



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF
TENNESSEE FARMERS MUTUAL INSURANCE COMPANY
(NAIC # 15245)
(NAIC Group # 694)
COLUMBIA, TENNESSEE

AS OF
DECEMBER 31, 2020

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Columbia, Tennessee
May 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.”) § 56-1-408, 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 MUTUAL INSURANCE COMPANY

NAIC # 15245
NAIC Group # 694
147 Bear Creek Pike
Columbia, Tennessee 38401

hereinafter referred to as the “Company” or “TFMIC” 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). The examination 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 Assurance Company
- Tennessee Farmers Life Insurance 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

No comments or recommendations were noted during the previous examination.

COMPANY HISTORY

The Company was incorporated on December 22, 1952, pursuant to the provisions of the General Corporate Act of Tennessee, Chapter 90 of the Public Acts of 1929, codified as Sections 3709-3771, inclusive, of the Code of Tennessee 1932.

The Company was organized as a successor corporation to the business and affairs of Tennessee Farmers Insurance Company (TFIC), a Tennessee stock corporation, chartered on November 5, 1948, and located in Columbia, Tennessee. The effect of this reorganization was to convert the operations and business of TFIC from a stock proprietorship to a mutual plan. On December 30, 1952, the Company commenced the transaction of insurance business as a state mutual insurance company.

During 1952 and 1953, the Company received subscriptions for advanced surplus and issued certificates in the aggregate amounts of \$348,400 and \$172,350 respectively, for a total of \$520,750, of which \$80,550 was advanced by the Tennessee Farm Bureau Federation ("TNFB Federation") of Columbia, Tennessee, and \$440,200 was advanced by nine hundred ten (910) individual members of the TNFB Federation. Subsequent to the issuance of the original surplus receipts, transfers of receipts have been made to other members of the TNFB Federation and many of these receipts have been redeemed. As of December 31, 2020, the remaining total of surplus receipts issued and outstanding is \$6,200, which is reported in the Company's annual statement as "Aggregate write-ins for special surplus funds".

Effective December 30, 1952, the Company was issued an initial Certificate of Authority by the TDCI to transact the business of insurance in the State of Tennessee. On July 1, 1986, a perpetual certificate was issued which continues until suspended or revoked. This certificate was amended effective July 29, 1987, to include the surety line of

business. As of December 31, 2020, the Company is authorized to conduct the business of property, vehicle, casualty, and surety in the state of Tennessee.

Effective June 30, 2017, TFIC, Inc. (which was one hundred percent (100%) owned by the Company) was dissolved and merged into the Company.

As of December 31, 2018, the Company owned eighty-nine and seventy-five hundredths percent (89.75%) of the outstanding stock of a holding company, TFHC, Inc., which represented an indirect ownership in Tennessee Farmers Assurance Company (TFAC) of eighty-one and eighty-two hundredths percent (81.82%). Effective July 1, 2019, the Company merged TFHC, Inc. into TFAC. There was no gain or loss recognized by any party from this merger. After the merger, and at the examination date of December 31, 2020, the Company owned eighty-two percent (82%) of TFAC.

MANAGEMENT AND CONTROL

MANAGEMENT

Policyholders

The business of the corporation shall be limited and restricted to members of the TNFB Federation.

According to the Company's by-laws, notice of meetings shall be communicated to each member by announcement in the Tennessee Farm Bureau News and shall be published 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 of members (policyholders) 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 as may be selected by the President or the CEO and designated in the call of the meeting, subject to approval by the Board of Directors ("Board").

Special meetings of the members of the corporation may be called at any time by the President, the CEO, a majority of the Board, or upon the written application of at least ten percent (10%) of the members.

At least one hundred (100) members, either in person or proxy, shall constitute a quorum for the transaction of business.

Each member of the corporation shall be entitled to one (1) vote for each policy of insurance in force in the corporation held by such member at any membership meeting.

