STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF
DIRECT INSURANCE COMPANY
(NAIC # 37220)

NASHVILLE, TENNESSEE

AS OF

DECEMBER 31, 2017

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Nashville, Tennessee
April 30, 2019

Honorable Julie Mix McPeak
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated ("Tenn. Code Ann.") § 56-1-408, a full-scope financial examination and market conduct review, as of December 31, 2017, has been made of the conditions and affairs of:

DIRECT INSURANCE COMPANY
NAIC # 37220
1281 Murfreesboro Road
Nashville, TN 37217

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

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or "Department"). The examination was conducted by duly authorized representatives of the TDCI. This examination was coordinated with other states, with North Carolina serving as the lead state. Further description of the coordination effort between the states is discussed below under the heading "Scope of Examination."

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2015. This examination covers the period January 1, 2016, through December 31, 2017, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

The Company is a part of the National General Holding Company (NGHC) Subgroup, NAIC Group Code 4928. A coordinated examination of the group was performed as of

December 31, 2017, and led by the State of North Carolina. Other participating states were Arkansas, California, Illinois, Louisiana, Michigan, Missouri, New Jersey, New York, South Carolina, and Texas.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee and in accordance with practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC) in the *Financial Condition Examiners Handbook* ("Handbook"), as deemed appropriate. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions.

All accounts and balances were considered when planning which key activities and accounts would be examined. The key activities included: Premiums/Underwriting; Pricing; Claims Handling; Reserving; Reinsurance – Assumed; Reinsurance – Ceded; Related Party; Investing; and Capital Adequacy and Liquidity.

The Company's 2017 annual statement was compared with and reconciled to the corresponding general ledger account balances.

Independent information technology specialist services, provided by Johnson Lambert LLP, for the North Carolina Department of Insurance (NCDOI), were utilized in the examination review of the Company's information technology general controls (ITGC).

The NCDOI's staff actuary was utilized in the examination review of the Company's loss reserves.

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

The Company's insurance group, NGHC, maintains an Internal Audit (IA) Department, which is charged with performing the IA function for all companies within the holding company system. IA activities include Sarbanes-Oxley (SOX) compliance testing. The scope of SOX testing included the Company's internal controls over financial reporting. The processes were tested and workpapers were requested for specific processes which had been identified as significant to the key activities and sub-activities being examined. The workpapers were provided and were utilized, where appropriate.

The Company's Certified Public Accountant (CPA) workpapers were reviewed for the 2017 audit and copies were utilized, as deemed appropriate.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

There was one (1) recommendation noted in the prior examination report as of December 31, 2015. A description of the prior comments and the Company's compliance is described below.

> Premium for business produced by Direct General Insurance Agency (DGIA) for the Company is deposited and recorded in the bank account of Right Choice Insurance Agency, Inc. (RCIA). Subsequently, daily, RCIA advanced funds to Direct General Corporation (DGC), Direct Administration Inc. (DAI), and various affiliated insurance companies. Management stated during the examination that the transfers continued in 2016 and ended October 31, 2016.
>
> The annual Form B Holding Company Registration Statement filed with the TDCI by Elara Holdings, Inc. ("Elara") for examination years 2011 through 2015 did not disclose such transfers of funds among affiliates and therefore was in violation of Tenn. Code Ann. § 56-11-105(b)(1)(A). Furthermore, such transfers of funds should have been documented in an intercompany agreement filed with and approved by the TDCI in accordance with Tenn. Code Ann. § 56-11-105(b)(3).
>
> The Company was not in compliance with Tenn. Code Ann. § 56-11-106(a)(2), which states that material transactions may not be entered into unless the insurer has notified the Commissioner in writing of its intention to enter into such transaction at least thirty (30) days prior thereto, or such shorter period as the Commissioner may permit, and the Commissioner has not disapproved the transaction within that period. Management did not provide any evidence of the existence of an intercompany agreement governing such initial deposits of premiums and subsequent transfers of funds and had no evidence of filing such an agreement with the Department.

The intercompany agreements discussed above between the Company and its affiliates during the examination period are no longer in effect due to the acquisition of Elara, by NGHC on November 1, 2016.

