

STATE OF INDIANA ) BEFORE THE INDIANA  
 ) SS:  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
**Direct General Insurance Company** )  
**8604 Allisonville Road, Castle Creek 1, Suite 130** )  
**Indianapolis, Indiana 46250** )

Examination of: **Direct General Insurance Company**


**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Amy L. Beard, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Direct General Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on June 6, 2024 has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Direct General Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

June 24, 2024  
Date

  
Roy Eft  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7018 1130 0001 7982 6949**

STATE OF INDIANA ) BEFORE THE INDIANA  
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COUNTY OF MARION ) COMMISSIONER OF INSURANCE

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**Direct General Insurance Company** )  
**8604 Allisonville Road, Castle Creek 1, Suite 130** )  
**Indianapolis, Indiana 46250** )

Examination of: **Direct General Insurance Company**

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Direct General Insurance Company (hereinafter “Company”) for the time period January 1, 2021 through December 31, 2022.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on April 15, 2024.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on June 6, 2024 and was received by the Company on June 12, 2024.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Direct General Insurance Company as of December 31, 2022.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the Direct General Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 24 day of  
June, 2024.

  
\_\_\_\_\_  
Amy L. Beard  
Insurance Commissioner  
Indiana Department of Insurance

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**

**DIRECT GENERAL INSURANCE COMPANY**  
NAIC COMPANY CODE 42781  
NAIC GROUP CODE 0008

As of

December 31, 2022

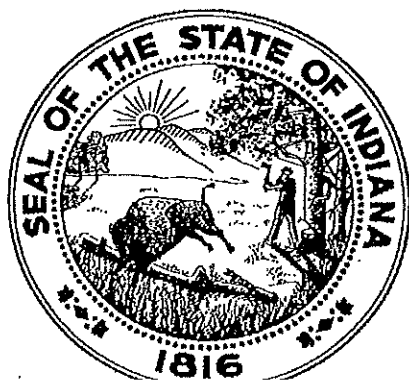


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# STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

## Indiana Department of Insurance

Amy L. Beard, Commissioner  
311 W. Washington Street, Suite 103  
Indianapolis, Indiana 46204-2787  
Telephone: 317-232-2385  
Fax: 317-234-2103  
Website: [in.gov/idoi](http://in.gov/idoi)

April 15, 2024

Honorable Amy L. Beard  
Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 4180, an examination has been made of the affairs and financial condition of:

**Direct General Insurance Company**  
8604 Allisonville Road, Castle Creek 1, Suite 130  
Indianapolis, Indiana 46250

an Indiana domestic property and casualty insurer, hereinafter referred to as the "Company." The examination was conducted at its administrative offices located at 5630 University Parkway, Winston-Salem, North Carolina 27105.

The Report of Examination, showing the financial status of the Company as of December 31, 2022, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2389    COMPANY COMPLIANCE 317-232-3495    CONSUMER SERVICES 317-232-2395/1-800-622-4461    FINANCIAL SERVICES 317-232-2390    MEDICAL MALPRACTICE 317-232-5253    COMPANY RECORDS 317-232-2389    STATE HEALTH INSURANCE PROGRAM 1-800-452-4800

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2020. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2021 through December 31, 2022, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

On January 4, 2021, The Allstate Corporation (Allstate Corporation) completed its acquisition of National General Holdings Corporation (National General), which included the Company. Allstate Insurance Company (AIC), domiciled in Illinois, and its insurance subsidiaries were examined as of December 31, 2022, on a coordinated basis. The National General Sub-Group of the Allstate Group was concurrently examined as of December 31, 2022. The examination was conducted by thirteen (13) State Insurance Departments comprising of twenty-eight (28) domestic insurance companies. North Carolina served as the lead state for the coordinated examination. Lines of business included property and casualty, accident and health, and life.

The Company requested and was granted approval by the INDOI to file combined audited statutory basis financial statements along with AIC and its U.S. domiciled property and casualty insurance subsidiaries and affiliates for the examination years 2021 and 2022. The combined audited statutory basis financial statements were then reconciled to the combined Annual Statements for the respective years by the representatives of the lead state. In conducting the risk-focused examination of the National General Group, the lead state in the sub-group and the participating states, including the INDOI, by its representatives, relied upon the independent audit reports of Deloitte & Touche LLP, and actuarial opinions provided by Ian P. Sterling, FCAS, MAAA of KPMG LLP for the period under examination.

