BEFORE THE DEPARTMENT OF COMMERCE AND INSURANCE
FOR THE STATE OF TENNESSEE

IN THE MATTER OF:	)
	)
TENNESSEE FARMERS MUTUAL INSURANCE COMPANY,	) **No.: 04-005**
TENNESSEE FARMERS LIFE INSURANCE COMPANY,	)
TENNESSEE FARMERS LIFE REASSURANCE COMPANY, and	)
TENNESSEE FARMERS ASSURANCE COMPANY	)

ORDER ADOPTING EXAMINATION REPORT AS MODIFIED WITH DIRECTIVES AND NOTICE OF RECISSION AND HEARING

Pursuant to Tenn. Code Ann. §§ 56-1-401, *et seq.,* the Insurance Division of the State of Tennessee Department of Commerce and Insurance (hereinafter referred to as the "Division") has examined the affairs of Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Reassurance Company, and Tennessee Farmers Assurance Company (hereinafter collectively referred to as the "Insurance Companies"), insurance companies domiciled in the State of Tennessee. As a result of an examination conducted as of the 31st day of December, 2003, the examiner-in-charge has filed with the Division on the 22nd day of December, 2004, a verified written report of examination under oath, and a copy of that report has been sent to the Insurance Companies (The Report on Examination of Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Reassurance Company, and Tennessee Farmers Assurance Company is attached hereto and marked as Exhibit A). The Division received written rebuttal to said examination report from the Insurance Companies on January 24, 2005 (A copy of the written rebuttal is attached hereto and marked as Exhibit B).

Pursuant to Tenn. Code Ann. § 56-1-411, said examination report regarding the affairs of Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Reassurance Company, and Tennessee Farmers Assurance Company filed with the Insurance Division of the State of Tennessee Department of Commerce and Insurance on the 22nd day of December, 2004, is hereby **ADOPTED** as hereby **MODIFIED**, with the following **DIRECTIVES** to the Insurance Companies.

The Report on Examination is hereby **MODIFIED** as follows:

1. The second sentence of the last paragraph on page 9 is hereby modified so that the reference to "14.4%" is changed to "24.3%".
2. The fifth sentence of the first full paragraph on page 27 is hereby deleted.

The Insurance Companies are hereby **DIRECTED** to accomplish the following:

1. The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-3-103 by prohibiting any officer or director of the Company, or any member of a committee having any authority in the investment or disposition of the Company's funds, from accepting, or being the beneficiary of, either directly or remotely, any fee, brokerage, commission, gift or other consideration for or on account of any loan, deposit, purchase, sale, payment, or exchange made by or in behalf of such company, or be pecuniarily interested in any purchase, sale, or loan, either as borrower, principal, coprincipal, agent, or beneficiary. Such prohibition should include the divestment of any personal investments in Donlar Corporation, Passport Health Communications,

Prothetrics/Therapeutic Antibodies and First Farmers and Merchants Bank, and any investments in any successor corporations or investments stemming from the merger or acquisition of such companies. The Insurance Companies shall comply with this directive within one hundred eighty (180) days of the entry of this Order. In the alternative, the Insurance Companies may submit a plan to cure the violations of Tenn. Code Ann. § 56-3-103 in some manner other than complete divestment. Such plan shall be submitted to the Commissioner within thirty (30) days of the entry of this Order in order to be considered for approval by the Commissioner.

2. The Company is **DIRECTED** to comply with Tenn. Code Ann. §§ 56-11-205 and 56-11-206 and Tenn. Comp. R. & Regs. Tit. Dept of Commerce and Ins., ch. 0780-1-67 by obtaining the Commissioner's prior approval for any and all transactions within the holding company system that requires such approval under Tenn. Code Ann. § 56-11-206(a), as presented on pages eighteen (18) and nineteen (19) of the Report on Examination. The Company is further **DIRECTED** to file all agreements required by Tenn. Code Ann. § 56-11-206(a)(2) currently in existence with the Commissioner and that have not yet received the Commissioner's approval. The Insurance Companies shall comply with this directive within thirty (30) days of the entry of this Order.

The Insurance Companies are hereby notified that the exemption previously given to the Insurance Companies by the Commissioner on February 12, 1987, pursuant to Tenn. Code Ann. § 56-11-205(j), exempting the Insurance Companies from the filing requirements of Tenn. Code Ann. Title 56, Chapter 11, is hereby **RESCINDED**.

