STATE OF TENNESSEE

DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION

OF

MIDSOUTH MUTUAL INSURANCE COMPANY

(NAIC # 12839)

BRENTWOOD, TENNESSEE

AS OF

DECEMBER 31, 2020

TABLE OF CONTENTS

Brentwood, Tennessee
December 21, 2021

Honorable Carter Lawrence
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated ("Tenn. Code Ann.") § 56-1-408, a full-scope financial examination and market conduct review, as of December 31, 2020, has been made of the condition and affairs of:

MIDSOUTH MUTUAL INSURANCE COMPANY
NAIC # 12839
104 Continental Place Suite 200
Brentwood, Tennessee 37027

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

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or "Department") under regulations and resolutions adopted by the National Association of Insurance Commissioners (NAIC). The examination was conducted by duly authorized representatives of the TDCI. This examination was called through the NAIC's Financial Examination Electronic Tracking System (FEETS).

SCOPE OF EXAMINATION

The last examination was made as of December 31, 2015. This examination covers the period January 1, 2016, through December 31, 2020, and includes any material transactions and/or events occurring subsequent to the examination date, which were noted during the course of examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee and in accordance with practices and procedures promulgated in the NAIC *Financial Condition Examiners Handbook*

(“Handbook”), as deemed appropriate. The examination was planned and performed to evaluate the financial condition of the Company, as of December 31, 2020. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management’s compliance with statutory accounting principles and annual statement instructions.

All significant risks were considered when planning which key activities and accounts would be examined. The key activities included: Investments; Premiums and Underwriting; Reserving and Claims Handling; Reinsurance Ceded; Related Party and Corporate Governance; and Capital and Surplus.

The Company’s 2020 annual statement was compared with, or reconciled to, the corresponding general ledger account balances.

An examination of the Company’s information technology general controls (ITGC) was conducted. The examination included a review of the following controls: management and organizational, logical and physical security, system and program development, contingency planning, service provider, operations, processing, e-commerce, and network and internet. Independent information technology specialist services, provided by Eide Bailly LLP, were utilized in the examination review of the Company’s ITGC.

A separate market conduct review was also performed concurrently with the financial examination. See the “Market Conduct Activities” section of this report.

The Company’s third-party administrator (TPA), Brentwood Services Administrators, Inc. (BSA), conducts day-to-day operational services for MMIC, either by BSA employees directly, or by BSA through subservice organizations for medical claim and various case management services. BSA has a Service Organization Controls (SOC) audit performed by an independent accounting firm on claims controls relied upon for processing MMIC claims. The SOC 1 Type 2 report is designed to report on the fairness of the presentation of management’s description of the system and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives throughout a specified period. The controls tested in the SOC audit were found to be properly designed and operating effectively.

BSA does not have a SOC audit performed on operational areas other than claims processing. As such, while a review of operational and financial processes and procedures for all areas was performed during the examination, a substantive test-work approach was generally taken for areas to determine completeness and accuracy of annual statement financial reporting. Substantive testing for claims was reduced as deemed appropriate for partial reliance on the SOC report.

The Company does not maintain an Internal Audit (IA) Department. The Company also does not document internal controls or perform internal controls testing. As a result, while a review of operational and financial processes and procedures was performed during the examination, a substantive test-work approach was generally taken to determine completeness and accuracy of annual statement financial reporting.

Independent actuaries with Eide Bailly LLP, were utilized for this examination in the review of the Company's loss reserves.

Workpapers of the Company's Certified Public Accountant (CPA) and independent auditor were reviewed for the years under examinations. The audit workpapers were reviewed for the 2020 audit and copies were incorporated into the examination, as deemed appropriate.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

The examination included a review to determine the current status of the comments and recommendations included in the previous report on examination, dated May 26, 2017, which covered the period from October 1, 2011, through December 31, 2015. The previous full-scope examination report, as of December 31, 2015, contained four (4) comments and three (3) recommendations. The Company addressed one (1) prior examination comment during the course of the previous examination. The remaining prior examination comments and recommendations were reviewed during the current examination.

Comments

1. The Company failed to obtain certifications for the code of conduct and conflict of interest policy from directors and officers in years 2013 and 2014.

   Current examination: The Company failed to obtain certifications for the code of conduct and conflict of interest policies from one director in 2016 and from all officers and directors in 2019. See "Conflicts of Interest and Pecuniary Interests" and "Comments and Recommendations" sections in this report.

2. The Company’s custodial agreement with First Tennessee Bank did not meet all requirements of Tenn. Comp. R. & Regs. 0780-01-46.

   Current examination: The Company provided an addendum to their custodial agreement prior to the end of the prior examination fieldwork. This agreement was terminated during the current examination period.

3. The Company did not elect a Chairman of the Board, as required by its Bylaws.

   Current examination: Subsequent to the previous examination, the Company elected a Chairman of the Board and was in compliance with its Bylaws as of December 31, 2020.

4. The Company’s listing of agents utilized during the period under examination included fifty (50) agents that were not included in the listing provided to the TDCI.

   Current examination: Similar issues of the use of unlicensed/unappointed agents was identified during the current examination. See the “Market Conduct Activities” and “Comments and Recommendations” sections in this report.

<u>Recommendations</u>

1. The engagement letter with the Company’s independent CPA for 2015 contained two (2) indemnification clauses. The Management Representation Letter signed by the Company for the 2013 audit contained a clause indemnifying the CPA from liability resulting from actions of the CPA. Indemnification clauses with the CPA are in violation of Tenn. Comp. R. & Regs. 0780-01-65-.08(1)(b).

   The 2015 engagement letter and 2013 management representation letter were amended.

   Current examination: The CPA engagement letters for 2016, 2018, and 2020 of the current examination included indemnification clauses. The CPA provided an addendum removing the indemnification clause for the 2016, 2018 and 2020 engagement letters prior to the end of fieldwork. See the “Accounts and Records” and “Comments and Recommendations” sections in this report.

2. The Company’s custodial agreement with Bank of America did not meet all requirements of Tenn. Comp. R. & Regs. 0780-01-46.

The Company amended the custodial agreement with Bank of America subsequent to the prior examination. This agreement was terminated during the current examination period.

Current examination: This was not an issue for the current examination.

3. Various advertisings were identified during the 2015 examination that indicate the Company has been in existence since 1995, although, the Company received its certificate of authority in 2006 and began operations in 2007.

