

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

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

Examination of: **Direct General Insurance Company**


**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, 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 amended by the Final Order, 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.

6/29/2017  
Date

  
Roy Eft  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7016 2070 0001 1479 8803**

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

IN THE MATTER OF: )  
 )  
Direct General Insurance Company )  
8604 Allisonville Road, Castle Creek 1, Suite 130 )  
Indianapolis, IN 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, 2011 through December 31, 2015.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on May 24, 2017.

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 9, 2017 and was received by the Company on June 14, 2017.

On June 23, 2017, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company’s response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2015.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance 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, as amended, 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, as amended. 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 29<sup>th</sup> day of  
June, 2017.

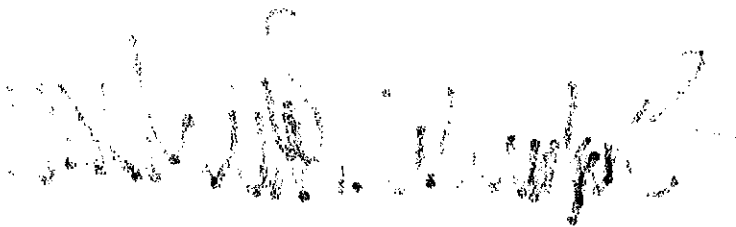
  
Stephen W. Robertson  
Insurance Commissioner

## 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**

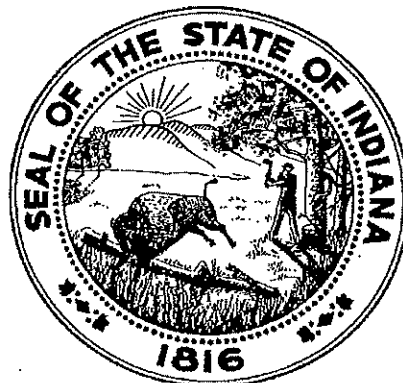
**DIRECT GENERAL INSURANCE COMPANY**

NAIC COMPANY CODE 42781

NAIC GROUP CODE 1213

As of

December 31, 2015



**TABLE OF CONTENTS**

SALUTATION.....	1
SCOPE OF EXAMINATION.....	2
HISTORY .....	2
CAPITAL AND SURPLUS .....	3
TERRITORY AND PLAN OF OPERATION .....	3
GROWTH OF THE COMPANY .....	3
LOSS EXPERIENCE .....	3
MANAGEMENT AND CONTROL .....	4
Directors.....	4
Officers .....	4
Corporate Governance .....	6
CONFLICT OF INTEREST .....	6
OATH OF OFFICE.....	6
CORPORATE RECORDS .....	7
Articles of Incorporation.....	7
Bylaws.....	7
Minutes .....	7
AFFILIATED COMPANIES .....	7
Organizational Structure .....	7
Affiliated Agreements.....	8
FIDELITY BOND AND OTHER INSURANCE .....	10
STATUTORY AND SPECIAL DEPOSITS .....	10
REINSURANCE.....	11
Reinsurance Assumed.....	11
Reinsurance Ceded.....	11
RESERVES.....	11
ACCOUNTS AND RECORDS .....	11
FINANCIAL EXHIBITS .....	13
FINANCIAL STATEMENTS .....	14
Assets .....	14
Liabilities, Surplus and Other Funds .....	15
Statement of Income .....	16
Capital and Surplus Account .....	17
COMMENTS ON THE FINANCIAL STATEMENTS.....	18
OTHER SIGNIFICANT FINDINGS .....	18
SUBSEQUENT EVENTS .....	19
National General Holdings Corp. Acquisition.....	19
MANAGEMENT REPRESENTATION.....	19
AFFIDAVIT .....	20



# STATE OF INDIANA

# IDOI

ERIC HOLCOMB, Governor

**Indiana Department of Insurance**

311 W. Washington Street, Suite 300

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

Fax: (317) 232-5251

Stephen W. Robertson, Commissioner

May 24, 2017

Honorable Stephen W. Robertson  
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 3903, an examination has been made of the affairs and financial condition of:

**Direct General Insurance Company**  
8604 Allisonville Rd, Castle Creek 1, Ste 130  
Indianapolis, Indiana 46250

an Indiana domestic property and casualty insurance company hereinafter referred to as the "Company." The examination was conducted at the principal administrative offices of the Company located at 1281 Murfreesboro Road, Nashville, Tennessee 37217-2432.

