financially significant reinsurance agreements were reviewed during either this or prior examinations and found to contain such language as recommended by the NAIC and as required for reinsurance credit by Tenn. Code Ann. § 56-2-207(a)(2). All agreements also appear to effectuate proper transfer of risk in accordance with SSAP No. 61 and NAIC guidelines. In addition, all unauthorized reinsurers have provided letters of credit or executed trust agreements with the Company to secure the Company's reinsurance recoverables and reserve credits as of December 31, 2020.

## **ACCOUNTS AND RECORDS**

Independent audits were performed each year during the examination period with each resulting in an unqualified opinion.

During the course of the examination, certain balances were tested, and amounts were traced from the Company's trial balance to the annual statement. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. 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 Columbia, Tennessee.

## **MARKET CONDUCT ACTIVITIES**

A market conduct review was made of the Company, as of December 31, 2020, in conjunction with this examination. The following items were addressed:

### Operations and Management Standards

Company antifraud initiatives were examined to determine if they are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts. The Company did not

have an anti-fraud plan in place that is compliant with Tenn. Code Ann. § 56-53-111. See the “Comments and Recommendations” section later in this report.

Additionally, identified fraudulent activity by an external party was not reported to the authorities as required by Tenn. Code Ann. § 56-53-109.

Company procedures and policies relating to privacy were reviewed to determine compliance with Tenn. Code Ann. § 56-8-104(19). No issues were noted.

### **Complaint Handling Standards**

The Company maintains a complaint register, as required by various state Unfair Trade Practices Acts. The register and accompanying files are maintained for a minimum of five (5) years in accordance with statutory requirements. The Company’s complaint procedures and complaint register were examined in accordance with requirements of Tenn. Code Ann. § 56-8-104(11) and the NAIC *Market Regulation Handbook* (“Market Handbook”). It was noted that the complaint register did not include certain elements as required by Tenn. Code Ann. § 56-8-104(11). Specifically, in some instances, the dates were not clear as to when a complaint was received and/or resolved, information related to final resolution of a complaint was not included, and a number of complaints did not include line of business classification. See the “Comments and Recommendations” section later in this report.

### **Marketing and Sales Standards**

Advertising and sales materials used by the Company were examined for compliance with Tenn. Code Ann. § 56-8-104(1), (2), and (3); Tenn. Comp. R. & Regs. 0780-01-33 - Life Insurance Advertising; and the Market Handbook. The advertising and sales materials used 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 the producers’ state issued licensure and appointment by the Company were verified.

In the sample of producers examined, one (1) instance was found where a producer wrote business while not properly appointed. See “Comments and Recommendations” section later in this report.

### **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.

### **Underwriting and Rating Standards**

In the examination of the Company's underwriting procedures and policy administration, policies for both life and annuity contracts were reviewed for compliance with Tenn. Code Ann. § 56-8-104, Tenn. Comp. R. & Regs. 0780-01-34, which established Company guidelines. In the examination of these contracts, no instances of unfair methods of competition, or unfair or deceptive acts were found. Underwriting procedures and policy administration conducted by the Company appear to be in compliance with established Company guidelines. The life and annuity contracts that were replacement policies complied with requirements set forth in Tenn. Comp. R. & Regs. 0780-01-24.

A sample of the policy forms that were used by the Company during the period of examination were reviewed. All forms had been filed with the TDCI prior to their use, in accordance with Tenn. Code Ann. § 56-7-2311(a). The filings are consistent in form and included appropriate documentation.

### **Claims Handling Standards**

During 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. There were instances of non-compliance noted. Specifically, the Company did not comply with Tenn. Code Ann. § 56-8-105 (2, 3, and 7), as it did not maintain communication with claimants and track all communications by dates and mode, and two (2) claims appear to have delays in processing. The Company did not comply with Tenn. Comp. R. & Regs. 0780-01-05-.05 in that the samples reviewed were incomplete in some regards, and many documents did not have received dates. There was no communication with claimants about additional time for some claims pursuant to Tenn. Comp. R. & Regs. 0780-01-05.11(5), and no communication was made related to the claimant's right to file a complaint with Consumer Insurance Services, pursuant to Tenn. Comp. R. & Regs. 0780-01-05.11(11). Additionally, the Company was not in compliance with Tenn. Code Ann. § 56-7-315 in that the claimants did not receive all applicable interest. See the "Comments and Recommendations" section later in this report.