COMPANY HISTORY

The Company was incorporated in Tennessee on April 10, 1991, as a wholly-owned subsidiary of DGC. The Company is licensed to write property and casualty insurance with an effective date of April 12, 1991. The Company is licensed to write in Arkansas, South Carolina and Tennessee, but only actively writes in Arkansas and Tennessee. The Company is a wholly owned subsidiary of DGC is a wholly-owned subsidiary of Elara, which is a wholly-owned subsidiary of NGHC, a Delaware Corporation.

The Company is authorized to issue forty thousand (40,000) shares of common capital stock with a par value of $150 per share. As of December 31, 2017, sixteen thousand, seven hundred ninety-four and one-half (16,794.5) shares were issued and outstanding to Direct Corporation, which was the name stated on the stock certificate. In 1996, the Company's parent company changed its name from Direct Corporation to DGC.

On November 1, 2016, following the receipt of all required regulatory approvals, NGHC completed its acquisition of Elara, the parent company of DGC.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in the Board of Directors ("Board") that is elected annually by the shareholder. The Board must consist of no less than two (2) and no more than twelve (12) directors, with the exact number to be fixed by the Board from time to time. Directors serve until the next annual meeting of the shareholder, and thereafter, until a successor has been elected.

The following persons were serving as directors of the Board, at December 31, 2017:

Name	Principal Occupation
Barry S. Karfunkel	Chief Executive Officer, NGHC
Michael H. Weiner	Chief Financial Officer, NGHC
Jeffrey A. Weissmann	General Counsel, NGHC

Officers

The Company's Bylaws state that the Board will elect officers of the Company, which must include a Chairman of the Board, a Chief Executive Officer (CEO), a President, and a Secretary. Any two (2) or more offices may be held by the same person, except the offices of President and Secretary. In addition, the Board designates either the Chairman or the President to be the CEO of the Company. The Board did not elect a Chairman or a CEO during the examination period. The Bylaws require the officers' compensation, including salaries, to be fixed by the Board annually. This action was not completed in 2016. See "Comments and Recommendations" section in this report.

In accordance with the Company's Bylaws, the following officers were duly elected by the Board on September 20, 2017, and were serving as officers of the Company, as of December 31, 2017:

Name	Title
Robert M. Karfunkel	President
Jeffrey A. Weissmann	Secretary
Donald J. Bolar	Chief Accounting Officer
Michael H. Weiner	Chief Financial Officer
George H. Hall Jr.	Chief Claims Officer
Peter A. Rendall	Treasurer
Brad M. Schock	Vice President Tax
Caleb Muhs	Assistant Treasurer