The Report of Examination, showing the status of the Company as of December 31, 2015, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES (317) 232-2413    COMPANY COMPLIANCE (317) 233-0697    CONSUMER SERVICES (317) 232-2395    EXAMINATIONS/FINANCIAL SERVICES (317) 232-2390    MEDICAL MALPRACTICE (317) 232-2402    COMPANY RECORDS (317) 232-5692    STATE HEALTH INSURANCE PROGRAM 1-800-332-4674

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2010. The present coordinated multi-state risk-focused examination, including the insurance affiliates of Direct General Corporation (DGC), was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2011 through December 31, 2015, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. This examination included representation by the states of Arkansas, Indiana, Louisiana, Mississippi, Tennessee, and South Carolina.

In conducting this risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Ernst & Young LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

The actuarial firm of Merlinos & Associates, Inc. was appointed by the INDOI to conduct a review of the Company's Loss Reserves and Loss Adjustment Expenses as of December 31, 2015.

In accordance with the 2015 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the multi-state risk-focused examination to evaluate the financial condition of the Company, and to identify prospective risks related to its 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, the Examiners performed 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 the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code. All accounts and activities of the Company were considered in accordance with the multi-state 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, after receiving a Certificate of Authority from the Florida Department of Insurance. Effective March 6, 1997, in contemplation of the company being sold to 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. Following the closing, the Company changed its name to Direct General Insurance Company (DGIC). 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 DGIC. This transaction was subject to a Form A filing dated December 21, 2006 filed with the South Carolina Department of Insurance. The acquisition was approved by the South Carolina Department of Insurance pursuant to a Final Order dated March 27, 2007. The ultimate controlling persons of Elara are Calera Capital Investors III, L.L.C. and TPG Advisors V, L.P., which was subsequently, renamed TPG Group Holdings Advisors, Inc. This merger removed DGC and its affiliates from the U.S. Security and Exchange Commission's regulatory authority since they were no longer public companies. The Company re-domesticated to the State of Indiana from South Carolina effective December 20, 2007.



### CAPITAL AND SURPLUS

As of December 31, 2015, the Company had 10,000,000 shares of common stock authorized with \$25.00 par value per share. There are 180,000 shares of common stock issued to DGC, which constitutes 100% of the issued and outstanding shares of common stock.

DGC is the sole shareholder of the Company. Its shares are not actively traded and management has no direct ownership interest in the Company.

During the period under examination, the Company paid dividends to DGC as follows: \$9,500,000 for 2011; \$8,000,000 for 2012; \$8,500,000 for 2013; and \$8,000,000 for 2014.

### TERRITORY AND PLAN OF OPERATION

The Company was licensed in fifteen (15) states, with Florida, Georgia, South Carolina, and Texas accounting for approximately 90% of its business produced as of December 31, 2015. The Company provides private passenger automobile insurance (76%) and auto physical damage insurance (24%) distributed through their network of employee exclusive agents and independent agencies. The independent agents produced \$771,000 (.2%) of the \$322,945,120 of the Company's total direct premiums written in 2015.

### 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>Net Premiums Written</u>	<u>Net Income (Loss)</u>
2015	\$401,341,745	\$276,831,131	\$124,510,614	\$339,849,972	\$11,237,682
2014	384,571,733	270,412,833	114,158,900	325,568,859	17,675,350
2013	354,455,170	248,185,899	106,269,271	308,364,182	11,448,477
2012	324,248,181	223,068,590	101,179,591	271,060,851	9,651,948
2011	301,960,270	208,150,445	93,809,825	233,090,320	3,474,023

The Company saw growth by 33% during the five (5) years covered by this examination in admitted assets, liabilities, and capital and surplus.

### LOSS EXPERIENCE

The following exhibit shows the underwriting results of the Company for the period under examination. The amounts were compiled from the Company's filed Annual Statements and from examination results:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses and LAE Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Losses and LAE Ratio</u>	<u>Combined Ratio</u>
2015	\$338,174,826	\$270,548,221	\$80,000,060	80.0%	103.7%
2014	315,775,528	242,971,874	82,438,513	76.9%	103.1%
2013	293,800,281	229,528,983	76,294,249	78.1%	104.1%
2012	253,254,720	199,897,319	57,800,108	78.9%	101.8%
2011	230,728,037	198,440,837	49,503,231	86.0%	107.5%

The Company's net premiums earned increased by \$107,446,789 (46.5%) from 2011 to 2015. The increase in premiums earned was a result of rate changes and exposure growth. Losses and LAE incurred, and other underwriting expenses increased as well.

