

REPORT ON EXAMINATION

of the

**ROAD CONTRACTORS MUTUAL INSURANCE COMPANY
213 5th AVENUE NORTH
NASHVILLE, TENNESSEE**

RECEIVED

FEB 25 2013

Dept. of Commerce & Insurance
Company Examinations

as of

SEPTEMBER 30, 2011

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE



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Nashville, Tennessee
February 19, 2013

The Honorable Julie M. McPeak
Commissioner of Commerce & Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a full scope financial examination and limited scope market conduct examination has been made concerning the conditions and affairs of the

**ROAD CONTRACTORS MUTUAL INSURANCE COMPANY
213 5TH AVENUE NORTH
NASHVILLE, TENNESSEE, 37219**

hereinafter generally referred to as the "Company" and a report thereon is submitted as follows:

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on July 16, 2012. Duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee (TDCI) conducted the examination under the association plan of the National Association of Insurance Commissioners (NAIC).

SCOPE OF EXAMINATION

This examination report covers the period from November 16, 2006, the date of the organizational examination, to the close of business on September 30, 2011, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with guidelines and procedures in accordance with the risk focused approach to examinations as described in the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook).

The Handbook required planning and performing the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also included assessing the principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were examined in accordance with the risk-focused examination process.

The Company's primary books and records were located at 104 Continental Place, Suite 200, Brentwood, TN 37219.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination.

Prior Exam Findings

There were no material findings or exceptions noted during the organizational examination as of November 16, 2006.

SUBSEQUENT EVENTS

The Company selected TaylorChandler, LLC during 2011 as its new external independent CPA firm to conduct the annual audit of financial statements. TaylorChandler, LLC performed the Company's financial statement audit as of December 31, 2011.

The Company adopted a written privacy policy of longstanding policies and procedures utilized, which complied with Tenn. Comp. R. & Regs. 0780-1-72-.06, on November 5, 2012.

COMPANY HISTORY

General

The Company was incorporated on February 21, 2006 under the Tennessee Mutual Insurance Company Act as a workers' compensation insurer. The Company commenced insurance operations effective January 1, 2007, upon the assumption of 100% of the liabilities and obligations for workers' compensation and employers' liability losses of the "Tennessee Road Builders Association and Self-Insured Trust" ("TRBA Trust").

Ultimate control is vested in the members since the Company operates as a mutual.

The Charter and the Bylaws were not amended during the period covered by the examination.

Dividends

The Company did not declare or pay dividends to policyholders during the period of examination.

Growth

The following exhibit depicts certain aspects of the growth and financial history of the Company during the examination period:

<u>Year</u>	<u>Direct Premiums Written</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Retained Earnings</u>	<u>Policyholder Surplus</u>
2007	\$3,513,336	\$9,318,679	\$5,430,460	(\$64,824)	\$3,888,219
2008	\$3,163,265	\$9,435,249	\$5,803,288	\$118,736	\$3,631,961
2009	\$2,844,410	\$9,762,980	\$5,678,901	\$219,894	\$4,084,078
2010	\$2,565,452	\$9,373,070	\$5,277,918	\$655,055	\$4,095,150
2011	\$2,592,039	\$9,445,598	\$5,807,525	\$710,320	\$3,638,072

CORPORATE RECORDS

The recorded minutes of the Board of Directors were reviewed for the period under examination. The minutes of meetings were found to be adequate in detail to support the actions of the Company.

The Board of Directors approved investment transactions for the period under review.

MANAGEMENT AND CONTROL

Management

The 2011 annual meeting of the Company was held in accordance with Tennessee statutes. The business and affairs of the Company were managed by a Board of Directors composed of six (6) individuals.

The following individuals were Directors as of September 30, 2011:

<u>Name</u>	<u>Title/Position</u>
Donald G. Chambers	Owner, LoJac Holdings Corporation, Inc.
Johnny F. Coleman	Owner, Mid-State Construction Co., Inc.
Charles M. Barger	Owner, C. R. Barger & Sons, Inc.
Mark A. Odom	Owner, Highways, Inc.
Stephen D. Wright	Owner, Wright Brothers Construction Co., Inc.
Robert N. Hutcheson	Owner, Sessions Paving Co., Inc.

