

**RULES  
OF  
THE TENNESSEE DEPARTMENT OF COMMERCE AND INSURANCE  
INSURANCE DIVISION**

**CHAPTER 0780-1-78  
TENNESSEE COUNTY MUTUAL INSURANCE COMPANY ACT**

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**0780-1-78-.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. §§ 56-22-101, *et seq.*, and 56-22-120. **Administrative History:** Original rule filed October 19, 2007; effective January 2, 2008.

**0780-1-78-.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;

(Rule 0780-1-78-.02, continued)

- (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), and 56-22-120. **Administrative History:** Original rule filed October 19, 2007; effective January 2, 2008.

#### **0780-1-78-.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, and 56-22-120. **Administrative History:** Original rule filed October 19, 2007; effective January 2, 2008.

#### **0780-1-78-.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), and 56-22-120. **Administrative History:** Original rule filed October 19, 2007; effective January 2, 2008.

#### **0780-1-78-.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

(Rule 0780-1-78-.05, continued)

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), and 56-22-120. **Administrative History:** Original rule filed October 19, 2007; effective January 2, 2008.