Directors

The business and affairs of the corporation shall be managed and controlled by a Board which are 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 were duly elected and were serving as members of the Board, as of December 31, 2020:

<u>Name</u>	<u>Principal Occupation</u>
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 persons 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>
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
John Law	Chief Operating Officer, Property and Casualty Operations
David Bell	Chief Operating Officer, Life Operations
Phil Irwin	Chief Marketing Officer
Josh Webber	Chief Administrative Officer

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 administrative and executive functions of the Company are performed at the home office in Columbia, Tennessee. The Company has its own marketing division located in the home office. The Company is a direct writer, marketing its insurance products through

captive agents. County Farm Bureau Group's offices are located throughout Tennessee for the purposes of writing new business and servicing existing policies. The offices are staffed by licensed agents who operate as independent contractors. Underwriting activities are also performed by the Company's employees at the home office.

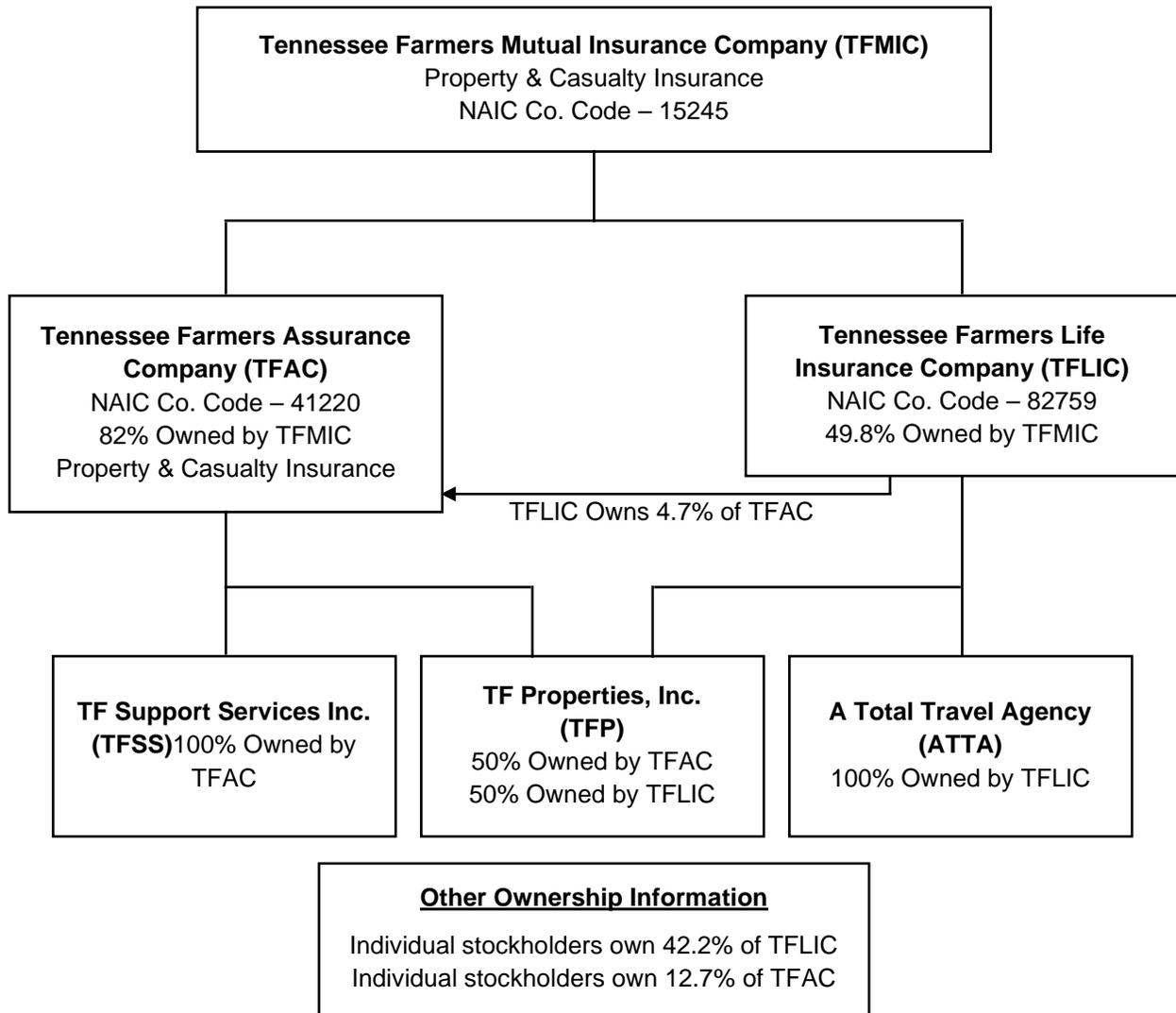
CONTROL

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 is a mutual company, and as such, is owned by its policyholders. The Company additionally owns forty-nine and eight tenths percent (49.8%) of TFLIC and eighty-two percent (82%) of TFAC.