The officers of the Company included a President, Secretary, and Treasurer as determined by the Board of Directors.

The following individuals were Officers as of September 30, 2011:

<u>Name</u>	<u>Title/Position</u>
Donald G. Chambers	President
Johnny F. Coleman	Secretary
Johnny F. Coleman	Treasurer

The investment, marketing, and safety/loss control committees appointed by the Board of Directors and the de facto audit committee active as of September 30, 2011 were as follows:

Audit Committee
Donald G. Chambers
Johnny F. Coleman
Charles M. Barger
Mark A. Odom
Stephen D. Wright
Robert N. Hutcheson

Investment Committee
Johnny Coleman
Robert Hutcheson
Mark Odom
Jeff Pettus

Marketing Committee
Fred Fisher
Pat Phipps
Mark Neal
Mike Regan
T. Holler

Safety/Loss Control Committee
Danny Zoccola
Bryan Dennis
Lanny Thomas
Scott Elam
Bill Hardison

Jeff Pettus
Paul Fish
Stacy Sutcliffe

Wayne DeMoss

Control

As of September 30, 2011, control of the Company was vested in the members.

Conflict of Interest

Directors and officers of the Company completed an Executive Disclosure Form for Conflicts of Interests and Outside Directorships annually. The disclosure forms were reviewed without exception.

A review of compliance with Tenn. Code Ann. § 56-3-103 found that no director or officer of the Company had a pecuniary interest in the investment or disposition of Company funds.

MANAGEMENT OR SERVICE CONTRACTS

Third Party Administrator Services Agreement

The Company entered a contract for specified services with Brentwood Services Administrators, Inc. ("BSA") effective January 1, 2010. Under the agreement, the service fees are payable to BSA on a monthly pro-rata basis, based on an annual service fee equal to 9.95% of the Company's direct written premium. Under terms of the agreement, BSA provides the Company claims services, loss control services, marketing and marketing assistance services, account management services, and reinsurance intermediary and insurance brokerage services.

Marketing Agreement

The Company entered into a contract for assistance in marketing with Tennessee Road Builders Association ("TRBA") effective February 7, 2007. Under the agreement, service fees are payable to TRBA on a monthly pro-rata basis, based on an annual service fee equal to 1.0% of the Company's direct annual written premium. Under terms of the agreement, TRBA provides marketing and promotional advertisements on behalf of the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage that exceeded the minimum coverage of \$100,000 to \$125,000 suggested in the NAIC's Handbook.

RETIREMENT PLANS AND OTHER EMPLOYEE BENEFITS

The Company had no employees, retirement plans, or other employee benefits.

TERRITORY AND PLAN OF OPERATION

Territory

The Company was licensed to transact workers' compensation insurance in Alabama, Arkansas, Georgia, Kentucky, Mississippi, North Carolina, and Tennessee.

The following table shows premiums written for the all states shown on Schedule T of the 2011 3rd Quarterly Statement:

Alabama	\$	118,777
Arkansas		1,268
Georgia		8,523
North Carolina		29,835
Tennessee		<u>2,434,086</u>
Total	\$	<u>2,592,039</u>

Plan of Operation

The Company exclusively writes workers' compensation insurance policies for policyholders engaged in road builders' contracting operations. The Company expanded into several new states in 2010 and continued to monitor opportunities for growth.

MARKET CONDUCT ACTIVITIES

Underwriting, Rates, and Policy Forms

The Company adopted underwriting policies from National Council Compensation Insurance, Inc. guidelines. The Company used rates prescribed by the National Council on Compensation Insurance, Inc. guidelines. The Company filed policy forms and rates appropriately.

Complaints

The Company did not maintain a complaints log. Inquiries made to consumer services indicated no regulatory concerns with the Company during the period of examination.