In accordance with the 2022 NAIC *Financial Condition Examiners Handbook*, the lead state planned and performed the risk-focused examination to evaluate the financial condition of the insurance companies in National General Group and to identify prospective risks related to their operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Insurance Code of participating states, including the Indiana Insurance Code (IC). All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Company was incorporated under the laws of the State of Florida on December 15, 1990 as an independent property and casualty insurance company and began operations on January 1, 1991. Effective March 6, 1997, in contemplation of the company being sold to Direct General Corporation (DGC), the Company was re-domesticated to Tennessee. On March 14, 1997, upon receipt of approval from the Tennessee Department of Insurance, DGC acquired all of the outstanding capital stock of the Company. Prior to, or simultaneously with, the closing of the acquisition, 100% of the Company's existing business was transferred to an affiliate of its former owner, primarily by bulk assumption reinsurance. The insurer changed its name to Direct General Insurance Company after the closing. On December 27, 2000, the Company re-domesticated to South Carolina. On March 30, 2007, Elara Holdings, Inc. (Elara) acquired control of DGC and, therefore, the Company. The Company re-domesticated to the State of Indiana from



South Carolina, effective December 20, 2007. On November 1, 2016, National General completed its acquisition of DGC and Elara, as well as all subsidiaries of Elara. On January 4, 2021, the Allstate Corporation completed its acquisition of National General, including the Company.

### CAPITAL AND SURPLUS

As of December 31, 2022, the Company had 10,000,000 shares of common stock authorized with a \$25.00 par value per share, of which 180,000 common shares were issued and outstanding. The outstanding common shares were 100% owned by National General Management Corporation (NGM). There was no preferred stock outstanding as of December 31, 2022. The Allstate Corporation was the ultimate controlling parent.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company was licensed to transact business in fifteen (15) states, with approximately 84.53% of its business in Florida. The remaining states with material amounts of written premium were Alabama, Georgia, Indiana, and Texas.

The Company specializes in providing non-standard private passenger automobile insurance. The non-standard auto policies, which are generally issued for the minimum limits of coverage required by state laws, provide coverage to drivers who normally cannot obtain insurance from standard carriers due to a variety of factors, including; the lack of flexible payment plans, the failure to maintain continuous coverage, age, prior accidents, driving violations, occupations, and type of work. Affiliated insurance agency companies sell the Company's products directly through neighborhood sales offices, telephone, and the Internet.

### GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company for the period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Direct Written Premiums*</u>	<u>Net Income (Loss)</u>
2022	\$380,710,611	\$330,859,447	\$ 49,851,164	\$837,071,892	\$ 333,459
2021	299,736,974	249,934,511	49,802,463	622,533,882	2,284,851

*\*Effective January 1, 2017, the Company entered into a 100% ceded reinsurance agreement with its affiliate, Integon National Insurance Company. As such, direct premiums written were considered to be more meaningful data.*

Note: Amounts are shown in whole dollars and rows may not be total due to rounding.

The increase in admitted assets and liabilities from the year 2021 to the year 2022 was primarily due to increased direct written premiums. The increase was mainly attributed to the state of Florida, which increased uncollected premiums and deferred premiums on the asset side, and a similar increase in ceded reinsurance premiums payable on the liability side.

## MANAGEMENT AND CONTROL

### Directors

The Company's Bylaws state that the number of directors shall not be less than five (5), nor more than twelve (12). The exact number of directors shall be fixed and determined by a resolution of the Board of Directors (Board) from time to time, and shall be set forth in the notice of any Meeting of the Shareholders held for the purpose of electing directors. At least one (1) director must be a resident of the State of Indiana. The following is a list of persons serving as directors as of December 31, 2022:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Peter A. Rendall Sanibel, Florida	Chair, President, and Chief Operating Officer National General
Douglas P. Hanes Advance, North Carolina	Senior Vice President Allstate Insurance Company
Sarah A. Inciong Dundee, Illinois	Senior Vice President Allstate Insurance Company
Aaron B. Kuluk Nashville, Tennessee	Senior Vice President Allstate Insurance Company
Patricia M. Lawicki Odgen Dunes, Indiana	Senior Vice President Allstate Insurance Company