On December 31, 2020, the Company held investments in American Agricultural Insurance Company (AAIC) and FBP 2015 Holding Company (FBP), which were thirteen percent (13%) and twenty-one percent (21%) of the respective ownerships. Based on Statement of Statutory Accounting Principles (SSAP) No. 25, the two (2) entities are affiliates (related parties) of the Company, and, therefore, affiliates to TFAC and TFLIC, (collectively "Companies"). 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 and its subsidiaries, as of December 31, 2020:



CORPORATE RECORDS

The minutes of meetings of the Company’s policyholders, Board, 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 Charter of the Company, in effect as of December 31, 2020, was filed and recorded with the Tennessee Secretary of State, on December 22, 1952. The Charter was approved by the TDCI on December 22, 1952.

The Charter provides for the operation of a mutual insurance company with a perpetual existence and established its location in Columbia, Maury County, Tennessee. The Charter states that the purpose of the Company is the operating of "a mutual insurance company under and by virtue of the laws of the State of Tennessee..." 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 effective April 9, 1992 in order to comply with the Tennessee Corporation Act of 1986 and alleviate any technical deficiencies that may have accumulated since the Company was incorporated. They 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 members.

AGREEMENTS WITH AFFILIATES

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

Management Services Agreements – TFLIC, TFAC, and A Total Travel Agency

The Company is a party to Management Services Agreements with three (3) of its affiliates, TFAC, TFLIC, and A Total Travel Agency (ATTA). Under these agreements, the Company performs all management, administrative, and other services that are reasonably necessary for the operation of the companies. These services include, but are not limited to employees, legal, claims, managerial, and accounting.

Under the terms of the agreements, a quarterly payment is remitted to the Company for all services, supplies, equipment, and other facilities furnished in an amount equal to the costs or deductions incurred by the Company. A cost study is performed periodically to determine the allocation of the employees' salaries for each member of the group.

The agreement with TFAC was dated April 25, 1991, and had an ending date of December 31, 1991, with the option to renew on a calendar year basis thereafter. The agreement with TFLIC was dated December 21, 1973, and had an ending date of December 31, 1973, with the option to renew on a calendar year basis thereafter. The agreement with ATTA was dated January 1, 2017, and has an ending date of December 31, 2018, with the option to renew on a calendar year basis thereafter. The agreements were 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 subsidiaries, TFAC, Tennessee Farmers Support Services Corporation, Inc., and TFHC, Inc. (TFHC was subsequently dissolved), effective December 31, 2017. Under the terms of the agreement, the subsidiaries 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 a Lease Agreement with TFLIC on January 1, 2020. The lease automatically renews unless either party gives notice to discontinue. TFLIC purchases most of the equipment used within the holding company group and then leases it 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 TFLIC on January 1, 2017. TFLIC 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. The Company pays a bonus to TFLIC in consideration of the costs associated with the sales incentives 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 TFLIC. 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 two (2) related party transactions consisting of two (2) leases for office space and one (1) for travel 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, 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 OPERATIONS

The Company operates as a direct writer of property and casualty insurance, and it actively wrote policies to insure risks of the following lines of business during 2020:

Fire	Commercial
Allied lines	Auto physical damage
Farmowners	Other liability occurrence
Homeowners	Auto liability

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 TFLIC and are assigned to the County Farm Bureau Group’s 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 administered by the Company through its regional offices disbursed throughout the state of Tennessee.