### 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 resolution of the Board of Directors 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, 2015:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John F. Campbell Jr. Murfreesboro, Tennessee	EVP & Chief Operations Officer Elara Holdings, Inc. and each of its subsidiaries
John T. Hagely Brentwood, Tennessee	EVP & Chief Financial Officer Elara Holdings, Inc. and each of its subsidiaries
John W. Mullen Nashville, Tennessee	Chairman, CEO, & President Elara Holdings, Inc. and each of its subsidiaries
Gregory L. Thomas Fishers, Indiana	Indiana Resident Director City Attorney for Gary, Indiana
Jonathan G. Walters Franklin, Tennessee	SVP & Chief Information Officer Elara Holdings, Inc. and each of its subsidiaries

#### **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 of Directors. 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, 2015:

<u>Name</u>	<u>Position</u>
John W. Mullen	Chairman, CEO, & President
John F. Campbell Jr.	EVP & Chief Operations Officer
John T. Hagely	EVP & Chief Financial Officer
Sharon K. Roberson	SVP, General Counsel, & Secretary
Austin G. Bonn	SVP – Store Sales Channel
Ann LaCour Davids	SVP & Chief Marketing Officer
Gregory A. Hayes	SVP – Finance
Peter A. Hansen	SVP & Chief Claims Officer
William M. Smith III	SVP - Human Resources
Jonathan G. Walters	SVP & Chief Information Officer
Jeffrey R. Bankston	VP – Program Management
Randy C. Chetko	VP – Applications Development
Marc E. DiGiacomo	VP – Product Management
Kenneth A. Hampton	VP – Operations & Customer Experience
Brian T. Hanrahan	VP – Actuarial Group
Josh L. Jarrett	VP – Product Management
Michael R. Neal	VP – Audit & Casualty
Jose L. Rivas	VP – Claims
Jobie G. Williams	VP & Treasurer
Constance A. Collins	Assistant Secretary
Kelly K. Gray	Assistant Secretary
LaJoy N. James	Assistant Secretary

## Corporate Governance

The Company does not have any Board Committees. Elara, the parent company, has designated its Audit Committee to serve as the Audit Committee for its indirect subsidiary insurance companies. The other two (2) committees are also at the Elara level and serve the Company. The committees and the member directors that were elected to serve as of December 31, 2015, were as follows:

### Audit Committee:

Marion P. Guthrie	Chairman
Benjamin S. Abadi	
Craig J. Kelly	

### Investment Committee:

Richard P. Schifter	Chairman
Benjamin S. Abadi	
Marion P. Guthrie	

### Governance & Compensation Committee:

Mark N. Williamson	Chairman
Robert M. Sandler	
Richard P. Schifter	

## CONFLICT OF INTEREST

The Company has established a conflict of interest policy through its code of ethics and business conduct for the disclosure of any material interest or affiliation by any one (1) director, officer, or employee, which is likely to conflict with their official duties. From a review of the signed statements of the officers and directors, there were no material conflicts of interest noted for the period under examination.

## OATH OF OFFICE

Indiana Code (IC) 27-1-7-10(i) requires 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 was unable to provide evidence that the Oath of Office statements were signed annually by the Board of Directors during the period under examination. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

## CORPORATE RECORDS

### **Articles of Incorporation**

During the period under examination, the Company amended its Articles of Incorporation to show the location changes of their corporate offices as follows:

April 18, 2011 changing the location to 617 Indiana Avenue, Suite 217, Indianapolis, Indiana 46202

March 23, 2013 changing the location to 9333 North Meridian, Suite 105, Indianapolis, Indiana 46269

February 24, 2014 changing the location to 6201 La Paz Trail, Suite 110, Indianapolis, Indiana 46268

March 6, 2015 changing the location to 9636 North Highgate Circle, Indianapolis, Indiana 46250

It was noted that the amendments were filed with the Secretary of State of Indiana; however evidence was not provided that these amendments were filed and approved by the INDOI per the provisions of IC 27-1-7-3. (Please see the “Other Significant Findings” section of this report regarding this issue.)

### **Bylaws**

The Amended and Restated Bylaws were not amended or restated during the period under examination.

### **Minutes**

The Board of Directors Meeting minutes were reviewed for the period under examination through the fieldwork completion date and significant actions taken during each meeting were noted. The Board minutes provided information on the functions and discussions within the Board of Directors Meetings and the manner in which the Board manages the organization. The Board minutes also provided evidence that the preceding meetings and action taken during those meetings were read and approved during the period under examination.