### Officers

The Company's Bylaws state that the officers of the Company shall be a Chairman of the Board, a Chief Executive Officer, a President, and a Secretary. The Company may also have other officers with titles and duties as deemed necessary by the Board. Any two (2) or more offices may be held by the same person, except the offices of President and Secretary. The following is a list of key officers and their respective titles as of December 31, 2022:

<u>Name</u>	<u>Title</u>
Peter A. Rendall	Chairman of the Board, President, and Chief Operating Officer
Patrick J. Macellaro	Vice President and Chief Financial Officer
Donald J. Bolar	Vice President and Chief Accounting Officer
George H. Hall, Jr.	Vice President and Chief Claims Officer
Alexandra T. Band	Senior Vice President and Treasurer
Christina Hwang	Senior Vice President

### Corporate Governance

The Company did not have any Board committees during the period covered by this examination, except those at the Allstate Corporation level. All members of the Allstate Corporation Board, with the exception of the Chairman, Tom J. Wilson, were independent. The committees appeared sufficient to assist the Board

in oversight responsibilities, including; the Audit Committee, Risk and Return Committee, Compensation and Human Capital Committee, and Nominating, Governance and Social Responsibility Committee.

### **CONFLICT OF INTEREST**

The Board of the Allstate Corporation, and each of its subsidiaries and affiliates, annually review and reaffirm the Code of Conduct. All employees, officers, and directors are required to disclose any potential conflicts by completing a conflict-of-interest disclosure statement. From a review of the directors and officers signed statements, there were no material conflicts of interest noted for the period under examination.

### **OATH OF OFFICE**

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. The Company provided evidence that the Oath of Office statements were signed by each director when elected.

### **CORPORATE RECORDS**

#### **Articles of Incorporation**

There were no amendments made to the Company's Articles of Incorporation during the period under examination.

#### **Bylaws**

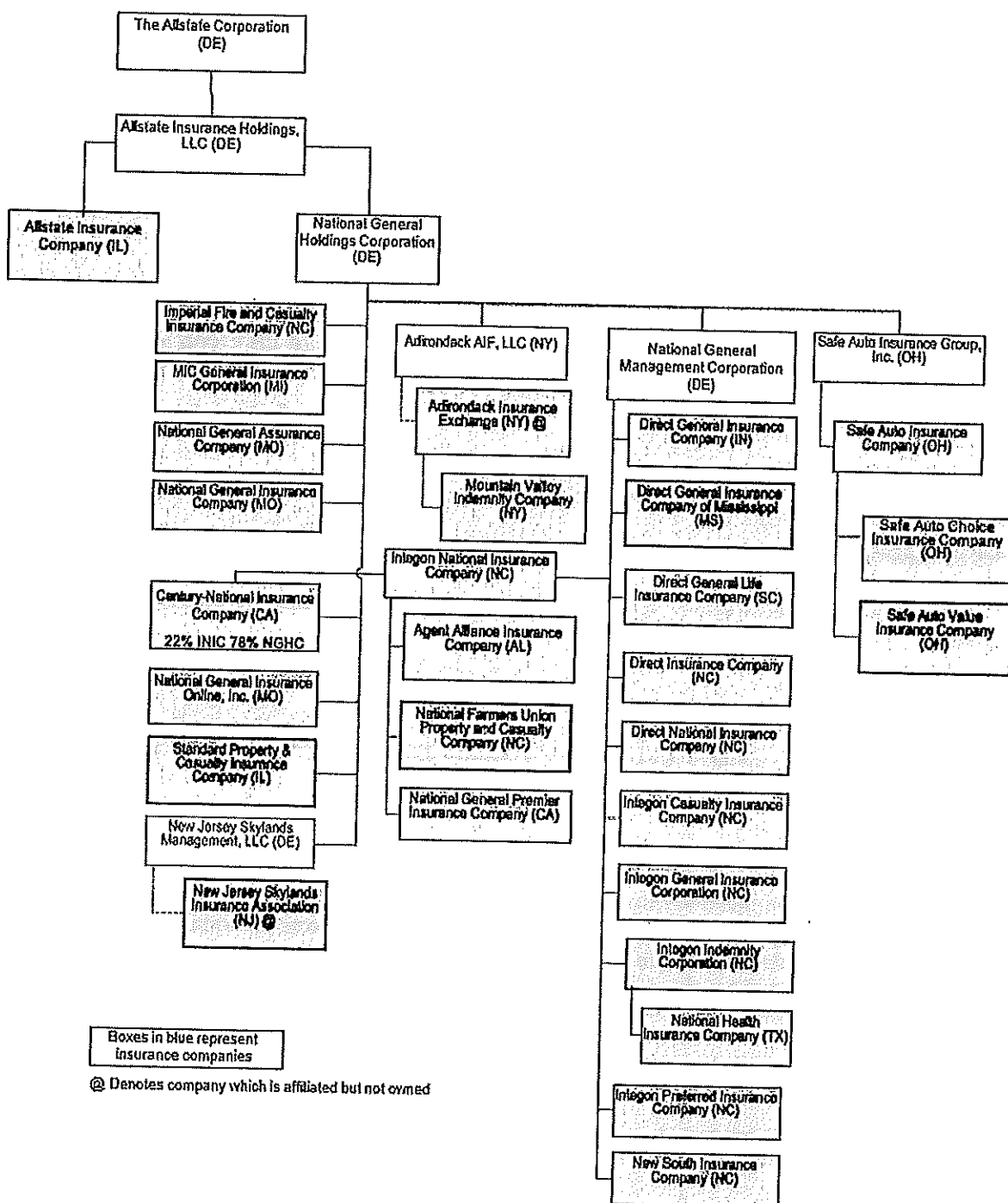
There were no amendments made to the Company's Bylaws during the period under examination.