The Insurance Companies are also hereby notified of a hearing to take place on April 7, 2005 at 1:00 P.M. in Conference Room A on the Fifth Floor of the Davy Crockett Tower, 500 James Robertson Parkway, Nashville, Tennessee 37243, pursuant to Tenn. Code Ann. § 56-11-201(a)(3), to establish that the Tennessee Farm Bureau Federation possesses control in fact over the Insurance Companies.

The adoption of this examination report shall not preclude the Department from imposing sanctions against the Insurance Companies for potential violations of the Tennessee Insurance Law which may be revealed in the examination report, it being the intent of this Order Adopting Examination Report as Modified with Directives and Notice of Rescission merely to adopt the examination report filed by the examiner-in-charge, with the modification and directives herein contained.

It is so **ORDERED**.

ENTERED this the 28th day of February, 2005.

Paula A. Flowers

Paula A. Flowers
Department of Commerce and Insurance
State of Tennessee

PREPARED FOR ENTRY:

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BEFORE THE COMMISSIONER OF COMMERCE AND INSURANCE OF THE STATE OF TENNESSEE

IN THE MATTER OF:	)	
	)	
TENNESSEE FARMERS MUTUAL INSURANCE COMPANY,	)	**No.: 04-005**
TENNESSEE FARMERS LIFE INSURANCE COMPANY,	)	
TENNESSEE FARMERS LIFE REASSURANCE COMPANY,	)	
AND TENNESSEE FARMERS ASSURANCE COMPANY	)	

ORDER

This Order issues in lieu of a hearing set to be heard on April 7, 2005. The following Findings of Fact and Conclusions of Law issue as a result of the Report on Examination of Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Reassurance Company, and Tennessee Farmers Assurance Company issued on 22nd day of December, 2004.

GENERAL STIPULATIONS

1. It is expressly understood that this Order is subject to the Commissioner's acceptance and has no force and effect until such acceptance is evidenced by the entry of the Commissioner.

2. The Commissioner has determined that this Order is fair and reasonable, and in the best public interest.

3. This Order is executed by the Commissioner and Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Reassurance Company, and Tennessee Farmers Assurance Company for the purpose of disposing of further administrative action with respect to this cause.

Should this Order not be accepted by the Commissioner, it is agreed that (a) presentation to, and consideration of, this Order by the Commissioner shall not unfairly or illegally prejudice the Commissioner from further participation or resolution of these proceedings and (b) Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Reassurance Company, and Tennessee Farmers Assurance Company shall not be precluded from seeking judicial review or from otherwise challenging any order issued by the Commissioner relative to the matters addressed by this Order. The execution and presentation of this Order by Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Reassurance Company, and Tennessee Farmers Assurance Company shall not be admissible in any subsequent proceedings if this Order is not executed by the Commissioner.

4. This Order will in no way preclude additional proceedings by the parties relative to issues, acts or omissions not specifically addressed in this Order or for facts and/or omissions that do not arise from the facts or transactions herein addressed.

5. Effective with the execution of this Order by the Commissioner, Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Reassurance Company, and Tennessee Farmers Assurance Company expressly waive all further procedural steps, and expressly waive all rights to seek judicial review of or to otherwise challenge or contest the validity of this Order, the stipulations and imposition of discipline contained herein, and the consideration and entry of said Order by the Commissioner.

FINDINGS OF FACT

6. The Tennessee Insurance Law Tenn. Code Ann. §§ 56-1-101, *et seq.*, as amended (hereinafter referred to as "the Law"), places the responsibility for the administration of the Law on the Commissioner. The Insurance Division of the Department of Commerce and Insurance (hereinafter referred to as "the Division") is the lawful agent through which the Commissioner discharges this responsibility.

7. Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Reassurance Company, and Tennessee Farmers Assurance Company (hereinafter referred to as the "Insurance Companies") are all insurance companies licensed by the Commissioner pursuant to the requirements of Tenn. Code Ann. § 56-2-102. Said companies' principal places of business are all located at 147 Bear Creek Pike, Columbia, Tennessee 38401.

8. Tennessee Farm Bureau Federation, Farmers' Services, Inc., Tennessee Livestock Producers and Tennessee Rural Health Improvement Association (hereinafter referred to as the "Farm Bureau Affiliates") are entities that are not licensed or required to be licensed by the Commissioner. Said companies' principal places of business are all located at 147 Bear Creek Pike, Columbia, Tennessee 38401.

9. On March 23, 2004, the Division commenced an examination of the affairs of the Insurance Companies, pursuant to its authority set forth in Tenn. Code Ann. §§ 56-1-401, *et seq.*

10. As a result of the examination conducted as of the 31st day of December, 2003, the examiner-in-charge filed with the Division on the 22nd day of December, 2004, a verified written report of examination under oath (hereinafter referred to as the "Report").