## AFFILIATED COMPANIES

### **Organizational Structure**

The Company is a wholly-owned subsidiary of DGC and an indirect wholly owned subsidiary of Elara. Elara was incorporated for the purpose of serving as the ultimate parent for the holding company system. The Elara holding company system consists of one (1) subsidiary holding company, five (5) property/casualty insurers, one (1) life insurance company, two (2) premium finance companies, two (2) insurance agencies, one (1) administrative service company, one (1) adjusting company, and (1) one company that provides non-insurance consumer products and services. The following organizational chart depicts the Company’s relationship within the holding company system:

- Elara Holding, Inc. (DE)
  - Direct General Corporation (TN) (100%)
    - Direct Insurance Company (TN) (NAIC 37220) (100%)
    - **Direct General Insurance Company (IN) (NAIC42781) (100%)**
      - Direct General Insurance Company of Mississippi (MS) (NAIC10889) (100%)
      - Direct General Life Insurance Company (SC) (NAIC 97705 ) (100%)
    - Direct General Insurance Company of Louisiana (LA) (NAIC 14630) (100%)
    - Direct National Insurance Company (AR) (NAIC 23736) (100%)
    - Direct General Insurance Agency, Inc. (TN) (100%)
    - Right Choice Insurance Agency, Inc. (TN) (100%)
    - Direct General Financial Services, Inc. (TN) (100%)
    - Direct General Premium Finance Company (TN) (100%)
    - Direct Administrations, Inc. (TN) (100%)
    - Direct Adjusting Company, Inc. (TN) (100%)
    - Direct General Consumer Products, Inc. (TN) (100%)

### **Affiliated Agreements**

The following affiliated agreements and transactions were disclosed as part of the Form B Holding Company Registration Statement and were filed with, and not disapproved by the INDOI, in accordance with IC 27-1-23-4(b)(4).

#### Tax Allocation Agreement

Elara and its subsidiaries that are greater than 80% owned, including the Company, are consolidated for federal income tax purposes. The Tax Allocation Agreement was dated September 14, 1995 with supplements to the agreement dated September 10, 1996, November 9, 2000, and December 31, 2007. On January 18, 2008, this agreement was filed with the INDOI in accordance with IC 27-1-23-4(b)(4). On September 20, 2012, the agreement was supplemented again to add Direct General Life Insurance Company and Direct Life Insurance Company as participants of the Agreement under I.R.C. Sec. 816, retroactively to cover the 2007 tax year and to clarify that Elara replaced DGC as the ultimate parent company as of March 2007. This supplement was filed in accordance with IC 27-1-23-4(b)(4), via Form D filing dated September 20, 2012 and not disapproved by a letter from the INDOI dated October 11, 2012.

On June 20, 2014, the Company filed a new Form D seeking approval of minor revisions to certain of the company's intercompany agreements, including the intercompany Consolidated Tax Allocation Agreement. The INDOI did not disapprove the amendments by letter dated August 1, 2014. The Company incurred federal income taxes from this agreement of \$3,606,669 during 2015.

#### Amended and Restated Intercompany Services and Cost Allocation Agreement

Elara and its subsidiaries, including the Company, were parties to the Amended and Restated Intercompany Services and Cost Allocation Agreement, as amended by Amendment No. 1, dated May 15, 2014. Under the agreement the Company's affiliates provide various services for or on behalf of the Company, including human resources, information services, accounting and financial services, legal services, underwriting, policy issuance, claims settlement, premium financing, and other administrative services and costs are allocated accordingly. On January 18, 2008, this agreement was filed with the INDOI in accordance with IC 27-1-23-4(b)(4), via Form D filing dated October 20, 2011 and not disapproved by a letter from the

INDOI dated December 9, 2011. Amendment No. 1 was entered effective as of May 15, 2014 and was filed via Form D filing dated April 11, 2014 and not disapproved by a letter from the INDOI dated May 1, 2014. Under this agreement, the Company paid a total of \$61,336,644 for year 2015.

#### Reinsurance Settlement Agreement

The Company was party to a Reinsurance Settlement Agreement dated October 1, 2001 with the other property and casualty insurers in the group. Because the third party reinsurers, under the Direct General Group (DGG) reinsurance program, may remit settlements on a consolidated basis to an individual participating insurer, the Reinsurance Settlement Agreement was drafted to document the procedures for distributing funds received from the reinsurers to ensure that each participating insurer in the DGG obtains the proceeds to which it is entitled under applicable reinsurance agreements.