   Current examination: No reportable issues were noted for advertising for the current examination.

COMPANY HISTORY

MidSouth Mutual Insurance Company was organized under the laws of the State of Tennessee on February 21, 2006, under the name Road Contractors Mutual Insurance Company (RCMIC). RCMIC received a certificate of authority to operate as a Tennessee domiciled property and casualty insurance company effective December 20, 2006.

RCMIC entered into transactions with Tennessee Road Builders Association Self-Insured Trust (TRBA-SIT), including an Assignment and Assumption Agreement which assigned to RCMIC as successor fiduciary the TRBA-SIT permanent guarantee capital certificates and the direct obligations of TRBA-SIT and the assessment rights against members of the Pool under the Indemnity Agreement between TRBA-SIT and its members. A Self-Insurance Loss Portfolio Transfer (LPT) agreement was entered into which provided transfer of insurance liabilities from TRBA-SIT to RCMIC.

Home Builders Mutual Insurance Company (HBMIC) issued a permanent guarantee capital certificate to the Home Builders Association of Tennessee Self-Insured Trust (HBAT-SIT). HBMIC changed its name to Mid South Mutual Insurance Company (Old MSMIC). Old MSMIC and HBAT-SIT entered into an LPT providing for the transfer of insurance liabilities from HBAT-SIT to Old MSMIC.

On December 30, 2014, the members of Old MSMIC acquired control of RCMIC pursuant to and in accordance with a Master Transaction Agreement (MTA) approved by the TDCI on December 23, 2014. In connection with this transaction, RCMIC was renamed MidSouth Mutual Insurance Company (MMIC) and Old MSMIC's name was changed to Old Mid South, Inc. and its insurance company certificate of authority was surrendered.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

The Company’s Amended and Restated Bylaws, as of March 24, 2016, state that all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Company managed under the direction of, the Board of Directors (“Board"). The Bylaws state that the number of directors shall consist of no fewer than three (3) or more than fifteen (15) directors. All directors shall be employees, officers, or directors of member companies of the Company. Directors shall be elected at each annual members’ meeting. Each director serving at the time of adoption of the revision shall be assigned a one-year, two-year, or three-year term by resolution of the Board that commenced with his or her election in 2015, so that director terms are thereafter staggered. At the first annual members’ meeting following adoption of this provision, an election shall be conducted to fill those directors’ positions with a one-year term, at the second annual members’ meeting following adoption of this provision, an election shall be conducted to fill those directors’ positions with a two-year term; at the third annual members’ meeting following adoption of this provision, an election shall be conducted to fill those directors’ positions with a three-year term. Each director elected at such annual member meetings shall thereafter serve for a three-year term.

Effective December 30, 2014, three (3) RCMIC directors (“Legacy Directors”) shall be elected to serve for one of the following terms: (i) a five (5) year term, (ii) a three (3) year term; and (iii) a one (1) year term. Upon expiration of a duly elected Legacy Director’s respective term, the aforementioned section shall apply. This section was no longer applicable following the 2018 and 2019 election of Directors.

Directors elected to the Board within the first thirty (30) days of the effective date of these Amended and Restated Bylaws, including Legacy Directors, shall not be required to be current member policyholders of the Company (“Grandfathered Directors”). Grandfathered Directors may continue to serve so long as they are duly reelected.

The following is a listing of Board members and terms as of December 31, 2020:

Name	Principal Occupation	Term
James Ronald Carbine	President, Carbine and Associates, LLC	2020 - 2023
Donald Glen Chambers	President, Lo Jac Enterprises, Inc.	2020 - 2023
Robert Neil Hutcheson	President, Sessions Paving Company	2020 - 2023
Tonya Gale Jones	Owner, Legacy Project Resources, LLC	2019 - 2022
Daryl Ray McCubbin	Sr. Partner ReCap Advisors, Inc.	2018 - 2021
Timothy Neal	President Fairfax Development, Inc.	2019 - 2022
Stephen Daryl Wright	President, Wright Brothers Construction Company, Inc.	2018 - 2021

The Board voted June 14, 2017, to remove the requirement that all directors shall be employees, officers, or directors of member companies of the Company effective March 15, 2017, following the election of Daryl Ray McCubbin to the Board. Mr. McCubbin did not meet the requirements at the time of his election. See the "Corporate Records" and "Comments and Recommendations" sections later in the report.

Officers

The Company's Bylaws provide that the officers of the Company shall be elected annually by the Board and shall consist of a Chairman of the Board, President, Secretary, Treasurer, and such other officers as may from time to time be appointed by the Board. The following is a list of key officers and titles as of December 31, 2020:

Name	Title
James Ronald Carbine	Chairman of the Board and President
Daryl Ray McCubbin	Secretary and Treasurer
Donald Glen Chambers	Vice President
Tonya Gale Jones	Vice President

The day-to-day insurance operations of the Company are performed by staff employed by BSA. These services are provided to the Company under the terms of a TPA agreement between the Company and BSA, as described in this report under the heading "Management Services Agreement". Certain services are purchased from outside contractors, if needed and not available from in-house personnel. Such services include actuarial analysis and independent audit.

Company officers have limited involvement in day-to-day operations. Oversight of BSA management activities is provided primarily by the Board at their meetings. Company officers are also directors on the Board.

Committees

The Company's Bylaws provide that the Board may create one (1) or more committees, each consisting of one (1) or more members who must be members of the Board and serve at the pleasure of the Board.

The Company had appointed the following committees and membership as of December 31, 2020:

Audit Committee	Claims Committee	Investment/Loan Committee	Marketing/Underwriting Committee
James Carbine	Tonya Jones	James Carbine	James Carbine
Tonya Jones	Daryl McCubbin	Donald Chambers	Tonya Jones
Daryl McCubbin	Timothy Neal	Robert Hutcheson	Daryl McCubbin
Timothy Neal	Stephen Wright	Daryl McCubbin	

A review of the committee meeting minutes evidence regular meetings were held. There was active participation, and reports were provided to the Board. Representatives from BSA attended the meetings also.

CONTROL

As a mutual company, the Company is controlled by its policyholders (members), which are businesses securing workers' compensation insurance.

