

Rulemaking Hearing Rules  
of the  
Tennessee Department of Commerce and Insurance  
Insurance Division

Chapter 0780-01-78  
Tennessee County Mutual Insurance Company Act Rule

New Rules

Table of Contents

0780-01-78-.01 Purpose and Scope  
0780-01-78-.02 Definitions  
0780-01-78-.03 Compensation Expense Ratio  
0780-01-78-.04 Annual Statement Requirements  
0780-01-78-.05 Dividends

0780-01-78-.01 Purpose and Scope

The following rules developed by the Department of Commerce and Insurance concern the implementation of the Tennessee Mutual County Insurance Company Act of 2006 (the "Act") located at T.C.A. § 56-22-101, *et seq.* The purpose of these rules is to set forth the requirements and standards that the commissioner will utilize in the regulation of county mutual insurance companies.

Authority: T.C.A. §§ 56-22-120, 56-22-101, *et seq.*

Rule 0780-01-78-.02 Definitions

- (1) "Commissioner" means the Commissioner of the Department of Commerce and Insurance;
- (2) "Compensation expense ratio" means the ratio of the total compensation (including, but not limited to, salaries, commissions, insurance benefits and retirement account contributions, as well as all local, state and federal taxes associated with such compensation) paid to all officers, directors, employees and other individuals who exercise authority over the underwriting decisions of a county mutual insurance company to the gross premium of the county mutual insurance company;
- (3) "County Mutual Insurance Company" means a person that is authorized to provide insurance coverage under Tenn. Code Ann. § 56-22-101, *et seq.*;
- (4) "Department" means the Tennessee Department of Commerce and Insurance;
- (5) "Gross premium" means maximum gross premiums as provided in the policy contracts, new and renewal, including policy or membership fees, whether paid in part or in whole by cash, automatic premium loans, dividends applied in any manner whatsoever, and without deduction or exclusion of dividends in any manner, but excluding premiums returned on cancelled policies, on account of reduction in rates, or reductions in the amount insured;
- (6) "NAIC" means the National Association of Insurance Commissioners;
- (7) "Policyholder" means a person who is insured by a county mutual insurance company;

- (8) "Premium" means money given in consideration to a county mutual insurance company on account of or in connection with an insurance policy for a specified policy period;
- (9) "Surplus" means the accumulated assets of a county mutual insurance company that exceed the county mutual insurance company's accrued losses and expenses.

Authority: T.C.A. §§ 56-22-109(a)(4), 56-22-120.

#### 0780-01-78-.03 Compensation Expense Ratio

- (1) No county mutual insurance company's compensation expense ratio may exceed thirty percent (30%) for any given year.
- (2) Any county mutual insurance company whose compensation expense ratio exceeds thirty percent (30%) for any given year shall be considered to be operating in a hazardous financial condition.

Authority: T.C.A. §§ 56-22-107(b), 56-22-119, 56-22-120.

#### 0780-01-78-.04 Annual Statement Requirements

- (1) All county mutual insurance companies shall prepare their annual statements, as well as any and all other financial information required by T.C.A. §§ 56-22-101, *et seq.* in accordance with the NAIC's Accounting Practices and Procedures Manual in effect for the period covered by the annual statement.
- (2) A county mutual insurance company shall prepare its annual statement according to the NAIC's Quarterly and Annual Statement Instructions—Property/Casualty, utilizing those instructions that are applicable and pertinent to the completion of the annual statement blank prescribed by the commissioner.
- (3) When a county mutual insurance company has greater than one million dollars (\$1,000,000) in gross premium in a given year, it shall be required, in addition to the filing of the annual statement as required by subparagraph (1) of this Rule, to file financial reports audited by a certified public accountant licensed as such by the State of Tennessee on or before June 1 for the year ended December 31 immediately preceding.
- (4) When a county mutual insurance company has greater than one million dollars (\$1,000,000) in gross premium in a given year, it shall be required, in addition to other requirements contained in this Rule, to file an opinion of an appointed actuary in accordance with the NAIC's Quarterly and Annual Statement Instructions—Property/Casualty.

Authority: T.C.A. §§ 56-22-109(a)(4), 56-22-120.

#### 0780-01-78-.05 Dividends

- (1) No county mutual insurance company may pay a dividend to its policyholders in any year in which its surplus is less than that of the previous year without providing the commissioner with such information as might be deemed necessary by the commissioner to determine that such payment is reasonable. No payment may be made until the commissioner informs the county mutual insurance company in writing that such payment has been deemed reasonable by the commissioner.
- (2) No county mutual insurance company may pay a dividend to its policyholders which would cause the county mutual insurance company to fall below one hundred twenty percent

(120%) of the surplus level required to do business in its geographic area, as found in T.C.A. §§ 56-22-105(c) and 56-22-106(f)(1), or which might otherwise cause it to fail to maintain a surplus of at least thirty three percent (33%) of the county mutual insurance company's gross premium for the twelve (12) month period prior to the declaration of the dividend, as found in T.C.A. § 56-22-106(f)(2).

Authority: §§ T.C.A. 56-22-109(b), 56-22-120.

The rulemaking hearing rules set out herein were properly filed in the Department of State on the 19th day of October, 2007, and will become effective on the 2d day of January, 2008. (FS 10-16-07; DBID 2738)

### **Economic Impact Statement:**

1. Types of small businesses directly affected:

The type or types of small businesses affected by these rules may include incorporated entities that qualify as county mutual insurance companies under Tenn. Code Ann. § 56-22-101, *et seq.*

2. Projected reporting, recordkeeping, and other administrative costs:

Small businesses that qualify as county mutual insurance companies are required to prepare their annual statements in accordance with NAIC Accounting Practices and Procedures and Quarterly and Annual Statement Instructions and file them annually on a blank prescribed by the Commissioner. Companies that have over \$1 million in gross premiums for a given year will also be required to file financial reports audited by a certified public accountant and an opinion of an appointed actuary.

3. Probable effect on small businesses:

Small businesses will be impacted by the filing requirements stated above.

4. Less burdensome, intrusive or costly alternative methods:

Alternative means to accomplishing the legislative intent, which is to set forth requirements and standards for county mutual insurance companies, do not exist. The Division must ensure that the financial condition of every county mutual insurance company meets the requirements for doing business and operating in this state, as established by the General Assembly.

The rule requiring annual filings with the Department is less burdensome to small businesses because it does not require certified financial statements or actuarial reports unless the county mutual insurance company has over \$1,000,000 in premiums in a given year. This will allow small companies writing lesser amount of premiums to avoid incurring the expenses involved in the preparation of audited financial statements and actuarial reports.

5. Comparison with federal and state counterparts:

There has been no comparison between other state and/or federal regulation because these rules are designed solely to administer the legislation passed by the General Assembly.

6. Effect of possible exemption of small businesses:

An exemption for small businesses is not possible, because, as stated above, the Division is responsible for ensuring that every county mutual insurance company doing business in this state meets the requirements set forth by the General Assembly.