#### Intercompany Managing General Agent Agreement

The Company was party to an Intercompany Managing General Agent Agreement with its affiliate insurance agency, Direct General Insurance Agency, Inc. (DGIA), related to the production and administration of its private passenger automobile insurance business. The Intercompany Managing General Agent Agreement Amendment No. 3, which made minor revisions to the agreement, was filed with the INDOI on June 20, 2014 and not disapproved by letter dated August 1, 2014.

#### Producer Agreements

The Company is party to separate Producer Agreements with DGIA and Right Choice Insurance Agency, Inc. (RCIA). The Producer Agreements govern the production of private passenger automobile insurance in stores, via tele-marketing, and internet. Under these agreements the Company paid commissions of \$11,909,249 in 2015.

#### Intercompany Premium Finance Settlement Agreement

Each of the DGG insurers and premium finance companies are party to a Premium Finance Settlement Agreement. During the past several years, the DGG has scaled back its premium financing operations. In 2015, premium financing was not utilized by the Company and most of the insurance companies in the DGG. On June 20, 2014, the Company filed a new Form D seeking approval of minor revisions to certain Intercompany Agreements, including the Intercompany Premium Finance Settlement Agreement. The INDOI did not disapprove the amendments by letter dated August 1, 2014.

#### Intercompany Electronic Funds Transfer Agreement

Under this agreement, the Company and DGIA are authorized at their discretion to utilize electronic funds transfers to settle their accounts. The applicable terms of the Managing General Agent Agreement and Premium Finance Settlement Agreement were incorporated by reference. On June 20, 2014, the Company filed a new Form D seeking approval of minor revisions to certain of the Company's intercompany agreements, including the intercompany Electronic Funds Transfer Agreement. The INDOI did not disapprove the amendments by letter dated August 1, 2014. Under this agreement, DGIA transferred a total net written premium of \$3,424,139 to the Company in 2015.

### Intercompany Loans

As part of DGG's cash management program, which amounted to \$541,989,890 in 2015, cash was loaned/transferred monthly to and from various companies within the DGG contrary to the provisions of the inter-company agreements or the requirements of Insurance Holding Company Statutes. This practice did not follow the provisions of the Inter-company Producer Agreement, General Agency Agreement, EFT Agreement, MGA Agreements, and Insurance Holding Company Statutes. (Please see the "Other Significant Findings" section of this report regarding this issue.)

### FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by a Fidelity Bond issued by National Union Fire Insurance Company of Pittsburgh, PA. The bond has aggregate coverage of \$15,000,000 and carries a single loss limit of liability of \$7,500,000 and a single loss deductible of \$175,000. The Fidelity Bond is adequate to meet the prescribed minimum coverage specified by the NAIC. The Company had additional types of insurance coverage in-force as of December 31, 2015, including but not limited to directors and officers liability, workers compensation, and cyber liability.

### STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory and special deposits as of December 31, 2015:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
<b>Deposits for the Benefit of all Policyholders:</b>		
Indiana	\$600,168	\$601,922
<b>All Other Special Deposits:</b>		
Florida	2,453,071	2,484,408
Georgia	24,992	25,054
South Carolina	284,804	286,929
Tennessee	199,933	200,430
Virginia	365,720	365,720
Aggregate Alien and Other	<u>13,177,460</u>	<u>13,177,460</u>
Total Deposits*	<u>\$17,106,148</u>	<u>\$17,141,923</u>

\*Calculated balances may not total properly due to immaterial rounding differences.



## REINSURANCE

### **Reinsurance Assumed**

The Company assumes 100% of the personal automobile physical damage business in North Carolina underwritten by State National Insurance Company, an unaffiliated fronting company for which the Company's affiliates sell, service, and administer claims in relation to such business. Premiums under this program approximated \$12,700,000 for 2015. The Company also assumed a 100% quota share of personal automobile liability and physical damage business in Texas underwritten by Old American County Mutual Fire Insurance Company (OACMFIC), an unaffiliated fronting company for which the Company's affiliates sell, service, and administer claims in relation to such business. Premiums under the OACMFIC program were approximately \$4,700,000 in 2015.