#### **Minutes**

The Board Meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions were noted during each meeting. The Board minutes provided quality information on the functions and discussions within the Board Meetings and the manner in which the Board manages the organization, and were therefore held in accordance with IC 27-1-7-7(b) and the Company's Bylaws.

## AFFILIATED COMPANIES

### Organizational Structure



## **Affiliated Agreements**

For the examination year 2022, the Company filed a Form B Holding Company Registration Statement with the INDOI on a consolidated basis along with its ultimate controlling entity, the Allstate Corporation. As part of the acquisition of National General by the Allstate Corporation on January 4, 2021, a Form D, dated January 15, 2021, was filed, along with the three (3) affiliated agreements and associated Indiana Insurer Supplements with INDOI. By a letter dated February 11, 2021, the INDOI did not disapprove the proposed agreements. The agreements were as follows:

### Amended and Restated Service and Expense Agreement

Effective January 1, 2004, the Allstate Corporation, AIC, and various Allstate affiliates entered into a Service and Expense Agreement. It was amended by Amendment No. 1 effective as of January 1, 2009, pursuant to which certain Allstate affiliations provide to each other, at cost, certain services and facilities including; marketing, claims, underwriting, and policyholder services.

### Investment Management Agreement

Effective January 4, 2021, the Company entered into an Investment Management Agreement with certain Allstate affiliates that provides, among other things, that Allstate Investments, LLC will serve as the investment manager for certain Allstate affiliates. The Company's allocated portion under this agreement for 2021 and 2022 was \$37,392 and \$39,222, respectively.

### Tax Sharing Agreement

Effective January 4, 2021, the Allstate Corporation and its subsidiaries entered into a Tax Sharing Agreement pursuant to the Allstate Consolidated Group's establishment of a method for allocating federal tax liabilities, credits, refunds, benefits, and similar items among its members. The Company's allocated portion under this agreement for 2021 and 2022 was \$(38,241) and \$(185,696), respectively.

There were other agreements prior to the acquisition by the Allstate Corporation that were filed with, and not disapproved by the INDOI, in accordance with IC 27-1-23-4(b)(4). They are as follows:

### Reinsurance Agreement

Effective January 1, 2017, the Company, Direct Insurance Company (DIC), Direct General Insurance Company of Mississippi (DGICMS), Direct National Insurance Company (DNIC), Direct General Life Insurance Company (DGLIC), and Direct General Insurance Company of Louisiana (DGICLA), which was dissolved later on, entered into a Reinsurance Agreement with Integon National Insurance Company (Integon National) and National General Management. Pursuant to the terms of the agreement, all of the net liability under the insurance business of the insurers is ceded to Integon National, and they will assume 100% of the premiums. With the exception of Adirondack Insurance Exchange and New Jersey Skylands Insurance Association, all other subsidiary insurance companies of National General are part of this pooling agreement initially dated August 1, 2012, and additional parties join after each acquisition.