CONFLICTS OF INTEREST AND PECUNIARY INTERESTS

The Company established individual Code of Conduct and Conflict of Interest Policies. The Code of Conduct applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions (collectively, the "Covered Officers"), as well as directors, officers, and employees (collectively with the Covered Officers, the "Covered Persons"). Each Covered Person must affirm in writing to the Board upon becoming a Covered Person and annually thereafter compliance with this Code.

The Company failed to obtain certifications for the Code of Conduct and Conflict of Interest Policies from directors and officers for 2019 and for one director in 2016. This is a repeat issue from the prior examination. See the "Compliance With Previous Examination Findings" and the "Comments and Recommendations" sections in this report. No conflicts of interest were noted from the certifications that were provided for review.

CORPORATE RECORDS

The minutes of meetings of the Company's shareholders, Board, and committees were reviewed for the period under examination. The Board minutes did not include consistent documentation of review by the Board of the actuary's annual report and findings, as required by the NAIC *Annual Statement Instructions* ("Instructions"). See "Comments and Recommendations" section later in this report.

The review of the minutes indicates that not all investment transactions were approved by the Board pursuant to Tenn. Code Ann. § 56-3-408(b)(1). See "Comments and Recommendations" section later in this report.

Charter

The Charter of the Company in effect as of December 31, 2020, is the original charter of RCMIC, which was filed with the Secretary of State on February 21, 2006, and subsequently amended to change the name from RCMIC to MMIC. There were no changes to the Charter during the current examination period.

Bylaws

The Bylaws of the Company in effect as of December 31, 2020, are the Company's Amended and Restated Bylaws, which were adopted by the Board on December 30, 2014, and subsequently amended March 24, 2016.

Directors added Article II, Section 2.2 (d) to the Bylaws to address the terms of the RCMIC directors ("Legacy Directors") and directors elected to the Board within the first thirty (30) days of the effective date of these Amended and Restated Bylaws ("Grandfathered Directors"). Three (3) Legacy Directors were elected to serve a five (5) year term, a three (3) year term, and a one (1) year term effective December 30, 2014. Upon the expiration of a duly elected Legacy Directors' terms, Section (d) shall have no further application. Section (d) no longer applies as of the examination date.

Bylaws Article II, Section 2.2 (e) was added to address Legacy and Grandfathered Directors shall not be required to meet the qualifications of Bylaws Section (b), which provides all directors shall be employees, officers or directors of members of the

Corporation. Grandfathered Directors may continue to serve so long as they are duly reelected.

Bylaws Section 5.9 – Proxies was amended to read "A member may only vote in person at a membership meeting. No proxies are permitted at meetings of the members."

The above Bylaw changes were submitted to the TDCI.

The Board approved deleting the qualification for directors, Section 2.2 (b), retroactive to March 15, 2017, at the June 14, 2017, meeting. This change was not made to the Bylaws nor submitted to TDCI.

No other amendments or restatements were made to the Company's Bylaws during the period of examination.

As of December 31, 2020, the Company was not acting in accordance with its Bylaws by electing a director who did not meet the qualifications in the Company's written Bylaws. See "Management and Control – Directors" section above in the report.

Effective March 1, 2021, and subsequent to the period under examination, the Company amended Bylaws Section 5.9 – Proxies – to read "A member may only vote in person at a membership meeting. Notwithstanding the foregoing, during a pandemic, including the 2020-21 coronavirus pandemic, membership meetings may be conducted virtually at the direction of the Chairman of the Board of Directors, with no in-person attendance and voting conducted virtually/electronically. No proxies are permitted at meetings of the members."

The Bylaws are such as are generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board, and its policyholders.

AGREEMENTS WITH PARENT AND AFFILIATES

The Company is not a member of a holding company system, and as such, does not have a parent, subsidiaries, or affiliates. As a mutual insurance company, the Company is owned by its members.

LOSS PORTFOLIO TRANSFER AND PERMANENT GUARANTEE CAPITAL CERTIFICATES

The Company has Permanent Guarantee Capital Certificates (PGCCs) reported as surplus and related Loss Portfolio Transfers (LPTs) reported as liabilities that resulted from merger and acquisition activity occurring during the prior and current examination periods, as discussed below. Prior members of the self-insured trusts attached to these instruments are beneficiaries of the PGCCs.

Loss Portfolio Transfers

MMIC reported LPTs related to RCMIC and HBMIC transactions with TRBA-SIT, HBAT-SIT and Old MSMIC, respectively, totaling $6,439,856 in its 2020 Annual Statement.

Effective December 31, 2018, MMIC assumed 100% of the liabilities and obligations for workers' compensation and employer liability losses from Dealers Choice Mutual Insurance Company (DCMIC) in exchange for cash and other assets pursuant to a Loss Portfolio Transfer and Assumption Reinsurance Agreement. MMIC reported $7,490,000 in its 2020 Annual Statement related to this assumption.

Permanent Guarantee Capital Certificates

MMIC allocates surplus to the HBAT-SIT and TRBA-SIT PGCCs. The annual statement reflects accumulated amounts allocated to each entity. As of December 31, 2020, the Company's annual statement reflected $9,248,632 and $1,190,849 as other-than-special surplus funds related to the HBAT-SIT and TRABA-SIT PGCCs, respectively.

The Company received approval from the TDCI on March 26, 2020, to pay the required five-year anniversary redemption of TRBA-SIT PGC account in the amount of $2,712,634 in accordance with the terms of the MTA.

MANAGEMENT SERVICES AGREEMENT

Effective December 29, 2014, in conjunction with the acquisition of control of Old MSMIC (formally known as HBMIC), MMIC assumed the TPA agreement with BSA to conduct the day-to-day operations of the Company. Pursuant to the terms of the agreement, BSA agrees to provide MMIC with the following services: claims; loss control; marketing and marketing assistance; account management services; provide, or cause to be provided by an affiliate, reinsurance intermediary and insurance brokerage services; and seek on MMIC's behalf the procurement of insurance certificates of authority from state departments of insurance, but only as and when authorized by the Company for particular states and at the request of the Company. The original agreement expired January 1, 2019, and the agreement was extended month-to-month in accordance with the terms of the agreement. The agreement was amended October 6, 2015, October 11, 2017, December 13, 2017, January 24, 2019, and November 20, 2020, to reflect BSA compensation and expense reimbursement terms.