The largest net amount insured by the Company in any one (1) risk is \$3,500,000. In order to purchase a policy with the Company, the potential insured must be a member of the TNFB Federation. The policies issued are non-assessable in relation to contingency premiums. Dividends may be paid to policyholders from earned surplus funds, as declared by the Board.

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:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Premiums Earned</u>	<u>Net Income</u>
2020	\$3,786,546,497	\$797,514,915	\$2,989,031,582	\$717,739,596	\$64,034,559
2019	\$3,577,296,431	\$723,229,339	\$2,854,067,092	\$703,297,005	\$133,381,567
2018	\$3,257,945,884	\$672,861,831	\$2,585,084,053	\$672,135,652	\$169,093,941
2017	\$3,084,567,594	\$660,137,481	\$2,424,430,113	\$672,280,370	\$68,187,626
2016	\$2,885,123,895	\$599,928,262	\$2,285,195,633	\$598,348,940	\$110,396,932

LOSS EXPERIENCE

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

<u>Year</u>	<u>Losses Incurred</u>	<u>LAE Incurred</u>	<u>Premiums Earned</u>	<u>Loss Ratio</u>
2020	\$524,514,234	\$59,027,421	\$717,739,596	81.30%
2019	\$449,548,141	\$53,113,148	\$703,297,005	71.47%
2018	\$428,711,421	\$49,693,006	\$672,135,652	71.18%
2017	\$458,410,552	\$53,137,109	\$627,280,370	81.55%
2016	\$383,213,288	\$47,814,547	\$598,348,940	72.04%

REINSURANCE AGREEMENTS

Assumed Reinsurance

American Agricultural Insurance Company (AAIC)

The Company assumes business from AAIC through several pooling agreements whereby business from other Farm Bureau affiliated insurance companies is initially assumed by AAIC, and then a portion is retroceded to the Company. These assumptions include business initially assumed by AAIC through its Columbus, Ohio office. The assumptions allow the Company to spread its geographical risk exposure. The agreements are renegotiated annually to adjust each company's share of the risks assumed and premiums paid. There are separate agreements based on the line of business being pooled, including a property pro-rata agreement, a property catastrophe agreement, an occurrence property and auto catastrophe agreement, a multi-line agreement, and an over-other protections agreement.

Ceded Reinsurance

Tennessee Farmers Assurance Company

The Company cedes, through a quota share agreement, fifty percent (50%) of all lines of business issued by the Company to TFAC, effective August 1, 1991. This agreement covers liabilities that existed on and after August 1, 1991.

The Company cedes, through a quota share agreement, fifty percent (50%) of the business assumed from AAIC to TFAC. This business is assumed by AAIC and retroceded to the Company. The Company uses this agreement to spread its geographical risk exposure.

Tennessee Farmers Life Insurance Company

The Company cedes, through a quota share agreement, one hundred percent (100%) of the automobile blanket accidental death policies issued by the Company, to TFLIC, effective January 1, 1989, and amended on January 1, 2008. This agreement covers liabilities that existed on and after January 1, 1989.

The Company cedes, through a quota share agreement, one hundred percent (100%) of the property blanket accidental death policies issued by the Company, to TFLIC, effective February 1, 1990, and amended on January 1, 2008. This agreement covers liabilities that existed on and after February 1, 1990.

American Agricultural Insurance Company

The Company has several agreements with AAIC, including liability excess of loss, umbrella, and catastrophe loss agreements. In addition, the Company has a catastrophe

agreement, which provides \$625,000,000 property and automobile physical damage coverage above a \$175,000,000 retention.

Other Considerations

All of the Company's significant reinsurance 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). All agreements appear to effectuate proper transfer of risk in accordance with SSAP No. 62R and NAIC guidelines.

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 the initiatives are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts. The Company did not have an antifraud plan in place that is compliant with Tenn. Code Ann. § 56-53-111. See the "Comments and Recommendations" section later in this report.

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 the 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 the date of final resolution, no information related to final resolution of a complaint, 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) and the 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 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, a sample of policies in-force were reviewed for compliance with Tenn. Code Ann. § 56-8-104(7), Tenn. Comp. R. & Regs. 0780-01-34, and established Company guidelines. No instances of unfair methods of competition, or unfair or deceptive acts were found in the examination of these policies.