### Management Services Agreement

Effective November 1, 2016, National General completed its acquisition of Elara and DGC, including all of their subsidiaries. The Company, DIC, DGICMS, DGLIC, DNIC, and National General Management became parties to the Management Services Agreement on the same date. Before this acquisition, the

insurance companies in the National General Group (except for the two (2) Exchange/Associations domiciled in New York and New Jersey) were already subject to an Amended and Restated Management Services Agreement with National General Management dated January 1, 2012 (prior name GMAC Insurance Management Corp.). Pursuant to this agreement, National General Management provided the parties with underwriting, claims, actuarial, policyholder services, accounting, information technology, and other administrative functions. It was identified that the Company incorrectly allocated and reported cost amounts from its Amended and Restated Service Agreement and its Amended and Restated Managing General Agency Agreement with Direct General Insurance Agency, Inc. (DGIA under this agreement. (Please see “Other Significant Findings” section of this Report of Examination.)

#### Amended and Restated Managing General Agency Agreement

The Company was party to an Intercompany Managing General Agency (MGA) Agreement with its affiliate insurance agency, DGIA, related to the production and administration of its private passenger automobile insurance business in the State of Florida. This agreement was amended and restated between the same parties, effective January 1, 2019, and was not disapproved by the INDOI by letter dated January 31, 2019. In addition, Exhibit A of the agreement pertaining to maximum private passenger automobile policy limits, maximum premium volume, commissions, territory (including Florida and Georgia), and compensation was revised on February 25, 2020, and not disapproved by the INDOI by letter dated March 20, 2020.

It was identified that DGIA was receiving policy fees but not receiving commissions as provided under this agreement. Instead, a portion of DGIA's operational expenses were allocated to the Company. (Please see “Other Significant Findings” section of this Report of Examination.)

#### FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2022, the Company and its parent and affiliates were named insured on a Financial Institution Bond Form C issued to the Allstate Corporation. The bond provides a single loss limit of \$5,000,000 and an aggregate loss limit of \$10,000,000 with a deductible of \$25,000,000. The coverage was provided by the Federal Insurance Company. Other various interests of the Allstate Corporation are protected by appropriate insurance policies. The bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

## STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory and special deposits as of December 31, 2022:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
<b>Deposits for the Benefit of all Policyholders:</b>		
Indiana	\$631,645	\$569,425
<b>All Other Special Deposits:</b>		
Florida	2,495,938	2,270,528
Georgia	50,002	44,865
South Carolina	285,384	278,459
Virginia	420,108	382,168
Aggregate Alien and Other	<u>2,049,786</u>	<u>2,049,786</u>
<b>Total Deposits</b>	<u>\$5,932,863</u>	<u>\$5,595,231</u>

Note: Amounts are shown in whole dollars and columns may not be total due to rounding.

## REINSURANCE

### **Reinsurance Assumed**

The Company did not assume any reinsurance during the period covered by this examination.

### **Reinsurance Ceded**

Effective January 1, 2017, the Company entered into a Reinsurance Agreement with Integon National, an affiliated entity. Accordingly, the Company cedes 100% of its net premiums earned, net losses, net loss adjustment expenses incurred, and other net underwriting expenses to Integon National.

## RESERVES

The actuarial opinion for 2021 and 2022 was provided by Jan P. Sterling, FCAS, MAAA, with KPMG LLP. The scope of the opinion was to examine the actuarial assumptions and methods used in determining reserves and actuarial items, as shown in the Annual Statements of the Company as prepared for filing with state regulatory officials, as of December 31, 2022. In forming the opinion, information prepared by the Company was relied upon. Because the Company participates in a 100% inter-company quota share reinsurance agreement, the actuary reviewed a reconciliation of that data prepared by the Company's management to a composite Schedule P – Part 1, comprising the total experience of all the companies participating in the Quota Share Reinsurance Agreement to the combined Annual Statement, as of December 31, 2022.

The 2022 opinion states that the reserve balances; a) meet the requirements of the insurance laws of the State of Indiana, b) are consistent with reserves computed in accordance with accepted actuarial standards, and c) make a reasonable provision in the aggregate for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting information were reviewed and tested to the extent deemed necessary. Accordingly, the Annual Statement totals for admitted assets, liabilities, surplus, premiums written, and net income for the years ending December 31, 2022 and December 31, 2021 were agreed to the trial balance with no exceptions noted.