The TPA agreement provides for an annual service fee, a bookkeeping fee for AIC Fronted Business, a fee for each certificate of authority acquisition, as well as fees for the provision of medical cost containment services (which includes medical, pharmaceutical, durable medical equipment bill review; case management and utilization review; and PPO network access services); other ancillary cost containment services; and various other operational fees. Service fees are based on yearly written premiums, acquisition of new certificates of authority, recoveries from Reliance for claim settlements, and certain cost containment service fees based on savings realized. During the year ended December 31, 2020, the Company incurred service fees to BSA totaling $978,257 and cost containment service fees of $835,482.

The prior examination noted that BSA was making underwriting decisions for the Company, which is outside of the scope of services to be provided under the terms of the TPA agreement. The TPA agreement was not amended to accurately reflect the services provided, and BSA continued making underwriting decisions throughout this examination period. As of December 31, 2020, the Company and BSA were not operating in accordance with the terms of the TPA agreement.

Prior to the end of the current examination field work, the TPA agreement was subsequently rewritten for a three-year term, effective July 1, 2021. The 2021 TPA agreement provides for the same services and fees as the prior agreement. Amendment 1 was subsequently added to the 2021 agreement to address underwriting performed by BSA. See the “Comments and Recommendations” section of this report.

TERRITORY AND PLAN OF OPERATION

TERRITORY

The Company is a mutual insurance company domiciled in Tennessee and licensed to transact business in the following fifteen (15) states as of December 31, 2020.

Alabama	Kentucky	Oklahoma
Arkansas	Mississippi	South Carolina
Florida	Missouri	Tennessee
Georgia	Nebraska	Texas*
Indiana	North Carolina	Virginia

*The Company did not report licensure in Texas in its 2020 Annual Statement Schedule T. Licensure was approved December 29, 2020.

Certificates of Authority granted by the licensed states were reviewed and found to be in force as of December 31, 2020.

Tennessee, Georgia, and North Carolina produced approximately seventy-three and seven-tenths percent (73.7%) of the Company's premium for 2020.

Premium tax records were reviewed for Tennessee, and no exceptions were noted.

PLAN OF OPERATION

The Company's primary product is workers' compensation and employer liability coverages. The Company began writing high deductible policies under a fronting arrangement with Accident Insurance Company, Inc. (AIC) during 2020. These policies are one hundred percent (100%) ceded to AIC and secured by collateral. The Company markets its products through wholesale agents, independent agents, and producers.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, according to its annual statements, as filed with the TDCI *(Amounts may not total due to immaterial rounding differences):*

Year	Admitted Assets	Liabilities	Capital and Surplus	Net Underwriting Gain (Loss)
2020	$41,720,142	$29,078,146	$12,641,996	($1,552,733)
2019	$44,763,683	$31,036,948	$13,726,737	($1,588,501)
2018	$43,736,584	$31,374,321	$12,362,264	($459,258)
2017	$27,378,262	$15,568,311	$11,809,951	($120,127)
2016	$25,799,526	$13,843,303	$11,956,223	$1,234,309

Net underwriting losses have been attributed to poor underwriting performance of Georgia and North Carolina business, increased reinsurance rates, lower loss cost rates, and high expenses.

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements filed with the TDCI, the ratios of losses incurred to direct premiums earned for the period subject to this examination were as follows:

Year	Losses Incurred	LAE Incurred	Premiums Earned	Loss Ratio
2020	$5,659,680	$1,421,762	$8,628,256	82.07%
2019	$4,294,352	$1,065,538	$7,317,542	73.25%
2018	$3,763,652	$2,003,721	$8,683,395	66.42%
2017	$4,381,574	$1,554,815	$9,074,663	65.42%
2016	$2,140,976	$1,217,594	$7,330,936	45.81%

Increased loss ratios are primarily attributed to losses on business written in Georgia and North Carolina. Historically, few claims have reached the Company's retention point for reinsurance relief.

REINSURANCE AGREEMENTS

Reinsurance Intermediary

MMIC and Brentwood Reinsurance Intermediaries, Inc. (BRII) are parties to a Reinsurance Intermediary Broker Agreement, effective January 1, 2007, that complies with Tenn. Code Ann. §§ 56-6-804, 56-6-805, and 56-6-806. The agreement was replaced by a Reinsurance Intermediary and Florida Only Managing General Agent Agreement, effective July 10, 2019. The new agreement changed the name from Road Contractors Mutual Insurance Company to MidSouth Mutual Insurance Company. The MGA section of the agreement applies only to Fla. Ann. Stat. § 626.7451, only to the extent incorporation of such provisions is required by applicable Florida law in an agreement between the parties, and only with respect to Florida activities.

Compensation paid to BRII, pursuant to the terms of the agreement, is agreed upon in writing at the time of the risk transfer. Payment of the commission shall be made at the time the reinsurance premium is tendered.

The Company's significant reinsurance agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit pursuant to Tenn. Code Ann. § 56-2-207(a)(2). All agreements appear to effectuate proper transfer of risk in accordance with Statement of Statutory Accounting Principles (SSAP) No. 62R – Property and Casualty Reinsurance, and NAIC guidelines.

The following summary describes the significant reinsurance agreements in effect, as of December 31, 2020:

Assumed Reinsurance

Tennessee Workers' Compensation Assigned Risk Pool

The Company, as a participating insurance carrier in Tennessee, assumes premiums from the Tennessee Workers' Compensation assigned risk pool. The assigned risk pool was dissolved as of September 30, 2015. As a result of this dissolution, the Company received its pro rata share of the remaining assets of the pool and recorded such proceeds as assumed involuntary risk pool premiums. The Company is responsible for future liabilities as incurred on behalf of the high-risk pool and has recorded an offsetting liability. The Company assumed $463,000 of premium from mandatory pools for 2020. Known case losses and loss adjustment expenses for the mandatory pools as of December 31, 2020, were $470,000.

Ceded Reinsurance

Workers' Compensation and Employers' Liability Excess of Loss Reinsurance Contracts

Effective January 1, 2020, the Company entered into an Excess of Loss Reinsurance Contract with Safety National Casualty Corporation ("Safety National") and Mutual Reinsurance Bureau (MRB) which was comprised of Church Mutual Insurance Company, Farm Bureau Mutual Insurance Company of Michigan, Motorists Mutual Insurance Company, and Renaissance Reinsurance U.S., Inc. This contract was in force until January 1, 2021 and covered all loss occurrences during the contract term. The agreement provided that the reinsurer would assume each individual loss in excess of $1 million up to $10 million of one workers' compensation or employer liability loss, up to a maximum of $36 million for all loss occurrences during the contract term. Employers' liability was limited to $2 million maximum. Safety National assumed seventy-five percent (75%) and MRB assumed twenty-five percent (25%) of the liability.