A sample of canceled, non-renewed, and declined policies were reviewed for timely notification and compliance with Tenn. Code Ann. § 56-8-104(7), Tenn. Comp. R. & Regs. 0780-01-34, and Company guidelines. In some instances of the policies reviewed, the Company did not provide proof of notification of cancellation within the timelines set forth in Tenn. Code Ann. § 56-7-1303(a)(1). Additionally, documentation was not made available for several of the declined applications. Tenn. Code Ann. § 56-8-104(10) requires an insurer to maintain its records, documents, and other records in such an order that data regarding underwriting is accessible and retrievable for examination by the insurance commissioner. See “Comments and Recommendations” section later in this report.

A sample of the policy forms that were used by the Company during the period of examination were reviewed. All forms were noted, without exception, as having been filed with the TDCI prior to use, in accordance with Tenn. Code Ann. § 56-5-105. The filings are consistent in form and included appropriate documentation.

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 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, and a statement of income, 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.

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$1,718,724,934		\$1,718,724,934
Preferred stocks	166,670		166,670
Common stocks	1,772,665,892		1,772,665,892
Cash, cash equivalents, and short-term investment	20,868,111		20,868,111
Other invested assets	1,788,718		1,788,718
Investment income due and accrued	19,701,411		19,701,411
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	208,566,162		208,566,162
Deferred premiums and agents' balances and installments booked but deferred and not yet due	1,702,175		1,702,175
Reinsurance:			
Amounts recoverable from reinsurers	2,975,112		2,975,112
Current federal and foreign income tax recoverable and interest thereon	676,574		676,574
Net deferred tax asset	3,365,948		3,365,948
Electronic data processing equipment and software	24,847,887	\$24,847,887	
Receivable from parent, subsidiaries and affiliates	35,344,790		35,344,790
Aggregate write-ins for other-than-invested assets	<u>423,033,481</u>	<u>423,033,481</u>	<u>0</u>
Totals	<u>\$4,234,427,865</u>	<u>\$447,881,368</u>	<u>\$3,786,546,497</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses		\$201,534,879
Reinsurance payable on paid losses and loss adjustment expenses		1,309,375
Loss adjustment expenses		129,121,025
Commissions payable, contingent commissions and other similar charges		11,602,175
Other expenses (excluding taxes, licenses, and fees)		88,004,339
Taxes, licenses, and fees		3,287,121
Unearned premiums		268,276,871
Advanced premium		13,562,844
Dividends declared and unpaid: Policyholders		1,360,061
Ceded reinsurance premiums payable		5,129,562
Amounts withheld or retained by company for account of others		2,984,179
Payable to parent, subsidiaries, and affiliates		3,648,522
Aggregate write-ins for liabilities		<u>67,693,962</u>
Total Liabilities		\$797,514,915
Aggregate write-ins for special surplus funds	\$6,200	
Unassigned funds (surplus)	<u>2,989,025,382</u>	
Total Capital and Surplus		<u>2,989,031,582</u>
Totals		<u>\$3,786,546,497</u>

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$717,739,596
Losses incurred	\$524,514,234	
Loss adjustment expenses incurred	59,027,421	
Other underwriting expenses incurred	<u>113,253,768</u>	
Total underwriting deductions		<u>696,795,423</u>
Net underwriting gain/(loss)		20,944,173

Investment Income

Net investment income earned	58,399,820	
Net realized capital gains (losses) less capital gains tax	<u>2,185,964</u>	
Net investment gain/(loss)		60,585,784

Other Income

Finance and service charges not included in premiums	2,368,897	
Aggregate write-ins for miscellaneous income	<u>289,738</u>	
Total other income		<u>2,658,635</u>

Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		84,188,592
Dividends to policyholders		<u>16,289,223</u>
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		67,899,369
Federal and foreign income taxes incurred		<u>3,864,810</u>

Net Income		<u>\$64,034,559</u>
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CAPITAL AND SURPLUS ACCOUNT

