STATE OF TENNESSEE

DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION

OF

ROAD CONTRACTORS MUTUAL INSURANCE COMPANY

NAIC # 12839

NASHVILLE, TENNESSEE

AS OF

SEPTEMBER 30, 2013

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Nashville, Tennessee
January 9, 2015

Honorable Julie Mix McPeak
Commissioner
Tennessee Department of Commerce & Insurance
Davy Crockett Tower, 12th floor
500 James Robertson Parkway
Nashville, Tennessee 37243-0565

Dear Commissioner:

Pursuant to your instructions and in accordance with Tenn. Code Ann. § 56-1-409, a limited-scope examination has been made of the financial condition and affairs of:

ROAD CONTRACTORS MUTUAL INSURANCE COMPANY
NAIC # 12839
213 5th Avenue North
Nashville, Tennessee 37219

hereinafter generally referred to as 'RCMIC' or the 'Company', and a report thereon is submitted as follows:

INTRODUCTION

This exam was arranged by the Tennessee Department of Commerce and Insurance ("TDCI" or "Department") under rules promulgated by the National Association of Insurance Commissioners ("NAIC"). The examination commenced on December 19, 2013, and was conducted by duly authorized representatives of the TDCI.

The Department previously completed a full-scope examination as of September 30, 2011.

SCOPE OF EXAMINATION

This limited-scope examination covers the period of October 1, 2011 through September 30, 2013, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of the examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statues of Tennessee, the Company's state of domicile, and in accordance with guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*.

This examination focused on the Company's voluntarily submitted Plan to Enhance Financial Condition ("Plan"), designed to increase surplus. TDCI asked the Company to provide the Plan in response to TDCI determination that the Company was in hazardous financial condition, as defined in Tenn. Comp. R. and Regs. 0780-1-66-.03(5). The Company's operating loss of $718,766 during the first nine months of 2013 was greater than fifty percent (50%) of the insurer's remaining surplus as regards policyholders, in excess of the minimum required surplus of $2,000,000. The remaining surplus as regards policyholders, in excess of the minimum required surplus at September 30, 2013, was $770,826. Along with focusing on the Company's Plan, this examination reviewed current operational areas, specifically claims, underwriting, and reinsurance. Additionally, current year profitability and a new management agreement were reviewed during this examination.

The examination utilized independent actuaries in the review of the Company's underwriting function and reinsurance program.

The Department obtained a letter of representation from the Company certifying that management disclosed all significant matters and records.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

No comments or recommendations were made in the previous examination report.

PLAN TO ENHANCE FINANCIAL CONDITION

Background

Upon receipt of the Company's third quarter financial statement, TDCI determined the Company was in a hazardous financial condition, as defined in Tenn. Comp. R. and Regs. 0780-1-66. The Company's significant incurred losses in 2012 and 2013 were the major factors contributing to that condition. As part of this examination, on December 19, 2013, the Company submitted to TDCI a proposed plan of corrective measures to enhance its financial condition.

The Company's action plan proposed increasing premiums, raising the scheduled rating of individual risks and the sale of reinsurance receivables, as anticipated income, which could improve the Company's surplus.

Examination Procedures

TDCI performed the following procedures to evaluate the Company's Plan:

1. Compare the proposed 2014 premiums to 2013 premiums.
2. Review the independent actuary's assessment of the workers' compensation underwriting components.
3. Review the increase scheduled rating of individual risk between years for financial impact.
4. Verify the receipt of any reinsurance sale proceeds.

Examination Findings

Premiums

Net premiums written during calendar year 2013 were $2,789,957. At December 20, 2013, the estimated 2014 premiums included new and renewal business amounting to $3,766,835. Estimated premiums were expected to increase $976,878 or thirty-five percent (35%) in 2014. The estimated 2014 premiums decreased for non-renewal to $3,272,383 at February 4, 2014, showing an increase of $482,426 or seventeen percent (17%).

Actuarial Review

Two actuaries reviewed the underwriting portion of this plan qualitatively and quantitatively. Both actuaries deemed the proposed new and renewal policies had sufficient premium increases and suitable risk.

Rating

The scheduled rating of individual risk is a factor within the underwriting computation of the charged workers' compensation premiums. The average scheduled rating for the 2014 renewal policies was a 1.00 of the total modified premium. The 2013 average scheduled rating was 0.95 for the policyholders.