### **Reinsurance Ceded**

The Company maintained Joint Reinsurance Agreements with all property and casualty members of the DGG. Effective January 1, 2015, the Company entered into a Property Catastrophic Excess Loss Reinsurance Treaty that provides a limit of \$8,000,000 of coverage in excess of \$2,000,000 retention on gross losses and their participation is 5%. The treaty covers in force, new, renewed, and assumed private passenger automobile physical damage business with a maximum coverage value of \$75,000 per vehicle. The reinsurers for 2015 were Endurance Specialty Insurance Ltd., QBE Reinsurance Corp., R+V Versicherung AG, XL Re Ltd., and certain underwriters from Lloyds.

## RESERVES

Benny S. Yuen, ACAS, MAAA, of Ernst & Young LLP, was the Company's Appointed Actuary. Mr. Yuen was appointed to render an opinion on the reserves of the Company. He was appointed by the Board of Directors of the Company on December 14, 2015.

The scope of the opinion was to examine the reserves listed in Exhibit A, as shown in the Annual Statement of the Company, as prepared for filing with state regulatory officials as of December 31, 2015. In forming the opinion, information prepared by the Company was relied upon. The provided data was evaluated for reasonableness and consistency. The data was reconciled to Schedule P - Part 1 of the Company's current Annual Statement as of December 31, 2015.

The 2015 opinion states the reserve balances; 1) meet the requirements of the insurance laws of the State of Indiana, 2) are consistent with reserves computed in accordance with accepted loss reserving standards and principles, and 3) make a reasonable provision 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 data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ending December 31, 2014 and 2015, were agreed to the respective Annual Statements without exception. The Annual Statement for the year ending December 31, 2015, was also agreed to the year's independent audit report with no exception noted.

The Company's independent auditors issued unqualified opinions on the Company's audited Financial Statements for each year during the examination period. No material exceptions were noted when agreeing the Company's audited Financial Statements to the respective Annual Statements. All of the independent audit work papers were made available to the examiners during the examination.

**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 total due to rounding.

**DIRECT GENERAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Assets**

**As of December 31, 2015**

	<b>Per Annual Statement</b>	<b>Exam Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Assets:</b>				
Bonds	\$ 150,644,177	\$ -	\$ 150,644,177	\$ 143,681,040
Preferred stocks	2,892,300	-	2,892,300	2,892,300
Common stocks	43,062,413	-	43,062,413	42,856,922
Cash, short-term investments	12,860,974	-	12,860,974	17,475,409
Receivable for securities	113	-	113	442
Subtotals, cash and invested assets	<u>\$ 209,459,977</u>	<u>\$ -</u>	<u>\$ 209,459,977</u>	<u>\$ 206,906,113</u>
Investment income due and accrued	\$ 869,234	\$ -	\$ 869,234	\$ 1,009,167
Uncollected premiums and agents' balances in the course of collection	35,558,287	-	35,558,287	23,713,678
Deferred premiums, agents' balances and installments booked but deferred and not yet due	127,971,560	-	127,971,560	128,474,368
Funds held by or deposited with reinsured companies	13,177,460	-	13,177,460	7,870,958
Net deferred tax asset	12,897,935	-	12,897,935	12,751,778
Guaranty funds receivable or on deposit	86	-	86	86
Receivables from parent, subsidiaries and affiliates	1,321,295	-	1,321,295	3,845,585
Aggregate write-ins for other than invested assets	85,911	-	85,911	-
<b>Total Admitted Assets</b>	<u><u>\$ 401,341,745</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 401,341,745</u></u>	<u><u>\$ 384,571,733</u></u>

**DIRECT GENERAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

**As of December 31, 2015**

	<b>Per Annual Statement</b>	<b>Exam Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Liabilities:</b>				
Losses	\$ 103,715,628	\$ -	\$ 103,715,628	\$ 103,533,317
Reinsurance payable on paid losses and loss adjustment expenses	1,643,639	-	1,643,639	983,524
Loss adjustment expenses	3,708,332	-	3,708,332	3,762,235
Commissions payable, contingent commissions and other similar charges	-	-	-	428
Other expenses	829,067	-	829,067	1,249,652
Taxes, licenses and fees (excluding federal income taxes)	1,665,772	-	1,665,772	1,860,081
Current federal and foreign income taxes	3,632,570	-	3,632,570	3,317,885
Unearned premiums	151,555,834	-	151,555,834	149,880,688
Advanced premium	258,320	-	258,320	232,908
Remittances and items not allocated	-	-	-	18,418
Payable to parent, subsidiaries, and affiliates	4,939,556	-	4,939,556	4,927,674
Payable for securities	4,835,194	-	4,835,194	-
Aggregate write-ins for liabilities	47,219	-	47,219	646,023
Total liabilities excluding protected cell liabilities	<u>\$ 276,831,131</u>	<u>\$ -</u>	<u>\$ 276,831,131</u>	<u>\$ 270,412,833</u>
<b>Total liabilities</b>	<u><b>\$ 276,831,131</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 276,831,131</b></u>	<u><b>\$ 270,412,833</b></u>
Common capital stock	\$ 4,500,000	\$ -	\$ 4,500,000	\$ 4,500,000
Gross paid in and contributed surplus	81,162,358	-	81,162,358	81,162,358
Unassigned funds (surplus)	38,848,256	-	38,848,256	28,496,542
<b>Surplus as regards policyholders</b>	<u><b>\$ 124,510,614</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 124,510,614</b></u>	<u><b>\$ 114,158,900</b></u>
<b>Total Liabilities, Surplus and Other Funds</b>	<u><b>\$ 401,341,745</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 401,341,745</b></u>	<u><b>\$ 384,571,733</b></u>