Effective January 1, 2020, the Company concurrently entered into an Excess of Loss Reinsurance Contract with Munich Reinsurance America, Inc. ("Munich Re") and Arch Reinsurance Company ("Arch Re"). This contract was in force until January 1, 2021 and covered all loss occurrences during the contract term. The agreement provided that the reinsurer would assume each individual loss in excess of $10 million up to $20 million of one workers' compensation or employer liability loss, up to a maximum of $20 million for all loss occurrences during the contract term. Munich Re and Arch Re each accepted fifty percent (50%) of the liability.

Both excess of loss agreements discussed above were renewed effective January 1, 2021 through January 1, 2022 with the same coverage and reinsurers.

Quota Share Contract

The Company and AIC entered into a one hundred percent (100%) Liability Quota Share Reinsurance Agreement effective January 1, 2020. This contract was in force until January 1, 2021 and covered all loss occurrences during the contract term for business underwritten by AIC Underwriters, LLC (AICU) or any other underwriter designated by AIC to underwrite business on behalf of MMIC, limited to Large Deductible Workers' Compensation and Employers' Liability policies issued to employers in states where MMIC was licensed, and the large deductible filing was approved by the regulatory authority. MMIC ceded one hundred percent (100%) of the gross insurance liability for new and renewal policies becoming effective on or after January 1, 2020. A Trust Account, funded monthly, was established to secure the liabilities of AIC.

The maximum policy limits for Employers' Liability were $1 million each accident for bodily injury by accident and $1 million each employee and in the aggregate per policy for bodily injury by disease. Workers' Compensation limits are set by statutory limits.

The quota share agreement term was extended to January 1, 2022 with the same reinsurer.

ACCOUNTS AND RECORDS

During the examination, certain balances were tested, and amounts were traced from the Company's trial balance to the annual statement. All the Company's investment securities were confirmed with the custodian of such securities, as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed. These test checks and reviews revealed no material discrepancies. Immaterial differences were identified in the Notes to the Financial Statements.

The Company's books and records are located in Brentwood, Tennessee.

Actuarial Opinion

The NAIC Instructions require the Appointed Actuary to report to the Board or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The Instructions state that the minutes of the Board shall indicate that the Appointed Actuary has presented such information to the Board or the Audit Committee. Per review of the Board minutes for the Company, there was no consistent documentation of review by the Board of the actuaries' annual report and findings. See "Corporate Records section above and Comments and Recommendations" section later in this report.

CPA Indemnification

Tenn. Comp R. & Regs. 0780-01-65-.08(1), states that the commissioner shall not recognize a person or firm as a qualified independent certified public accountant if the person or firm (a) is not in good standing with the AICPA and in all states in which the accountant is licensed to practice or (b) has either directly or indirectly entered into an agreement of indemnity or release from liability (collectively referred to as "indemnification") with respect to the audit of the insurer.

The CPA's 2016, 2018 and 2020 engagement letters with the Company contained two indemnification clauses: 1) Third Party Use and Reliance; and 2) Limited Liability and Indemnification. Indemnification clauses are a violation of Tenn. Comp. R. & Regs. 0780-01-65-.08(1)(b). See the "Compliance with Previous Examination Findings" and "Comments and Recommendations" sections in this report.

CPA Qualification Letter

The Qualification Letter provided to the Company for the 2020 audit included inaccurate information for the partner's number of years on the engagement. See "Comments and Recommendations" section later in this report.

Investment Manager Agreement

The Company executed an agreement with Patten and Patten, Inc. (P&P), an investment adviser registered with the U.S. Securities and Exchange Commission, on March 31, 2015. Pursuant to the terms of the agreement, MMIC appointed P&P as investment manager to supervise and direct the Company's investments. P&P was granted discretionary authority to buy, sell, and trade in stocks, bonds, options, and any other securities for the account. Options are not a permissible investment pursuant to Tenn. Code Ann. § 56-3-402. See "Comments and Recommendations" section later in the report.

Investment Transaction Review

The Company's Investment and Loan Committee is charged with approving investment transactions. Neither the committee's meeting minutes nor Board meeting minutes document the review and approval of the investment transactions in accordance with Tenn. Code Ann. § 56-3-408(b). See the "Corporate Records" and "Comments and Recommendations" sections later in this report.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2020, in conjunction with this examination. The following items were addressed:

Operations and Management Standards

Company antifraud initiatives were examined to determine if the initiatives are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts. Company procedures and policies relating to privacy were reviewed to determine compliance with Tenn. Code Ann. § 56-8-104(19). No issues were noted.

Complaint Handling Standards

The Company's complaint handling procedures, including complaint log maintenance, were examined for compliance with Tenn. Code Ann. § 56-8-104(11). No significant issues or concerns were identified.

Marketing and Sales Standards

The Company's advertising materials and Annual Report documents were examined for compliance with Tenn. Code Ann. § 56-8-104(1) and the NAIC *Market Regulation Handbook*. No significant issues or concerns were identified.

Producer Licensing Standards

A review was performed of the Company's licensed/appointed agents. All of the agents utilized by the Company during this examination period were found to be licensed and appointed, with the exception of one (1) that was not appointed due to an error. This same policy was renewed by the Company even through the producer had not yet been appointed. The Company properly appointed the agent subsequent to the examination date. The Company was not in compliance with Tenn. Code Ann. §§ 56-6-103 and 56-6-115(a) as of the examination date. See the "Compliance with Previous Examination Findings" and the "Comments and Recommendations" sections in this report.

Policyholder Services Standards

The Company's timeliness of policy issuance, premium billing, response to policyholder requests, provision of adequate disclosures, and compliance with applicable statutes and rules were examined. The Company was found to be in compliance with the relevant market conduct standards.