Reinsurance

Subsequent to the examination date, a sale of a Reliance Insurance Company reinsurance recovery to a factoring company materialized. The contract to sell the receivable was signed by year-end 2013. The sale enables the Company to show these proceeds as an admitted reinsurance receivable in the 2013 annual statement. On January 14, 2014, the Company collected $371,512.72 from Liquidity Solutions Inc., prior to the annual statement submission. See "SUBSEQUENT EVENTS" section later in this report.

Conclusion of Plan to Enhance Financial Condition

The proposed Plan would have increased the Company's revenue by $853,938 during 2014.

The proposed Plan to Enhance Financial Condition was nullified on March 25, 2014 when the Board of Directors voted to place the company into a runoff status. See "SUBSEQUENT EVENTS" section later in this report.

PROFITABILTY REVIEW

Background

The Company incurred losses of $1,615,111 in 2011, $2,779,550 in 2012, and $2,100,392 in 2013, which factored into lowering its surplus.

Examination Procedures

1. Monitor the Company's profitability during the course of this exam.
2. Monitor premiums, losses and expenses.

Examination Findings

For calendar year 2014, the Company's premiums, losses and expenses were reviewed. The Company provided an unaudited statement of income comparing the results based upon both statutory and generally accepted accounting principles. For the first two (2) months of 2014, the Company experienced a loss of $67,126, based on statutory accounting principles. The generally accepted accounting principles determined a profit at February 28, 2014 of $58,330.

Conclusion of Profitability Review

The required expense recognition of statutory accounting created a loss during January and February of 2014.

UNDERWRITING REVIEW

Background

The Company's underwriting process was reviewed for effectiveness. The TDCI's contracted actuary reviewed the Company's underwriting components and outcome. The target examination focused on RCMIC's underwriting procedures and guidelines.

Examination Procedures

1. The underwriting practices and procedures were described and documented. A walk through and review were performed.

Examination Findings

The Company's underwriting procedures were documented. Five (5) current year policies were randomly selected and reviewed for the underwriting procedures. No deviations from the Company's underwriting practices and procedures were noted.

Conclusion of Underwriting Review

The Company's underwriting practices and procedures were determined to be in accordance with their stated procedures.

CLAIMS HANDLING REVIEW

Background

The Company's losses and loss adjustment expenses incurred trended higher over the past two years. A claims handling review focused on accuracy and compliance to guidelines, policies and procedures. The Company's medical review fees were believed to be a factor in the increased loss adjustment expenses.

Examination Procedures

1. Review claims for accuracy and compliance to guidelines, policies and procedures.
2. Verify medical review fees to supporting documentation.

Examination Findings

Claim Review:

The Company has a claims procedures manual for claims handling. To test the claims handling, ten (10) open and thirty (30) closed claims were selected and reviewed. The diary notes and supporting documentation were examined as well.

Medical Review Fee:

Claim diaries, payments and supporting documents were examined.

Conclusion of Claims Handling Review

Claims Handling:

The Company's claims handling procedures are followed and well-documented.

Medical Review Fee:

Medical bills were sent for review to negotiate lower prices for billed amounts. Clients realize any savings off of the billed amount when bill review services are utilized. Any price savings reduces the medical claim. The savings are charged back to the claim as expense, which increases the expense portion of the claim.

REINSURANCE REVIEW

Background

The Company enters into a workers' compensation and employers' liability excess of loss reinsurance contract annually, with New York Marine and General Insurance Company. The policy, effective at January 1, 2014 until December 31, 2014, has a retention amount of $750,000 as compared to the previous year's policy retention amount of $500,000. The base rate charged of $0.568 per $100 of payroll did not change. The Company's reinsurance broker informed the Company that the best available reinsurance terms were obtained, given the Company's abnormally severe claims experience during the past two years. TDCI had concerns that the increased retention of $250,000 could potentially deteriorate surplus and the Company's financial condition.

Examination Procedures

1. Perform review by an independent actuary of the Company's loss projections taking into account the increased retention point.

Examination Findings

The actuary determined the projected additional losses are less than $50,000 for the increased retention. The actuary also noted the Company would not need to increase premiums due to the increase in the retention level.

Conclusion of Reinsurance Review

The Company's underwriting would not have to be adjusted to compensate for the added retention.

MANAGEMENT AGREEMENT REVIEW

Background

RCMIC has certain third-party administrative services provided by Brentwood Services Administrators, Inc. (BSA). The third-party administrative services agreement covers a three-year period. This examination covered the agreement's expiration at December 31, 2012, and a three-year renewal at January 1, 2013.

BSA provides claim services, loss control services, marketing assistance, and account management services. BSA's affiliate, Brentwood Reinsurance Intermediaries, Inc., provides reinsurance intermediary and insurance brokerage services. In exchange for the services provided by BSA, the Company pays an annual service fee based on direct written premiums. RCMIC is responsible for all other expenses of operating the Company.