**DIRECT GENERAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Statement of Income**

**As of December 31, 2015**

	<b>Per Annual Statement</b>	<b>Exam Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Underwriting Income</b>				
Premiums earned	\$ 338,174,826	\$ -	\$ 338,174,826	\$ 315,775,528
<b>DEDUCTIONS</b>				
Losses incurred	\$ 227,506,750	\$ -	\$ 227,506,750	\$ 207,482,564
Loss adjustment expenses incurred	43,041,471	-	43,041,471	35,489,310
Other underwriting expenses incurred	80,000,060	-	80,000,060	82,438,513
Total underwriting deductions	\$ 350,548,281	\$ -	\$ 350,548,281	\$ 325,410,387
<b>Net underwriting gain (loss)</b>	<b>\$ (12,373,455)</b>	<b>\$ -</b>	<b>\$ (12,373,455)</b>	<b>\$ (9,634,859)</b>
<b>Investment Income</b>				
Net investment income earned	\$ 8,195,534	\$ -	\$ 8,195,534	\$ 8,903,794
Net realized capital gains or (losses) less capital gains tax	45,868	-	45,868	1,161,994
<b>Net investment gain (loss)</b>	<b>\$ 8,241,402</b>	<b>\$ -</b>	<b>\$ 8,421,402</b>	<b>\$ 10,065,788</b>
<b>Other Income</b>				
Net gain (loss) from agents or premiums charged off	\$ (7,953,068)	\$ -	\$ (7,953,068)	\$ (6,452,262)
Finance and service charges not included in premiums	18,655,761	-	18,655,761	17,938,400
Aggregate write-ins for miscellaneous income	8,249,013	-	8,249,013	8,479,634
<b>Total Other Income</b>	<b>\$ 18,951,706</b>	<b>\$ -</b>	<b>\$ 18,951,706</b>	<b>\$ 19,965,772</b>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 14,819,653	\$ -	\$ 14,819,653	\$ 20,396,701
Net income after dividends, after capital gains tax and before all other federal and foreign income taxes	\$ 14,819,653	\$ -	\$ 14,819,653	\$ 20,396,701
Federal and foreign income taxes incurred	3,581,971	-	3,581,971	2,721,351
<b>Net Income</b>	<b>\$ 11,237,682</b>	<b>\$ -</b>	<b>\$ 11,237,682</b>	<b>\$ 17,675,350</b>

**DIRECT GENERAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Capital and Surplus Account**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Capital and Surplus Account:</b>					
Surplus as regards policyholders, December 31 prior year	\$ 114,158,900	\$ 106,269,271	\$ 101,179,591	\$ 93,809,825	\$ 105,298,806
<b>Net income</b>	<u>\$ 11,237,682</u>	<u>17,675,350</u>	<u>11,448,477</u>	<u>9,651,948</u>	<u>3,474,023</u>
Change in net unrealized capital gains and or (losses) less capital gains tax	(286,551)	(1,388,979)	209,228	412,760	(6,444,972)
Change in net deferred income tax	(74,351)	(2,393,492)	712,769	1,948,035	782,637
Change in nonadmitted assets	(525,066)	1,996,750	1,081,838	6,759,169	199,331
Cumulative effect of changes in accounting principles	-	-	-	(3,402,146)	-
Dividends to stockholders	-	(8,000,000)	(8,500,000)	(8,000,000)	(9,500,000)
Aggregate write-ins for gains and losses in surplus	-	-	137,368	-	-
<b>Change in surplus as regards policyholders for the year</b>	<u>\$ 10,351,714</u>	<u>\$ 7,889,629</u>	<u>\$ 5,089,680</u>	<u>\$ 7,369,766</u>	<u>\$ (11,488,981)</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 124,510,614</u>	<u>\$ 114,158,900</u>	<u>\$ 106,269,271</u>	<u>\$ 101,179,591</u>	<u>\$ 93,809,825</u>

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended reclassifications as of December 31, 2015, based on the results of this examination.