## **SUBSEQUENT EVENTS**

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in this examination report. Our review confirmed the Company's disclosures in its 2020 Annual Statement and in its Letter of Representation. Management stated in its Letter of Representation that they were not aware of any events subsequent to December 31, 2020, that could have a material effect on the Company's financial condition.

## FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, surplus and other funds, and a summary of operations, as of December 31, 2020, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2020 Annual Statement. *(Note: Immaterial differences in totals are due to rounding.)*

### ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$1,974,506,704		\$1,974,506,704
Preferred stocks	21,681,123		21,681,123
Common stocks	320,052,336	\$1,020,810	319,031,526
Mortgage loans on real estate	4,674,164		4,674,164
Real estate:			
Properties occupied by company	13,563,672		13,563,672
Cash, cash equivalents, and short-term investment	16,710,172		16,710,172
Contract loans	20,809,247	299,003	20,510,244
Other invested assets	16,150,066		16,150,066
Investment income due or accrued	25,043,753		25,043,753
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collections	299,640		299,640
Deferred premiums and agents' balances booked but deferred	120		120
Amounts recoverable from reinsurers	792,206		792,206
Current FIT recoverable	1,028,053		1,028,053
Net deferred tax asset	6,745,510		6,745,510
Electronic data processing equipment	35,406,739	35,406,739	0
Furniture and equipment	3,627,220	3,627,220	0
Receivables from parent, subsidiaries, affiliates	1,402,491		1,402,491
Aggregate write-ins for other than invested assets	<u>77,782,205</u>	<u>12,617,741</u>	<u>65,164,464</u>
<b>Totals</b>	<u>\$2,540,275,421</u>	<u>\$52,971,513</u>	<u>\$2,487,303,908</u>

## LIABILITIES, SURPLUS, AND OTHER FUNDS

Aggregate reserve for life contracts	\$1,662,938,443
Liability for deposit-type contracts	154,774,399
Contract claims:	
Life	17,300,077
Accident and Health	160,000
Policyholders' dividends and refunds to members apportioned for payment	3,967,380
Premiums and annuity considerations for life and accident and health contracts received in advance	131,480
Contract liabilities not included elsewhere:	
Interest maintenance reserve (IMR)	1,607,686
Commissions to agents due or accrued	1,240,965
General expenses due and accrued (net)	2,246,448
Taxes, licenses, and fees due or accrued	1,825,383
Unearned investment income	240,332
Remittances and items not allocated	2,318,107
Liability for benefits for employees and agents	9,023,658
Miscellaneous liabilities:	
Asset valuation reserve (AVR)	79,530,016
Payable to parent, subsidiaries, and affiliates	904,209
Drafts outstanding	65,495
Aggregate write-ins for liabilities	<u>23</u>
 Total Liabilities	 \$1,938,274,102
 Common capital stock	 \$25,457,827
Gross paid in and contributed surplus	12,630,020
Aggregate write-ins for special surplus funds	9
Unassigned funds (surplus)	<u>510,941,949</u>
 Total Capital and Surplus	 <u>549,029,805</u>
 <b>Totals</b>	 <b><u>\$2,487,303,907</u></b>

## SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and A&H	\$181,780,470	
Net investment income	85,651,990	
Amortization of Interest Maintenance Reserve (IMR)	873,799	
Commissions and allowances on reinsurance ceded	689,415	
Aggregate write-ins for miscellaneous income	<u>12,176,052</u>	
<b>Total Income</b>		\$281,171,726
Death benefits	84,546,850	
Matured endowments	21,260	
Annuity benefits	27,927,320	
Disability benefits and benefits under A&H contracts	630,000	
Surrender benefits and withdrawals for life contracts	66,051,693	
Interest and adjustments on contract funds	(2,465,558)	
Increase in aggregate reserves for life and A&H	<u>13,415,442</u>	
<b>Total Benefits</b>		190,127,007
Commissions on premiums and annuity considerations	13,016,614	
Commissions and allowances on reinsurance assumed	307,103	
General insurance expenses	34,374,401	
Insurance taxes, licenses and fees, excluding federal income taxes	4,568,945	
Increase in loading on deferred, uncollected premiums	29,419	
Aggregate write-ins for deductions	<u>310,407</u>	
<b>Total Expenses</b>		<u>52,606,889</u>
Net gain from operations before dividends to policyholders and federal income taxes		38,437,829
Dividends to policyholders		<u>3,945,387</u>
Net gain from operations after dividends to policyholders and before federal income taxes		34,492,442
Federal and foreign income taxes incurred		<u>6,181,084</u>
Net gain from operations after dividends and income taxes and before realized capital gains or (losses)		28,311,358
Net realized capital gains or (losses) less capital gain tax		<u>76,056</u>
<b>Net Income</b>		<u>\$28,387,414</u>

## CAPITAL AND SURPLUS ACCOUNT

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital and Surplus December 31, previous year	\$505,025,567	\$461,855,658	\$442,107,543	\$418,974,477	\$375,640,947
Net income or (loss)	28,387,414	38,272,867	46,702,970	28,678,694	28,501,728
Change in net unrealized capital gains or (losses)	31,374,521	35,810,199	(14,826,023)	26,564,181	15,759,883
Change in net deferred income tax	961,722	2,791,662	2,802,262	(21,648,388)	6,271,183
Change in non-admitted assets	1,266,854	(210,352)	(13,218,546)	2,071,758	(7,295,285)
Change in reserve on account of change in valuation basis	0	0	0	0	11,052,189
Change in asset valuation reserve	(13,501,761)	(25,151,602)	5,207,026	(9,447,104)	(7,860,105)
Cumulative effect of changes in accounting principles	0	(37,895)	(1,755,184)	0	0
Capital changes: Paid in	(73,122)	(145,178)	(91,029)	(56,055)	(61,587)
Capital changes: Transferred from surplus	743,405	488,217	714,518	695,484	676,953
Surplus adjustment: Paid in	19,537	149,335	523,591	559,031	584,518
Surplus adjustment: Transferred to capital	(743,405)	(488,217)	(714,518)	(695,484)	(676,953)
Aggregate write-ins for gains and losses in surplus	<u>(4,430,926)</u>	<u>(8,309,126)</u>	<u>(5,596,951)</u>	<u>(3,589,053)</u>	<u>(3,618,994)</u>
Net change in capital and surplus for the year	<u>44,004,239</u>	<u>43,169,910</u>	<u>19,748,115</u>	<u>23,133,063</u>	<u>43,333,530</u>
Capital and Surplus December 31, current year	<u>\$549,029,805</u>	<u>\$505,025,567</u>	<u>\$461,855,658</u>	<u>\$442,107,543</u>	<u>\$418,974,477</u>

## ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$549,029,805

Total capital and surplus, as established by this examination, is the same as reported by the Company in its 2020 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2020.

## COMMENTS AND RECOMMENDATIONS

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

### Comments

There were no comments noted during the completion of this examination.

### Recommendations

1. As noted in the "Control" section of this report, it was found that the Company did not comply with Tenn. Code Ann. § 56-1-501, in that the Company did not disclose all of its affiliates.

It is recommended the Company comply with Tenn. Code Ann. § 56-1-501 and include all of its affiliates in various disclosures.

2. As noted in the "Agreements with Parent and Affiliates" section of this report, the Company did not comply with Tenn. Code Ann. § 56-1-501, and Statement of Statutory Accounting Principles (Statement of Statutory Accounting Principles) 25, paragraph 8, in that some of the Company's related party transactions were not supported by formal agreements.

It is recommended that the Company comply with Tenn. Code Ann. § 56-1-501 and SSAP 25, paragraph 8, and enter into formal agreements with related parties as required by SSAP 25.

3. As noted in the "Operations and Management Standards" section of this report, the Company's anti-fraud plan was not in compliance with Tenn. Code Ann. § 56-53-111. Further, an instance of fraud was not reported to the authorities as required by Tenn. Code Ann. § 56-53-109.