Advertising

The Company used an internet website, www.rcmic.com, posters, ads, and brochures as methods of advertisement.

Claims Review

A review of open and closed claim files indicated that claims were being paid in accordance with policy provisions. Settlements were made promptly upon receipt of proper evidence of the Company's liability.

Privacy Policy

The Company maintained a written privacy policy in compliance with Tenn. Comp. R. & Regs. 0780-1-72-.06.

LOSS EXPERIENCE

The loss experience of the Company during the examination period was as follows:

<u>Year</u>	<u>Earned Premiums</u>	<u>Losses Incurred</u>	<u>LAE Incurred</u>	<u>Loss Ratio</u>
2007	\$2,855,426	\$1,900,270	\$690,014	90.71%
2008	2,740,660	1,885,082	671,846	93.30%
2009	2,550,479	1,595,865	431,759	79.50%
2010	2,277,934	1,181,076	450,535	71.63%
<u>2011</u>	<u>1,718,066</u>	<u>1,292,827</u>	<u>556,583</u>	<u>107.64%</u>
Total	12,142,565	7,855,120	2,800,737	87.76%

REINSURANCE AGREEMENT

Reinsurance Ceded

The Company entered into a workers' compensation and employers' liability excess of loss reinsurance contract with New York Marine and General Insurance Company effective January 1, 2011 through January 1, 2012. Under terms of the agreement, the reinsurer assumed individual losses in excess of \$500,000 from the Company. The reinsurer assumed excess losses to a limit of \$19,500,000 of workers' compensation losses and \$1,000,000 of employer's liability losses.

The reinsurance agreement contained acceptable provisions. The Company's reinsurance agreements transferred risk in accordance with SSAP No. 62 and NAIC guidelines.

COMMITMENT AND CONTINGENT LIABILITIES

The Company was involved in certain legal matters resulting from normal operations. The outcome of such actions should not have a material effect on the financial position of the Company.

STATUTORY DEPOSITS

In compliance with statutory and other requirements, the Company maintained the following deposits with the named jurisdictions or custodians as of September 30, 2011:

All other Special Deposits

Jurisdiction	Description of Security	Par Value	Book/Adjusted Carrying Value	Market Value
Georgia – Dept. of Insurance	White Hse Util Dist 3.75%, Due 1-1-17 Cusip # 9663863CF0	\$85,000	\$85,000	\$93,205
North Carolina – Dept. of Insurance	First American Treas Oblig Fd Instl Inv Cl 0.00% Cusip # 31846V419	<u>\$200,000</u>	<u>\$200,000</u>	<u>\$200,000</u>
Total deposits which are for all other special deposits:		\$285,000	\$285,000	\$293,205

Deposits for the Benefit of All Policyholders

Jurisdiction	Description of Security	Par Value	Book/Adjusted Carrying Value	Market Value
Tennessee – Dept. of Insurance	Jackson TN Hosp Rev 5.25%, Due 4-1-18 Cusip # 46874TCG5	\$25,000	\$25,190	\$26,325
Tennessee – Dept. of Insurance	Knoxville TN GO 3.00%, Due 5-1-13 Cusip # 499731YY7	\$40,000	\$39,481	\$40,570
Tennessee – Dept. of Insurance	Knoxville TN Waste Water 4.00%, Due 4-1-40 Cusip # 499815ET1	\$50,000	\$48,226	\$50,716
Tennessee – Dept. of Insurance	Middle TN Util Dist Rev 4.60%, Due 10-1-11 Cusip # 595887BU3	\$50,000	\$50,000	\$50,000