Examination Procedures

1. Review the agreements, services and fees for compliance and reasonableness.

Examination Findings

The renewed 2013 third-party agreement had minor language changes.

Conclusion of Management Agreement Review

The fundamentals of the agreements remained unchanged. This includes the account management services and fee schedule.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities and a statement of income as of September 30, 2013, together with a reconciliation of capital and surplus for the period under review, as reported by the Company.

ASSETS

	Assets	Non-admitted Assets	Net Admitted Assets
Bonds	$7,244,574	$85,000	$7,159,574
Cash and short-term investments	642,833	190,111	452,722
Investment income due and accrued	100,723	0	100,723
Deferred premiums; agents' balances and installments booked but deferred and not yet due	1,620,033	25,233	1,594,800
Net deferred tax asset	275,607	186,800	88,807
Aggregate write-ins for other than invested assets	393,812	393,812	0
Totals	$10,277,582	$880,956	$9,396,626

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$3,316,773
Loss adjustment expenses		650,705
Commissions payable, contingent commissions and other similar charges		125,655
Other expenses		150,924
Taxes, licenses and fees		(162)
Unearned premiums		1,496,339
Ceded reinsurance premiums payable		50,084
Retroactive reinsurance reserves assumed		835,479
Rounding		3
Total liabilities		$6,625,800
Aggregate write-ins for special surplus funds	$36,028	
Aggregate write-ins for other than special surplus funds	3,903,483	
Unassigned funds (surplus)	(1,168,685)	
Surplus as regards policyholders		2,770,826
Totals		$9,396,626

STATEMENT OF INCOME

Net premiums earned		$2,036,963
Net losses incurred	$1,761,385	
Loss adjustment expenses incurred	645,615	
Other underwriting expenses incurred	512,234	
Aggregate write-ins for underwriting deductions	80	
Total underwriting deductions		2,919,314
Net underwriting gain (loss)		(882,351)
Net investment income earned	166,629	
Net realized capital gains (losses)	2,994	
Net investment gain (loss)		169,623
Aggregate write-ins for miscellaneous income	(12,000)	
Total other income		(12,000)
Net income before dividends to policyholders after capital gains tax and before all other federal and foreign income taxes		(724,728)
Dividends to policyholders		0
Net income after dividends to policyholders after capital gains tax and before all other federal and foreign income taxes		(724,728)
Federal and foreign income taxes incurred		(5,962)
Net income (loss)		($718,766)

ANALYSIS OF CAPITAL AND SURPLUS ACCOUNT

	09/30/13	12/31/12	12/31/11	09/30/11
Surplus as regards policyholders, as of prior statement date:	$3,451,412	$3,863,807	$3,638,077	$4,095,154
Net income	($718,770)	($523,935)	$241,225	($292,259)
Change in net deferred income tax	0	25,816	(90,766)	94,856
Change in non-admitted assets	38,184	(317,759)	19,168	(259,674)
Surplus adjustments paid in	0	403,483	0	0
Aggregate write-ins for gains and losses in surplus	0	0	56,103	0
Change in surplus as regards policyholders	(680,586)	(412,395)	225,730	(457,077)
Surplus as regards policyholders as of statement date:	$2,770,826	$3,451,412	$3,863,807	$3,638,077

ANALYSIS OF EXAMINATION CHANGES

Total Surplus as Regards Policyholders	$2,770,826

Total Surplus as Regards Policyholders, as established by this examination, is the same as was reported by the Company in its September 30, 2013, Quarterly Statement. There were no changes made to any asset or liability items as a result of this examination performed as of September 30, 2013.

COMMENTS AND RECOMMENDATIONS

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

COMMENTS

The Company's minimum capital and surplus has fallen below the minimum requirements of the States of Kentucky and Georgia.

RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

As mentioned earlier in the 'Plan to Enhance Financial Condition', a sale to Liquidity Solutions Inc. of a reinsurance recovery owed to the Company by Reliance Insurance Company materialized subsequent to September 30, 2013. The Company listed these proceeds as "Other amounts receivable under reinsurance contracts" in the 2013 annual statement.

TDCI monitored the loss activity subsequent to this examination. The Company reported weekly loss details. No claims that would have a material impact on the Company's financial condition were reported during this subsequent period.