### OTHER SIGNIFICANT FINDINGS

#### Oath of Office Statements

The Company was unable to provide the Oath of Office statements for the members of its Board of Directors for the period of 2011 through 2015. It was noted that the directors were elected annually at the Annual Shareholders Meetings.

**In accordance with IC 27-1-7-10(i), it is recommended that the Company ensure that each member of the Board of Directors subscribes to an Oath of Office when elected, and the Oath of Office statement should be properly maintained and stored. Subsequent to the period under examination and prior to completion of fieldwork, every director signed an Oath of Office statement.**

#### Articles of Incorporation

During the examination period the Company amended its Articles of Incorporation to reflect the location changes of their corporate offices as follows:

April 18, 2011 changing the location to 617 Indiana Avenue, Suite 217, Indianapolis, Indiana 46202

March 23, 2013 changing the location to 9333 North Meridian, Suite 105, Indianapolis, Indiana 46269

February 24, 2014 changing the location to 6201 La Paz Trail, Suite 110, Indianapolis, Indiana 46268

March 6, 2015 changing the location to 9636 North Highgate Circle, Indianapolis, Indiana 46250

It was noted that the amendments were filed with the Secretary of State of Indiana; however evidence was not provided that these amendments were filed and not disapproved by the INDOI per the provisions of IC 27-1-7-3.

**It is recommended that the Company comply with IC 27-1-7-3.**

#### Intercompany Loans

As part of DGG's cash management program, which amounted to \$541,989,890 in 2015, cash was loaned/transferred monthly to and from various companies within the DGG contrary to the provisions of the inter-company agreements or the requirements of Insurance Holding Company Statutes. This practice did not follow the provisions of the Inter-company Producer Agreement, General Agency Agreement, EFT Agreement, MGA Agreements, and Insurance Holding Company Statutes.

**It is recommended that the companies within the DGG comply with the provisions of the Inter-company Producer Agreement, General Agency Agreement, EFT Agreement, and MGA Agreements pertaining to record keeping and fiduciary capacity of its premiums. It is also recommended that DGIC comply with the provisions of IC 27-1-23-4, as the respective provisions of the Insurance Code**



require 30 days advance notification prior to entering such loans. Furthermore, it is recommended that DGIC comply with IC 27-1-23-3(a) by disclosing such short-term loans under item 5(A) of the Annual Holding Company Registration Statement filed by Elara with the INDOI.

### SUBSEQUENT EVENTS

There were events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in this report.

#### **National General Holdings Corp. Acquisition**

On November 1, 2016, National General Holdings Corp. (NGHC) completed its acquisition of Elara and DGC. This included all subsidiaries in the Elara Group. NGHC is a Delaware Corporation and their principal executive offices are located at 59 Maiden Lane, 38<sup>th</sup> Floor, New York, New York 10038. They are a specialty personal lines insurance holding company and have a financial strength rating of A- (excellent) from A.M. Best. This acquisition adds a direct marketing distribution channel to NGHC's core non-standard auto business and expands its presence of this product in the southeast.

On or about November 1, 2016, each Board member within the DGG was replaced by directors appointed by NGHC, with the exception of Gregory L. Thomas, the Indiana resident director for the Company. Except for certain changes in executive management, there were no anticipated changes to their business plan. All of the policyholders will remain policyholders under their DGG policies.

Agreements among the insurers and affiliates have been modified as a result of the acquisition of Elara and DGC by NGHC.

### MANAGEMENT REPRESENTATION

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




**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. and Merlinos & Associates, Inc., performed an examination of the **Direct General Insurance Company** as of **December 31, 2015**.

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 2015 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 condition of the **Direct General Insurance Company** as of **December 31, 2015**, as determined by the undersigned.

  
\_\_\_\_\_  
**David Daulton, CFE**  
**The Thomas Consulting Group, Inc.**

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

State of:  
County of:

On this 9th day of June, 2017, before me personally appeared, David Daulton, 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 05/06/2018   
\_\_\_\_\_  
Notary Public