**FINANCIAL EXHIBITS**

Comparative Exhibit – Statutory Statement of Assets  
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds  
Comparative Exhibit - Statutory Statement of Income  
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not be total due to rounding.

DIRECT GENERAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

As of December 31, 2022

	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
<b>Assets:</b>				
Bonds	\$ 53,023,340	\$ -	\$ 53,023,340	\$ 46,989,941
Cash, cash equivalents and short-term investments	1,867,679	-	1,867,679	7,477,538
Receivable for securities	-	-	-	147,881
Subtotals, cash and invested assets	<u>\$ 54,891,019</u>	<u>\$ -</u>	<u>\$ 54,891,019</u>	<u>\$ 54,615,360</u>
Investment income due and accrued	\$ 369,448	\$ -	\$ 369,448	\$ 245,250
Uncollected premiums and agents' balances in the course of collection	57,414,279	-	57,414,279	31,990,072
Deferred premiums, agents' balances and installments booked but deferred and not yet due	265,802,537	-	265,802,537	210,476,381
Funds held by or deposited with reinsured companies	2,049,786	-	2,049,786	2,040,773
Current federal and foreign income tax recoverable and interest thereon	-	-	-	185,696
Guaranty funds receivable or on deposit	13,109	-	13,109	13,109
Aggregate write-ins for other than invested assets	170,433	-	170,433	170,333
<b>Total Admitted Assets</b>	<u><u>\$ 380,710,611</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 380,710,611</u></u>	<u><u>\$ 299,736,974</u></u>

**DIRECT GENERAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

**As of December 31, 2022**

	<b>Per Annual Statement</b>	<b>Exam Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Liabilities:</b>				
Current federal and foreign income taxes	\$ 92,921	\$ -	\$ 92,921	\$ -
Net deferred tax liability	2,188,192	-	2,188,192	2,268,327
Ceded reinsurance premiums payable (net of ceding commissions)	306,577,570	-	306,577,570	230,329,236
Payable to parent, subsidiaries, and affiliates	22,000,764	-	22,000,764	17,140,322
Payable for securities	-	-	-	196,626
Total liabilities excluding protected cell liabilities	<u>\$ 330,859,447</u>	<u>\$ -</u>	<u>\$ 330,859,447</u>	<u>\$ 249,934,511</u>
<b>Total liabilities</b>	<u><b>\$ 330,859,447</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 330,859,447</b></u>	<u><b>\$ 249,934,511</b></u>
Common capital stock	\$ 4,500,000	\$ -	\$ 4,500,000	\$ 4,500,000
Gross paid in and contributed surplus	25,709,540	-	25,709,540	25,709,540
Unassigned funds (surplus)	19,641,624	-	19,641,624	19,592,923
Surplus as regards policyholders	<u>\$ 49,851,164</u>	<u>\$ -</u>	<u>\$ 49,851,164</u>	<u>\$ 49,802,463</u>
<b>Total Liabilities, Surplus and Other Funds</b>	<u><b>\$ 380,710,611</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 380,710,611</b></u>	<u><b>\$ 299,736,974</b></u>

DIRECT GENERAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2022

	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
Premiums earned	\$ -	\$ -	\$ -	\$ -
Losses incurred	\$ -	\$ -	\$ -	\$ -
Loss adjustment expenses incurred	-	-	-	-
Other underwriting expenses incurred	(100)	-	(100)	433
Aggregate write-ins for underwriting deductions	-	-	-	1,136
Total underwriting deductions	\$ (100)	\$ -	\$ (100)	\$ 1,569
Net underwriting gain or (loss)	\$ 100	-	\$ 100	\$ (1,569)
<b>Investment Income</b>				
Net investment income earned	\$ 1,202,309	\$ -	\$ 1,202,309	\$ 898,076
Net realized capital gains or (losses) less capital gains tax	(619,139)	-	(619,139)	1,568,015
Net investment gain (loss)	\$ 583,170	\$ -	\$ 583,170	\$ 2,466,091
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 583,269	\$ -	\$ 583,269	\$ 2,464,522
Net income after dividends, after capital gains tax and before all other federal and foreign income taxes	\$ 583,269	\$ -	\$ 583,269	\$ 2,464,522
Federal and foreign income taxes incurred	249,810	-	249,810	179,671
Net Income	<u>\$ 333,459</u>	<u>\$ -</u>	<u>\$ 333,459</u>	<u>\$ 2,284,851</u>