11. In the Report, the examiner-in-charge made several findings with respect to the existence of control of the Insurance Companies by the Tennessee Farm Bureau Federation. The Report stated that "[a]lthough not by direct ownership, it is the opinion of the examiners that control of the Insurance Companies as defined by Tenn. Code Ann. § 56-11-201 is ultimately held by the Federation through board representation and the ability to remove directorship eligibility."

12. The Insurance Companies, in a letter sent to the Division on January 19, 2005, contested these findings by the examiners stating, in pertinent part, that "[w]e believe this conclusion is based on factual misunderstanding and is contrary to the basic tenets of corporate law."

13. On February 28, 2005, an order was issued by the Commissioner titled "Order Adopting Examination Report As Modified with Directives and Notice of Rescission and Hearing" (hereinafter referred to as the "Order with Directives"). In the Order with Directives, the Commissioner provided the Insurance Companies notice of a hearing to be conducted pursuant to Tenn. Code Ann. § 56-11-201(b)(3) in order to determine whether the Tennessee Farm Bureau Federation possessed control in fact over the Insurance Companies.

CONCLUSIONS OF LAW

14. For purposes of the Insurance Holding Company System Act of 1986, Tenn. Code Ann. § 56-11-201(b)(3) defines "control" as the "possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities .... 'Control' shall be presumed to exist if any person, directly or indirectly owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of any other person ... The Commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making specific findings of fact to support such determination, that control exists in fact ..."

15. Applying the findings made in the Report, the Finding of Facts contained herein and the record taken as a whole, the Commissioner concludes that control of the Insurance Companies by the Tennessee Farm Bureau Federation may only be established after notice and a hearing. The Commissioner further concludes that there is sufficient connection between the Insurance Companies and the Farm Bureau Affiliates to cause the need for additional oversight of such relationships in the future. However, in consideration of the Commissioner's determination of the need for additional oversight and the Insurance Companies' dispute of such determination, the parties have determined that it is in their best interests to enter into this Order.

16. The Insurance Companies admit to the Findings of Fact, above, and further admit that they are executing this Order voluntarily. In order to conclude this matter, the Insurance Companies hereby expressly waive their right to contest this Order.

ORDER

Accordingly, based upon the above Findings of Fact and Conclusions of Law, it is hereby **ORDERED** that:

1. The Insurance Companies shall file all agreements between the Insurance Companies and the Farm Bureau Affiliates, either collectively or individually, pursuant to the procedures and standards set forth in Tenn. Code Ann. § 56-11-206.

2. The Insurance Companies shall file on an annual basis all information required in Item 5 of the Form B as if the Farm Bureau Affiliates met the definition of "affiliate" found in Tenn. Code Ann. § 56-11-201(b)(1).

3. The Insurance Companies shall file the financial statements of the Farm Bureau Affiliates for the preceding year within thirty (30) days of the completion of such reports in the normal course of business. This section shall not apply to Tennessee Rural Health Improvement Association, which files its own Form B Registration Statement because of its control of TRH Health Insurance Company.

4. All filings made pursuant to this Order are considered exhibits to the Insurance Companies' Form B filing made by the Insurance Companies pursuant to Rule 0780-1-67-.07, and shall be maintained as confidential by the Commissioner in the same way and manner as the Form B filing itself.

5. Unless a subsequent statute, a rule, or Order of the Commissioner entered only after notice to the Insurance Companies and opportunity for hearing, specifically amends the requirements for filings made pursuant to Tenn. Code Ann. § 56-11-206 as it applies to the Insurance Companies and their affiliates, then the filing of the information set forth above shall be deemed complete for purposes of determining

the Insurance Companies' compliance with this Order. This Order shall not replace or relieve the Insurance Companies from complying with Tenn. Code Ann. § 56-11-201, *et seq.*

6. The Insurance Companies shall be subject to the penalties set forth in Tenn. Code Ann. § 56-11-211 for any failure of the Insurance Companies or the Farm Bureau Affiliates to comply with this Order.

By the signature affixed below, the Insurance Companies affirmatively state that they have freely agreed to the entry of this Order, and that upon execution of this Order by the Commissioner, they waive their right to a hearing on the matters underlying this Order and to a review of the Findings of Fact and Conclusions of law contained herein. The parties, by signing this Order, affirmatively state the Order is fair and reasonable and in the best interest of the public.

IT IS SO ORDERED.

ENTERED this the 28th day of February, 2005.

Paula A. Flowers

Paula A. Flowers, Commissioner
State of Tennessee
Department of Commerce and Insurance

APPROVED FOR ENTRY:

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