Underwriting and Rating Standards

In the examination of the Company's underwriting procedures and policy administration, policy files for open and closed policies were reviewed in accordance with Tenn. Code Ann. § 56-8-104, Tenn. Comp. R. & Regs. 0780-01-34, and established Company guidelines. In the examination of these contracts, there were no instances of unfair methods of competition, or unfair or deceptive acts found. Underwriting procedures and policy administration conducted by the Company appear to be in compliance with established Company guidelines.

Policies were examined for rating in accordance with the Company's filed rates. Several policies were identified that were priced with rates different than those the Company filed with the TDCI and with incorrect rates charged for coverage. The Company was not in compliance with Tenn. Code Ann. § 56-5-120(b). See "Comments and Recommendations" section later in this report.

A sample of the policy forms that were used by the Company during the period of examination was reviewed. Exceptions were identified of forms used that had not been filed with the TDCI, had not been approved, or had been withdrawn. The Company was not in compliance with Tenn. Code Ann. § 56-5-106. See "Comments and Recommendations" section later in this report.

Claims Handling Standards

In the examination of claims handling practices, the Company's efficiency of claim handling, accuracy of payment, adherence to contract provisions, and compliance with applicable statutes and rules were examined. In conducting the examination, random samples were selected from claims approved and claims resisted by the Company. The Company's claims were properly documented and handled in accordance with the Company's policy provisions and applicable statutes and rules. No issues or concerns were identified.

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. The following were identified:

- The Company entered into a Wholesale Agency Agreement with Appalachian Underwriters, Inc., AIC Underwriters, LLC, Cornerstone Underwriting Partners, LLC, and Eastern Underwriting Managers, LLC, effective January 1, 2021. The prior agreement for business written, effective during the examination period, was between BSA and the aforementioned parties. That agreement between BSA and the aforementioned parties was terminated effective January 1, 2021. Commissions under the prior agreement were paid by MMIC.
- The Company and BSA executed a new TPA Agreement effective July 1, 2021.
- The Company’s Certificate of Authority for Illinois was granted July 27, 2021.
- Jeff Pettus resigned as President of BSA, effective November 15, 2021. Keith Fawcett, President of BRII, was named interim president.

No additional events were noted that required additional disclosure in this examination report. Management stated in its Letter of Representation that they were not aware of any events subsequent to December 31, 2020, that could have a material effect on the Company’s financial condition. Our review confirmed the Company’s disclosures in its 2020 Annual Statement and in its Letter of Representation.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income, as of December 31, 2020, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2020 Annual Statement. (*Immaterial differences in totals are due to rounding.)*

ASSETS

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$27,220,691		$27,220,691
Preferred stocks	1,257,284		1,257,284
Common stocks	3,199,026		3,199,026
Mortgage loans on real estate – First liens	895,979		895,979
Cash and short-term investments	5,342,673		5,342,673
Investment income due and accrued	251,666		251,666
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	4,446,907	$862,452	3,584,455
Deferred premiums, agents' balances and installments booked but deferred and not yet due	(234,297)		(234,297)
Reinsurance:			
Amounts recoverable from reinsurers	202,665		202,665
Pre-paid expenses	13,750	13,750	
Accounts receivable	31,551	31,551	
Totals	$42,627,895	$907,753	$41,720,142

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses		$8,376,907
Loss adjustment expenses		1,702,828
Commissions payable, contingent commissions and other similar charges		509,399
Other expenses		432,632
Taxes, licenses, and fees		45,442
Federal income taxes payable		39,359
Net deferred tax liability		204,364
Unearned premiums		3,445,015
Advance premium		207,850
Ceded reinsurance premiums payable		67,288
Amounts withheld or retained by company for account of others		117,206
Retroactive reinsurance reserves assumed (DCMIC)		7,490,000
Retroactive reinsurance reserves assumed (HBATSIT)		3,090,002
Retroactive reinsurance reserves assumed (TRBASIT)		3,030,000
Retroactive reinsurance reserves assumed (Old MSMIC)		319,854
Total Liabilities		$29,078,146
Permanent Guaranty Capital Certificate - HBATSIT	$9,248,632	
Permanent Guaranty Capital Certificate - TRBASIT	1,190,849	
Unassigned funds (surplus)	2,202,515	
Surplus as regards policyholders		12,641,996
Totals		$41,720,142

STATEMENT OF INCOME

UNDERWRITING INCOME		
Premiums earned		$8,628,256
Deductions:		
Losses incurred	$5,659,680	
Loss expenses incurred	1,421,762	
Other underwriting expenses incurred	3,099,547	
Total underwriting deductions		10,180,989
Net Underwriting Gain		(1,552,733)
INVESTMENT INCOME		
Net investment income earned	660,904	
Net realized capital gains (losses)	106,248	
Net Investment Gain		767,152
OTHER INCOME		
Net (loss) from agents' or premium balances charged off	(45,082)	
Gain (loss) from development of retroactive reinsurance assumed (DCMIC)	1,159,360	
Other miscellaneous income, including non-compliance fees	134,852	
Gain (loss) from development of retroactive reinsurance assumed (MSMIC)	2,223	
Gain(loss) from development of retroactive reinsurance assumed (TRBASIT)	(10,509)	
Total Other Income		1,240,844
Net income before federal income taxes		455,263
Federal income taxes incurred		91,675
Net Income (Loss)		$363,588

CAPITAL AND SURPLUS ACCOUNT

	2020	2019	2018	2017	2016
Capital and Surplus					
December 31, previous year	$13,726,737	$12,362,264	$11,809,950	$11,956,223	$10,277,086
Net income or (loss)	363,588	137,326	409,026	295,549	1,389,757
Change in net unrealized capital gains (loss)	447,398	563,613	(330,357)	258,136	116,806
Change in net deferred income tax	(157,816)	(215,912)	123,830	(162,479)	3,837
Change in non-admitted assets	887,604	(451,219)	349,815	(886,600)	168,737
Permanent Guaranty Capital Certificate HBATSIT	87,119	1,330,665		349,121	
Permanent Guaranty Capital Certificate TRBASIT	(2,712,634)				
Net change in capital and surplus for the year	(1,084,741)	1,364,473	552,314	(146,273)	1,679,137
Capital and Surplus					
December 31, current year	$12,641,996	$13,726,737	$12,362,264	$11,809,950	$11,956,223

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus	$12,641,996

Total capital and surplus, as established by this examination, is the same as what was reported by the Company in its 2020 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2020.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments

1. As noted in the "Management Services Agreement" section of this report, during the prior examination, it was noted that BSA was making underwriting decisions for the Company, which was not within the terms of the TPA agreement. Although this matter was pointed out to the Company and suggested that the TPA agreement be amended to accurately reflect the services provided, BSA continued to make underwriting decisions throughout this examination period. As of December 31, 2020, the Company and BSA were not operating in accordance with the terms of the TPA agreement.