Tennessee – Dept. of Insurance	Montgomery Cnty TN GO 4.00%, Due 4-1-14 Cusip # 613664W49	\$50,000	\$50,088	\$54,121
Tennessee – Dept. of Insurance	Tennessee State GO 4.00%, Due 9-1-21 Cusip # 880541JU2	\$50,000	\$51,635	\$54,187
Tennessee – Dept. of Insurance	Eastside Util Dist 3.50%, Due 11-1-20 Cusip # 277807EB5	\$150,000	\$147,626	\$163,361
Tennessee – Dept. of Insurance	Oak Ridge TN 4.625%, Due 6-1-19 Cusip # 671783NR5	\$110,000	\$111,146	\$119,941
Tennessee – Dept. of Insurance	Tennessee State School 4.50%, Due 5-1-18 Cusip # 880557A60	\$125,000	\$125,565	\$129,000
Tennessee – Dept. of Insurance	TN ST Sch 5.544%, Due 5-1-22 Cusip # 880557S20	\$150,000	\$151,957	\$159,309
Tennessee – Dept. of Insurance	Jonesborough TN 3.125%, Due 6-1-18 Cusip # 480425JP3	\$75,000	\$77,596	\$80,743
Tennessee – Dept. of Insurance	Tullahoma TN GO 4.375%, Due 7-1-25 Cusip # 8993213N1	<u>\$125,000</u>	<u>\$125,000</u>	<u>\$131,366</u>
Total deposits which are for the benefit of all policyholders:		\$1,000,000	\$1,003,510	\$1,059,639
Total Deposits		<u>\$1,285,000</u>	<u>\$1,288,510</u>	<u>\$1,352,844</u>

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as considered necessary, including verification of postings, extensions, and footings. General ledger trial balances were reconciled with the Annual Statements for the years 2007, 2008, 2009, and 2010 and the 3rd Quarterly Statement for the 2011.

Accounting records conformed to generally accepted insurance accounting practices and reflected the operations and status of the Company during the examination period unless otherwise noted in this report.

The Company was audited annually by independent accounting firm Faulkner, Mackie, & Cochran, P.C. for the years ending December 31, 2007, through December 31, 2010.

The Company's Risk-Based Capital Report was reviewed and found to be in compliance with Tenn. Code Ann. § 56-46-101, *et seq.*

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities and statement of income as of September 30, 2011, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	<u>Assets</u>	Non- admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$6,873,022	0	\$6,873,022
Cash and short-term investments	<u>1,403,718</u>	<u>0</u>	<u>1,403,718</u>
Subtotals, cash and invested assets	8,276,740	0	8,276,740
Investment income due and accrued	115,324	0	115,324
Accrued retrospective premiums	763,744	0	763,744
Current federal and foreign income tax recoverable and interest thereon	120,884	0	120,884
Net deferred tax asset	340,557	171,652	168,905
Aggregate write-ins for other than invested assets	<u>448,894</u>	<u>448,894</u>	<u>0</u>
Totals	<u>\$10,066,143</u>	<u>\$620,546</u>	<u>\$9,445,597</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$2,399,080
Loss adjustment expenses		471,644
Commissions payable, contingent commissions, and other similar charges		60,132
Other expenses (excluding taxes, licenses and fees)		96,354
Taxes, licenses, and fees		18,846
Borrowed money		339,833
Unearned premiums		1,096,672
Ceded reinsurance premiums payable (net of ceding commissions)		(43,125)
Aggregate write-ins for liabilities		<u>1,368,089</u>
Total liabilities		\$5,807,525
Aggregate write-ins for special surplus funds	94,467	
Aggregate write-ins for other than special surplus funds	3,500,000	
Unassigned funds (surplus)	<u>43,605</u>	
Surplus as regards policyholders		<u>\$3,638,072</u>
Totals		<u>\$9,445,597</u>