Based upon the Company's actuarial report, RCMIC's management determined that the Company would not issue any policies on or after March 1, 2014. On March 25, 2014, the Company's Board of Directors formally resolved to cease the writing of insurance business, effective March 1, 2014. Four (4) policies were renewed per the Tenn. Code Ann. § 56-7-1805 sixty (60) day requirement from the date of notice. Non-renewal notices were mailed to all other policyholders. The Company planned to run out its existing policies to the extent such policies were not sooner cancelled by the policyholder.

The Company determined that it would not submit the workers' compensation multiplier filing, as required by Tenn. Code Ann. § 56-5-306(c). RCMIC concluded the increase would put rates at or near the LCM utilized by the State's assigned risk plan, effectively placing the Company in a non-competitive environment. RCMIC submitted pro forma financial statements outlining the Company's runoff. The Company projected surplus of $2.8 million after the projected run-off period ending in 2036.

On December 23, 2014, TDCI approved an application for a plan of acquisition of control of the Company by MidSouth Mutual Insurance Company (MidSouth), a Tennessee domiciled mutual insurance company. The Master Transaction Agreement provides for the adoption of a charter amendment changing the Company's name to "MidSouth Mutual Insurance Company" and for MidSouth to surrender its Certificate of Authority to TDCI and change its name to Old MidSouth, Inc., as it will no longer operate as an insurance company upon the change of control. The new MidSouth (formerly known as Road Contractors) will continue to operate as a Tennessee mutual insurance company to be subject to and governed by the laws of the State of Tennessee as such.

TDCI approved an Order approving Plan of Acquisition of Control on December 23, 2014.

CONCLUSION

This examination determined that as of September 30, 2013, the Company had admitted assets of $9,396,626 and liabilities, exclusive of surplus, of $6,625,800. Thus, there existed for the additional protection of the policyholders, the amount of $2,770,826 in the form of aggregate write-ins for special surplus funds, aggregate write-ins for other than special surplus funds, and unassigned funds. Tenn. Code Ann. §§ 56-2-114 and 115 require an insurer of this Company's type to maintain a minimum capital and surplus of at least two million dollars ($2,000,000). Therefore, the Company, as of September 30, 2013, maintained surplus in excess of the amounts required per Tennessee statutes.

In addition to the undersigned, Mary Frances Miller, FCAS, MAAA, of Select Actuarial Services participated in the work of this examination.

Respectfully submitted,

Brian H Sewell

Brian H. Sewell, CFE
Examiner-in-Charge
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Road Contractors Mutual Insurance Company located in Nashville, Tennessee dated January 9, 2015, and made as of September 30, 2013, 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.

Brian H Sewell

Brian H. Sewell, CFE
Examiner-in-Charge
State of Tennessee

County Davidson

State Tennessee

Subscribed and sworn to before me

this 16th day of June, 2015

Notary Helen W. Dorsey

My Commission Expires: 11/06/2017

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

EXHIBIT B

STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
500 JAMES ROBERTSON PARKWAY
NASHVILLE, TENNESSEE 37243

June 16, 2015

CERTIFIED MAIL
7012 1010 0003 2379 5384

Mr. John B. Downey, Jr., President
MidSouth Mutual Insurance Company
c/o Brentwood Services Administrators, Inc.
104 Continental Place
Brentwood, TN 37027-1010

Attention: Everett G. Sinor, Jr.

RE: **Report of Examination of Road Contractors Mutual Insurance Company**

Dear Mr. Downey:

Enclosed please find a FINAL copy of the Report of Examination for Road Contractors Mutual Insurance Company, made as of September 30, 2013. If you are in agreement with the report, please respond immediately, in writing, to that effect. A sample response letter is attached for your convenience. Your response may be submitted via email to my attention at joy.little@tn.gov.

If you wish to make a written submission or rebuttal with respect to any matter contained within the report, pursuant to Tenn. Code Ann. 56-1-411(d)(1), please provide this office with your company's position by June 17, 2015. When preparing your submission or rebuttal, please quote the Comment, Recommendation or page number from the report and detail your comments, providing any supporting documentation.

Should you have questions, you may reach me at (615) 741-6796. We appreciate your timely assistance with this matter and your courteous cooperation during the examination.

Sincerely,

E. Joy Little, CPA, CFE, MCM
Insurance Examinations Director/Chief Examiner
Enclosure

MidSouth Mutual
Insurance Company
f/k/a Road Contractors Mutual Insurance Company

June 18, 2015

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

Re: Road Contractors Mutual Insurance Company – Report of Examination

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Road Contractors Mutual Insurance Company. By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Jackson Downey, Chairman
MidSouth Mutual Insurance Company (f/k/a
Road Contractors Mutual Insurance Company)

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