   Prior to the end of the current examination field work, the TPA agreement was rewritten for a three-year term, effective July 1, 2021. The 2021 TPA agreement provides for the same services and fees as the prior agreement. However, Amendment 1 was subsequently added to the 2021 TPA agreement to address the underwriting performed by BSA.

Recommendations

1. The CPA's 2016, 2018, and 2020 engagement letters with the Company contained two indemnification clauses: 1) Third Party Use and Reliance; and 2) Limited Liability and Indemnification. Indemnification clauses are a violation of Tenn. Comp. R. & Regs. 0780-01-65-.08(1)(b). Additionally, the Qualification Letter provided to the Company for the 2020 audit included erroneous information for the partner's number of years on the engagement. Prior to the conclusion of field work, the CPA provided new engagement letters for 2016, 2018, and 2020 and a corrected Qualification Letter for 2020. See the "Compliance with Previous Examination Findings" and the "Accounts and Records" sections of this report for additional information.

Recommendation: The Company should ensure there are no indemnification clauses included in the CPA engagement letter each year prior to signing.

2. The Company's Bylaws include the requirement that directors be employees, officers, or directors of member companies of the Company. Daryl Ray McCubbin did not meet the qualification requirements when he was elected as Director on March 15, 2017. The Board meeting minutes document the Board approved amending the Bylaws to remove the qualification requirement at its meeting on June 14, 2017, retroactive to March 15, 2017.

   The change was not made to the Bylaws as of December 31, 2020. See "Management and Control" and "Bylaws" sections of this report for additional information.

   Recommendation: The Company should ensure the Bylaws requirements of directors being employees, officers, or directors of member companies of the Company align with the composition of the Board.

3. The Company has established a policy for directors and officers to annually attest to compliance with Tenn. Code Ann. § 56-3-103. During this examination, as well as the previous examination, the Company failed to obtain conflict of interest disclosure certifications from all directors and officers in violation of their policy. The certification for one director was not obtained in 2016 and no certifications were obtained in 2019. This is a repeat issue from the prior examination. See "Conflicts of Interest and Pecuniary Interests" and "Compliance With Previous Examination Findings" sections of this report for additional information.

   Recommendation: The Company should ensure certifications are obtained each year from all directors and officers in conformity with their policy and to evidence compliance with Tenn. Code Ann. § 56-3-103.

4. The NAIC *Annual Statement Filing Instructions* ("Instructions") require the Appointed Actuary to report to the Board or the Audit Committee each year on the items within the scope of the Actuarial Opinion. Non-compliance with the Instructions is a violation of Tenn. Code Ann. § 56-1-501(b). The Actuarial Opinion and Actuarial Report must be made available to the Board of Directors. The Instructions state that the minutes of the Board shall indicate that the Appointed Actuary has presented such information to the Board or the Audit Committee and identify the manner of presentation (webinar, in-person presentation, written). Per review of the Board minutes for the Company, there was no consistent documentation of review by the Board or the Audit Committee

of the actuaries' annual report and findings. See the "Corporate Records" and "Accounts and Records" sections of this report for additional information.

Recommendation: The Company should ensure the presentation of the annual actuarial documents is provided to the Board of Directors or Audit Committee and the reporting of such presentation is recorded in the corporate meeting minutes to evidence compliance with Tenn. Code Ann. § 56-1-501(b).

5. The Company's Investment and Loan Committee is charged with approving investment transactions and reporting to the Board of Directors ("Board"). Corporate meeting minutes do not document investment transactions are reviewed and approved by the Board in accordance with Tenn. Code Ann. § 56-3-408(b)(1). See "Corporate Records" section of this report for additional information.

   Recommendation: The Company's Investment and Loan Committee should approve the investment transactions in accordance with its documented responsibilities and in accordance with Tenn. Code Ann. § 56-3-408(b)(1) and ensure that the corporate meeting minutes document the review and approval of the transactions.

6. The Investment Manager with Patten and Patten, Inc. includes discretionary authority to buy, sell, and trade in stocks, bonds, options, and any other securities. Options are not a permissible investment pursuant to Tenn. Code Ann. § 56-3-402. See "Accounts and Records" section of this report for additional information.

   Recommendation: The Company should enter into an agreement with its Investment Manager that includes authority to buy and sell only securities permissible according to Tenn. Code Ann. § 56-3-402.

7. The Company had business written by unappointed producers during the examination period. The Company was not in compliance with Tenn. Code Ann. §§ 56-6-103 and 56-6-115(a) as of the examination date. See the "Compliance with Previous Examination Findings" and the "Market Conduct Activities" (Producer Licensing Standards) sections of this report for additional information.

   Recommendation: The Company should ensure all policies issued and renewed are by licensed and appointed agents in compliance with Tenn. Code Ann. §§ 56-6-103 and 56-6-115(a).

8. Policies were identified that were priced with manual rates different than the Company's rates filed with the TDCI and with incorrect premiums charged for

coverage. This is a violation of Tenn. Code. Ann. § 56-5-120(b). See “Underwriting and Rating Standards” section of this report for additional information.

Recommendation: The Company should ensure its policy system contains the proper filed manual rates for each class code and that such manual rate is utilized to calculate the policy’s manual premium.

9. Some policy forms used by the Company were identified as not filed, not approved, or withdrawn. This is a violation of Tenn. Code. Ann. § 56-5-106. See the “Underwriting and Rating Standards” section of this report for additional information.

   Recommendation: The Company should ensure that only policy forms which have been filed and approved by the TDCI are used and that such policy forms are not utilized prior to their approval or after being withdrawn.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in connection with the verification and valuation of assets and the determination of liabilities of MidSouth Mutual Insurance Company of Brentwood, Tennessee.