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Surplus as regards policyholders, December 31 prior year	<u>\$2,854,067,092</u>	<u>\$2,585,084,053</u>	<u>\$2,424,430,113</u>	<u>\$2,285,195,633</u>	<u>\$2,074,615,796</u>
Net income	64,034,559	133,381,567	169,093,941	68,187,626	110,396,932
Change in net unrealized capital gains or (losses)	131,931,981	178,777,010	73,780,209	110,961,967	110,814,330
Change in net deferred income tax	9,357,238	5,507,817	(20,543,181)	(11,380,082)	(3,143,442)
Change in non-admitted assets	(40,362,338)	(21,644,913)	(86,040,362)	(26,691,047)	(19,592,076)
Aggregate write-ins for gains and losses in surplus	<u>(29,996,950)</u>	<u>(27,038,442)</u>	<u>24,363,333</u>	<u>(1,843,984)</u>	<u>12,104,093</u>
Change in surplus as regards policyholders for the year	<u>134,964,490</u>	<u>268,983,039</u>	<u>160,653,940</u>	<u>139,234,480</u>	<u>210,579,837</u>
Surplus as regards policyholders, December 31 current year	<u>\$2,989,031,582</u>	<u>\$2,854,067,092</u>	<u>\$2,585,084,053</u>	<u>\$2,424,430,113</u>	<u>\$2,285,195,633</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$2,989,031,582

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 it 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 Affiliates" section of this report, the Company did not comply with Tenn. Code Ann. § 56-1-501, and SSAP 25, paragraph 8, in that some of its 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 did not have an antifraud plan in place that is compliant with Tenn. Code Ann. § 56-53-111.

It is recommended that the Company maintain an antifraud plan that is compliant with Tenn. Code Ann. § 56-53-111.

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 “Underwriting and Rating Standards” section of this report, the Company could not provide support for timely notifications of cancellation as set forth in Tenn. Code Ann. § 56-7-1303(a)(1). Additionally, compliance with the underwriting guidelines could not be verified for several of the declined applications, as required per Tenn. Code Ann. § 56-8-104(10).

It is recommended that the Company comply with Tenn. Code Ann. § 56-7-1303(a)(1) by providing timely notification for all cancellations. It is also recommended that the Company retain, and make available, all underwriting documentation as required per Tenn. Code Ann. § 56-8-104(10).

6. 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.

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 Mutual Insurance Company.

In such manner, it was found that as of December 31, 2020, the Company had admitted assets of \$3,786,546,497 and liabilities, exclusive of capital and surplus, of \$797,514,915. Thus, there existed for the additional protection of the policyholders, the amount of \$2,989,031,582 in the form of 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 surplus of \$2,000,000. For this examination, as of December 31, 2020, 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, Linda Merriweather CISA, APIR, CGFM; Nneka LaBon, APIR; James Pearce, MCM; Insurance Examiners; Rhonda Bowling-Black, CFE, ARe, MCM; Shelli Isiminger, FLMI, CICSR, AIE, MCM, AIRC, Market Conduct Examiners, from the State of Tennessee; Greg Wilson, FCSA; 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 Mutual Insurance Company located in Columbia, Tennessee, dated May 11, 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

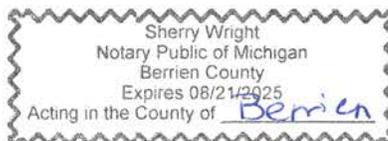
County Berrien

Subscribed to and sworn before me

this 22 day of June, 2022

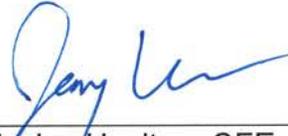

(NOTARY)

My Commission Expires: 8-21-2025



AFFIDAVIT

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



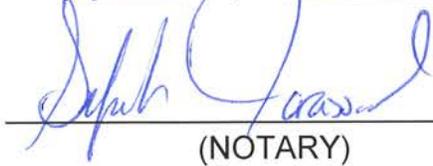
A. Jay Uselton, CFE
Department Designee
State of Tennessee

State TN

County Davidson

Subscribed to and sworn before me

this 22nd day of June, 2022



(NOTARY)



My Commission Expires: _____ My Commission Expires May 07, 2024

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

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 Mutual Insurance
Company**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Tennessee Farmers Mutual 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