It is recommended that the Company maintains an anti-fraud plan that is compliant with Tenn. Code Ann. § 56-53-111. It is recommended that the Company report any

and all identified fraudulent activity to the respective authorities as required by Tenn. Code Ann. § 56-53-109.

4. As noted in the “Complaint Handling Standards” section of this report, the Company’s complaint register was not compliant with Tenn. Code Ann. § 56-8-104(11).

It is recommended that the Company comply with Tenn. Code Ann. § 56-8-104(11) and maintain an accurate and complete complaint register.

5. As noted in the “Producer Licensing Standards” section of this report, the Company had one (1) agent that was not properly appointed to represent the Company as required by Tenn. Code Ann. § 56-6-115.

It is recommended that the Company develop procedures to ensure that all agents are properly appointed to comply with Tenn. Code Ann. § 56-6-115.

6. As noted in the “Claims Handling Standards” section of this report, there were instances of improper claims handling as defined by Tenn. Code Ann. § 56-8-105 and Tenn. Comp. R. & Regs. 0780-01-05.

It is recommended that the Company process all claims in accordance with Tenn. Code Ann. § 56-8-105 and Tenn. Comp. R. & Regs. 0780-01-05.

## 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 Tennessee Farmers Life Insurance Company.

In such manner, it was found that as of December 31, 2020, the Company had admitted assets of \$2,487,303,908 and liabilities, exclusive of capital and surplus, of \$1,938,274,102. Thus, there existed for the additional protection of the policyholders, the amount of \$549,029,805 in the form of common capital stock, gross paid in and contributed surplus, aggregate write-ins for 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 capital of \$1,000,000 and minimum surplus of \$1,000,000, respectively. For this examination, as of December 31, 2020, the Company maintains capital and 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, Linda Merriweather CISA, APIR, CGFM; Nneka LaBon, APIR; James Pearce, MCM; Insurance Examiners; Rhonda Bowling-Black, CFE, ARe, MCM; and Shelli Isiminger, FLMI, CICSR, AIE, MCM, AIRC, Market Conduct Examiners from the State of Tennessee; Mike Mayberry, FSA, MAAA; Lindsey Pittman, CFE, CISA, AES, and Jessica Lynch, CFE of the actuarial and contracting firm Lewis & Ellis, Inc., participated in the work of this examination.

Respectfully submitted,

  
\_\_\_\_\_  
Katerina Bolbas, CFE  
Examiner-in-Charge  
Lewis & Ellis, Inc.  
Representing the State of Tennessee

  
\_\_\_\_\_  
A. Jay Uselton, CFE  
Department Designee  
Tennessee Department of Commerce and Insurance

**AFFIDAVIT**

The undersigned deposes and says that she has duly executed the attached examination report of Tennessee Farmers Life Insurance Company located in Columbia, Tennessee, dated May 3, 2022, and made as of December 31, 2020, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of her knowledge, information, and belief.

  
Katerina Bolbas, CFE  
Examiner-in-Charge  
Lewis & Ellis, Inc.  
Representing the State of Tennessee

State Michigan

County Berrien

Subscribed to and sworn before me

this 22 day of June, 2022

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

My Commission Expires: 8-21-2025



# AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Tennessee Farmers Life Insurance Company located in Columbia, Tennessee, dated May 3, 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.



A. Jay Useton, CFE  
Department Designee  
State of Tennessee

State TN

County Davidson

Subscribed to and sworn before me

this 22nd day of June, 2022



(NOTARY)

My Commission Expires May 07, 2024

My Commission Expires: \_\_\_\_\_



# **EXHIBIT B**



Auto • Home • Life

**Tennessee Farmers  
Insurance Companies**

Corporate Headquarters

Post Office Box 307

Columbia, TN 38402-0307

931.388.7872 • [www.fbitn.com](http://www.fbitn.com)

June 24, 2022

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 – Tennessee Farmers Life Insurance Company**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Tennessee Farmers Life Insurance Company, made as of December 31, 2020.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Jeff Pannell".

Jeff Pannell  
CEO Tennessee Farmers Insurance Companies