STATEMENT OF REVENUES AND EXPENSES

UNDERWRITING INCOME

Premiums earned		<u>\$1,718,066</u>
Total revenues		\$1,718,066
Deductions		
Losses incurred	1,292,827	
Loss expenses incurred	556,583	
Other underwriting expenses incurred	<u>464,012</u>	
Total underwriting deductions	2,313,422	
Net underwriting gain (loss)		<u>(\$595,356)</u>
INVESTMENT INCOME		
Net investment income earned	194,851	
Net realized capital gains (losses)	<u>(268)</u>	
Net investment gain		<u>\$194,583</u>
OTHER INCOME		
Net gain or (loss) from agents' or premium balances charged off	(111,330)	
Aggregate write-ins for miscellaneous income	<u>230,134</u>	
Total other income		<u>\$118,804</u>
Net income or (loss) after capital gains tax and before federal and foreign income taxes		(\$281,969)
Federal and foreign income taxes incurred		<u>\$10,290</u>
Net income		<u>(\$292,259)</u>

CAPITAL AND SURPLUS ACCOUNT

GAINS AND LOSSES IN SURPLUS

Surplus as regards policyholders, December 31 previous year		\$4,095,154
Net income	(292,259)	
Change in net deferred income tax	94,856	
Change in non-admitted assets	<u>(259,674)</u>	
Change in surplus as regards policyholders for the year		<u>(457,077)</u>
Surplus as regards policyholders, September 30 current year		<u>\$3,638,077</u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION

	2007	2008	2009	2010	* 2011
Surplus as regards policyholders, December 31, previous year	\$3,434,176	\$3,888,219	\$3,603,868	\$4,084,080	\$4,095,154
Net income	527,150	101,158	435,160	55,265	(292,259)
Change in net unrealized capital gains or (losses)	0	0	0	0	0
Change in net deferred income tax	114,101	60,032	9,667	(13,200)	94,856
Change in non-admitted assets	(188,208)	(158,096)	35,385	(30,991)	(259,674)
Aggregate write-ins for gains or (losses) in surplus	0	(287,444)	0	0	0
Net change for the year	<u>453,043</u>	<u>(256,258)</u>	<u>480,212</u>	<u>11,074</u>	<u>(457,077)</u>
Surplus as regards policyholders, December 31, current year	<u>\$3,888,219</u>	<u>\$3,631,961</u>	<u>\$4,084,080</u>	<u>\$4,095,154</u>	<u>\$3,638,077</u>

* The figures in the 2011 column are shown as of September 30, 2011.

COMMENTS ON FINANCIAL STATEMENTS RESULTING FROM EXAMINATION

Differences in items were noted during the course of examination. No differences were considered to produce a material effect on surplus funds as regards policyholders either singly or in the aggregate.

**SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL
STATEMENTS AND COMMENTS RESULTING FROM EXAMINATION"
AS THEY AFFECT SURPLUS**

No schedule or comment is applicable.

RECOMMENDATIONS

No recommendations.

CONCLUSION

The customary insurance examination practices and procedures, as established by the NAIC, were utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

The examiners determined that as of September 30, 2011, the Company had net admitted assets of \$9,445,598 and liabilities, exclusive of capital, of \$5,807,525. Thus, there existed for the additional protection of the policyholders, the amount of \$3,638,072 in the form of special surplus funds, aggregate write-ins for other than special surplus funds, and unassigned funds (surplus).

The courteous cooperation of the officers of the Company and the employees of Brentwood Services Administrators, Inc. extended during the course of the examination is hereby acknowledged.

In addition to the undersigned, Michael Bacon, Insurance Examiner for the State of Tennessee, and Wes Campbell, FSA, MAAA, of the contracting actuarial firm, Lewis and Ellis, Inc., Richardson, Texas participated in this examination.

Respectfully submitted,

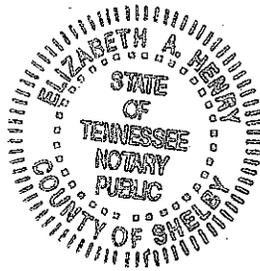


Bryant Cummings, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Road Contractors Mutual Insurance Company dated February 19, 2013, and made as of September 30, 2011, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information, and belief.


Bryant Cummings, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC



Subscribed and sworn to before me this

19th day of February, 2013

Notary Elizabeth A. Henry

County Shelby

State Tennessee

Commission Expires 4-00-14