**DIRECT GENERAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Capital and Surplus Account**

	<u>2022</u>	<u>2021</u>
<b>Capital and Surplus Account:</b>		
Surplus as regards policyholders, December 31 prior year	\$ 49,802,463	\$ 50,272,630
Net income	\$ 333,459	2,284,851
Change in net deferred income tax	80,136	(2,905,242)
Change in nonadmitted assets	(364,893)	150,223
Change in surplus as regards policyholders for the year	\$ 48,702	\$ (470,168)
Surplus as regards policyholders, December 31 current year	<u>\$ 49,851,164</u>	<u>\$ 49,802,463</u>

## COMMENTS ON THE FINANCIAL STATEMENTS

Based on the results of this examination, there were no recommended changes to the Company's Financial Statements as of December 31, 2022.

### OTHER SIGNIFICANT FINDINGS

1) Amended and Restated Managing General Agency Agreement

It was noted that DGIA was receiving policy fees, but not commissions, as provided under this agreement. Instead, a portion of its operational expenses were allocated to the DGIC. The Company stated that after the acquisition of Elara and DGC by National General, effective November 1, 2016, the process of paying commissions to DGIA stopped, and the management started allocation of operational expenses of DGIA to insurance companies under the Management Services Agreement stated above; management position is that the staff working for DGIA are all employees of National General Management as such cost was allocated instead of commissions. As a result of the allocation of such expenses during the current exam period, the amounts under the Amended and Restated MGA Agreement, the business produced by DGIA in other states without a Producer Agreement, and the Amended and Restated Service and Expense Agreement were reported with the amounts under the Management Service Agreement as they are being booked to the same general ledger accounts as stated above. DGIC did not segregate such amounts for annual statement purposes.

As a result, the Notes to Financial Statements of the Annual Statements did not report any commissions, and DGIC failed to report policy fees paid to DGIA in the amounts of \$9,202,058 and \$12,662,257 for years 2021 and 2022, respectively, under Note 10.C Transactions with Related Parties who are not reported on Schedule Y, such amounts were included under item 10.D Amounts Due from or to Related Parties and item 10. E Material Management or Service Contracts and Cost-Sharing Arrangements and settlements occur with National General Management and DGIC and between DGIA and National General Management. DGIC did not comply with the provisions of IC 27-1-23-4, Sec. 4. (a) (5) and (b) IC 27-1-23-3 Sec.3. (a) (3) section 4(b), Sec.3. (c) & (e). Further, the DGIC was not complying with NAIC *Annual Statement Instructions – Property/Casualty* in completing Notes 10.C, 10.D, and 10.E, Notes to Financial Statements of the Annual Statements as provided under IC 27-1-3-13 Sec. 13. (a).

#### **Recommendation**

**It is recommended that DGIC amend its Restated Managing General Agency Agreement to reflect the current accounting practices filed with the INDOI. Furthermore, DGIC should account for, report, and settle transactions with the party they are transacting business with and comply with the provisions of IC 27-1-23-4, Sec. 4. (a) (5).**

**In accordance with IC 27-1-3-13 Sec 13 (a), it is recommended that the Company comply with the NAIC Annual Statement Instructions for completing the Notes to the Financial Statements.**

### SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in this report.

### MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, Thomas Consulting obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to Thomas Consulting.





**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., performed an examination of the **Direct General Insurance Company** as of **December 31, 2022**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2022 NAIC *Financial Condition Examiners Handbook* and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of the condition of the **Direct General Insurance Company** as of **December 31, 2022**, as determined by the undersigned.



**David L. Daulton, CFE**  
**The Thomas Consulting Group, Inc.**



**Jerry Ehlers, CFE, CPA**  
**Indiana Department of Insurance**

State of:  
County of:

On this 6<sup>th</sup> day of June, 2024, before me personally appeared, David L. Daulton and Jerry Ehlers appeared to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires October 4, 2025   
Notary Public

DARCY L. SHAWVER  
NOTARY PUBLIC  
**SEAL**  
MARION COUNTY, STATE OF INDIANA  
MY COMMISSION EXPIRES OCTOBER 4, 2025  
COMMISSION NO 708083

