Notice of Rulemaking Hearing
Department of Commerce and Insurance
Insurance Division

There will be a hearing before the Insurance Division of the Department of Commerce and Insurance ("Division") to consider the promulgation of rules. The hearing will be conducted in the manner prescribed by the Uniform Administrative Procedures Act, Tennessee Code Annotated, Section 4-5-204 and will take place in Conference Room A of the Davy Crockett Tower located at 500 James Robertson Parkway, Nashville, Tennessee 37243 at 9:00 a.m. CST on the 20th day of September, 2006.

Any individuals with disabilities who wish to participate in these proceedings should contact the Division to discuss any auxiliary aids of services needed to facilitate such participation. Such initial contact may be made no less than ten (10) days prior to the scheduled meeting date, to allow time for the Division to determine how it may reasonably provide such aid or service. Initial contact may be made with the Division's ADA Coordinator at Davy Crockett Tower, 500 James Robertson Parkway, Nashville, Tennessee 37243 and (615) 741-6500.

For a copy of this notice of rulemaking hearing contact: Tony Greer, Staff Attorney, Office of Legal Counsel, Department of Commerce and Insurance, Davy Crockett Tower, Twelfth Floor, Nashville, Tennessee 37243, and (615) 741-2199.

Chapter 0780-1-78
Tennessee County Mutual Insurance Company Act Rule

New Rules

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Rule 0780-1-78-.01 Purpose and Scope.

The following rules developed by the Department of Commerce and Insurance concern the implementation of the Tennessee County Mutual Insurance Company Act of 2006 ("Act"). The purpose of these rules is to set forth those requirements and standards that the Commissioner will utilize in the regulation of County Mutual Insurance Companies.

Authority: Public Chapter 689, Section 23.

Rule 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 and employees of a County Mutual Insurance Company to the total 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: Public Chapter 689, Section 23.

Rule 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: Public Chapter 689, Sections 10(b), 22 and 23.

Rule 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 the Act, 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 subsection (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: Public Chapter 689, Sections 12(a)(4) and 23.

Rule 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 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 Sections 8(c) and 9(f)(1) of the Act, 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 Section 9(f)(2).

Authority: Public Chapter 689, Sections 12(b)(3) and 23.

Legal Contact and/ or party who will approve final copy for publication:
Tony Greer
Tracey Gentry Harney
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I certify that this is an accurate and complete representation of the intent and scope of rulemaking proposed by the Commissioner of Commerce and Insurance.

Tracey Gentry Harney

Tony Greer
Tracey Gentry Harney
Staff Attorneys

ANDREA WENK HARDY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

Subscribed and sworn to before me this the 31st day of July, 2006.

Andrea Wenk Hardy
Notary Public

My commission expires on the 14th day of November, 2009.

The notice of rulemaking set out herein was properly filed in the Department of State on the 31ST day of JULY, 2006.

Riley C. Darnell
Riley C. Darnell
Secretary of State

By: Marla J. Crew

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