In such manner, it was found that as of December 31, 2020, the Company had admitted assets of $41,720,142 and liabilities, exclusive of capital and surplus, of $29,078,146. Thus, there existed for the additional protection of the policyholders, the amount of $12,641,996 in the form of permanent guarantee certificates of $10,439,481 and unassigned funds of $2,202,515. Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum surplus of $2,000,000. For this examination, as of December 31, 2020, the Company maintains capital and surplus sufficient to satisfy those requirements.

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

In addition to the undersigned, Rhonda Bowling-Black, CFE, Insurance Examiner for the State of Tennessee, and James Burch, CFE, Michael Nadeau, CFE, AES, and Robin Roberts, CFE, Insurance Examiners with the firm Eide Bailly LLP, Fargo, North Dakota, representing the State of Tennessee, participated in the work of this examination. An actuarial review was performed by Alan Kaliski, FCAS and McKay Heasley, FSA, MAAA of Eide Bailly LLP.

Respectfully submitted,

James Menck, CFE
Examiner-in-Charge
Eide Bailly LLP
Representing the State of Tennessee

A. Jay Uselton, CFE
Department Designee
Tennessee Department of Commerce and Insurance

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of MidSouth Mutual Insurance Company located in Brentwood, Tennessee, dated December 21, 2021, and made as of December 31, 2020, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.

James Menck, CFE
Examiner-in-Charge
Eide Bailly LLP
Representing the State of Tennessee

State Texas

County Tarrant

Subscribed to and sworn before me

this 26 day of may, 2022

(NOTARY)

My Commission Expires: 05/17/2025

NOTARY PUBLIC STATE OF TEXAS
YANEIRA BRUMMER
Notary ID #133105334
My Commission Expires
May 17, 2025

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of MidSouth Mutual Insurance Company located in Brentwood, Tennessee, dated December 21, 2021, and made as of December 31, 2020, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.

Jay Uselton

A. Jay Uselton, CFE
Department Designee
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 2nd day of June, 2022

Linda Merriweather
(NOTARY)

LINDA MERRIWEATHER
STATE OF TENNESSEE NOTARY PUBLIC
RUTHERFORD COUNTY

My Commission Expires: March 15, 2025

EXHIBIT B

MidSouth Mutual
Insurance Company

June 10, 2022

Via email to: Joy.Little@tn.gov

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

RE: Report of Examination – Midsouth Mutual Insurance Company

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Midsouth Mutual Insurance Company (the "Company"). By signing below, we indicate acceptance of the report, as transmitted, to respectively include the following comments/rebuttal:

Recommendation #2, Page 26 –

The Company's Bylaws include the requirement that directors be employees, officers, or directors of member companies of the Company. Daryl Ray McCubbin did not meet the qualification requirements when he was elected as Director on March 15, 2017. The Board meeting minutes document the Board approved amending the Bylaws to remove the qualification requirement at its meeting on June 14, 2017, retroactive to March 15, 2017. The change was not made to the Bylaws as of December 31, 2020. See "Management and Control" and "Bylaws" sections of this report for additional information.

Recommendation: The Company should ensure the Bylaws requirements of directors being employees, officers, or directors of member companies of the Company align with the composition of the Board.

Response: The Board of Directors elected to amend the bylaws to delete Section 2.2(b) at the June 14, 2017 board meeting, however, the Company officially amended the bylaws as of August 4, 2021. These changes were sent to the Insurance Commissioner the day they were executed.

Recommendation #3 – Page 26 –

The Company has established a policy for directors and officers to annually attest to compliance with Tenn. Code Ann. § 56-3-103. During this examination, as well as the previous examination, the Company failed to obtain conflict of interest disclosure certifications from all directors and officers in violation of their policy. The certification for one director was not obtained in 2016 and no certifications were obtained in 2019. This is a repeat issue from the prior examination. See "Conflicts of Interest and Pecuniary Interests" and "Compliance With Previous Examination Findings" sections of this report for additional information.

Recommendation: The Company should ensure certifications are obtained each year from all directors and officers in conformity with their policy and to evidence compliance with Tenn. Code Ann. § 56-3-103

Response: TAC §56-3-103 does not specifically require annual written attestations to be collected; however, per the Company's Code of Conduct Policy, the Company will continue to obtain Conflict of Interest Certifications annually.

Recommendation #5 – Page 27 -

The Company's Investment and Loan Committee is charged with approving investment transactions and reporting to the Board of Directors ("Board"). Corporate meeting minutes do not document investment transactions are reviewed and approved by the Board in accordance with Tenn. Code Ann. § 56-3-408(b)(1). See "Corporate Records" section of this report for additional information.

Recommendation: The Company's Investment and Loan Committee should approve the investment transactions in accordance with its documented responsibilities and in accordance with Tenn. Code Ann. § 56-3-408(b)(1) and ensure that the corporate meeting minutes document the review and approval of the transactions.

Response: The Investment and Loan Committee is provided a list of investment transactions for the quarter within the Portfolio Managers' report. Although the meeting minutes include that the committee reviewed and approved the "holdings" at the end of each quarter; they did not specifically address that the transactions were provided to the committee as well. The committee minutes, going forward, will specifically identify that the transactions were reviewed and approved.

Recommendation #6 – Page 27

The Investment Manager with Patten and Patten, Inc. includes discretionary authority to buy, sell, and trade in stocks, bonds, options, and any other securities. Options are not a permissible investment pursuant to Tenn. Code Ann. § 56-3-402. See "Accounts and Records" section of this report for additional information.

Recommendation: The Company should enter into an agreement with its Investment Manager that includes authority to buy and sell only securities permissible according to Tenn. Code Ann. § 56-3-402.

Response: The Investment Advisors "Standard" Letter of Agreement does mention discretionary authority to buy or sell options, however, the Agreement also includes the following provision:

"Unless such authority is withheld, Patten and Patten Inc. will supervise and direct the Investments of the Account subject to such limitations as Client may impose by notice in writing."

As such, the advisor was provided a copy of the Company's Investment and Loan policy which stipulates that he must follow Tenn. Code Ann. § 56-3-402 which prohibits such transactions. The Advisor subsequently added an amendment to the agreement which specifically prohibits the purchase of options and other prohibited investments. This amendment was added effective March 9, 2022.

Sincerely,

Midsouth Mutual Insurance Company

James Carbine, Chairman and President

Cc:	Jay Uselton, TDOI	Jay.Uselton@tn.gov
	Britta Becker, TDOI	Britta.Becer@tn.gov