CONTROL

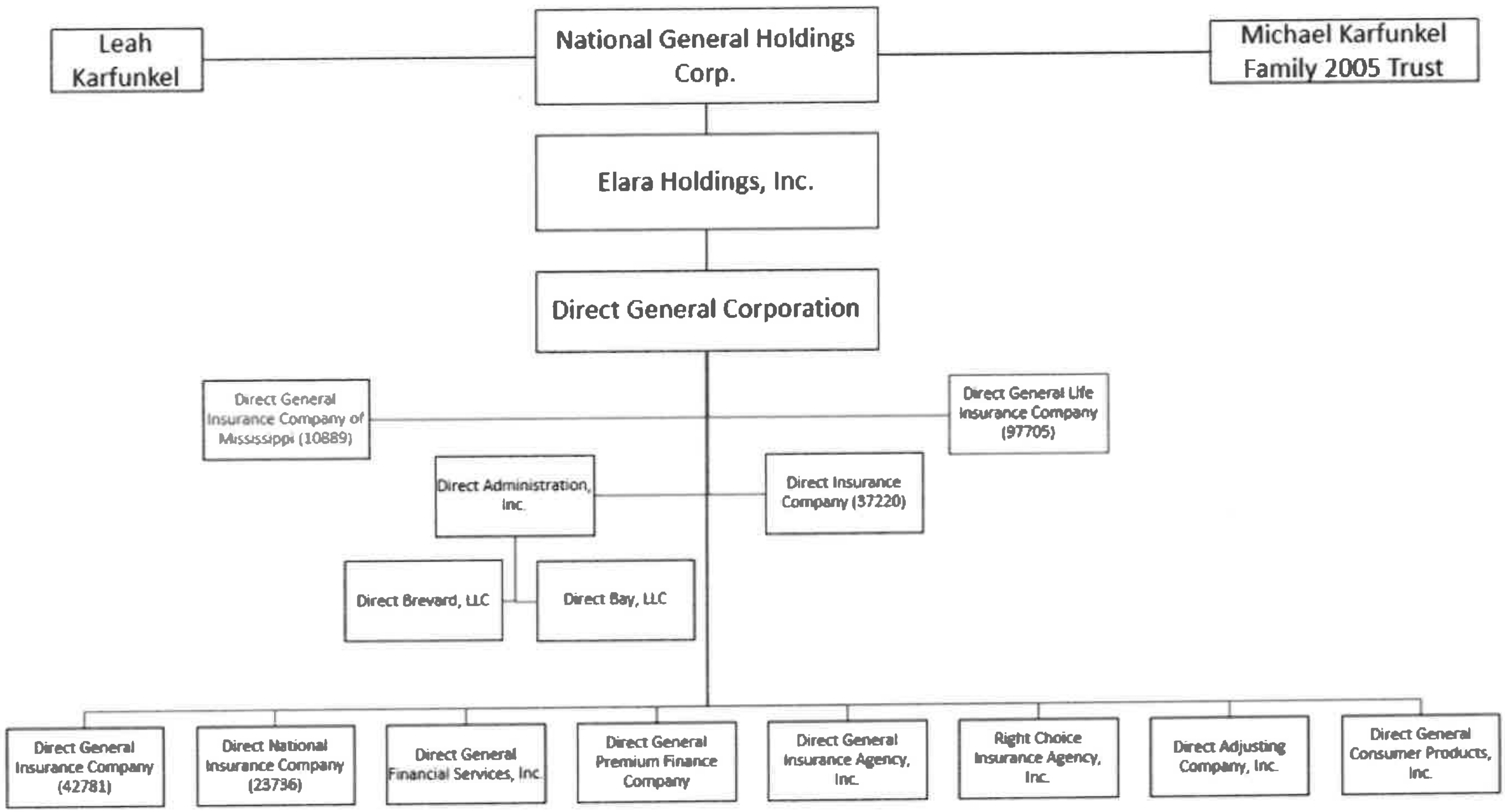
The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(7), and as such, is subject to the Insurance Holding Company System Act of 1986, set forth in Tenn. Code Ann. §§ 56-11-101, et seq. The Company is a member of NGHC. NGHC files a holding company registration statement annually, as required by Tenn. Code Ann. § 56-11-105.

The following are affiliated insurers within the NGHC Group, with their respective domiciliary state:

Affiliated Insurers	Domiciliary State
Direct General Insurance Company	Indiana
Direct National Insurance Company	Arkansas
Direct General Life Insurance Company	South Carolina
Integon National Insurance Company	North Carolina
Integon Casualty Insurance Company	North Carolina
Integon General Insurance Corporation	North Carolina
Integon Preferred Insurance Company	North Carolina
New South Insurance Company	North Carolina
Integon National Insurance Company	North Carolina
National General Premier Insurance Company	California
MIC General Insurance Corporation	Michigan
National General Assurance Company	Missouri
National General Insurance Company	Missouri
NJ Skylands Insurance Association	New Jersey
Imperial Fire and Casualty Insurance Company	Louisiana
Agent Alliance Insurance Company	Alabama
Standard Property & Casualty Insurance Company	Illinois
Century National Insurance Company	California
Mountain Valley Indemnity Exchange	New York
Adirondack Insurance Exchange	New York
National General Insurance Online, Inc.	Missouri
Direct General Insurance Company	Indiana
Direct National Insurance Company	Arkansas
Direct General Life Insurance Company	South Carolina

ORGANIZATIONAL CHART

The following organizational chart shows all of the insurance companies and their respective domiciliary states within NGHC:



DIVIDENDS

During the period of examination, the Company declared and paid one (1) ordinary dividend to its shareholder. There were no extraordinary dividends paid during the examination period. The Company gave proper notice of its 2016 ordinary dividend to the TDCI, as required by Tenn. Code Ann. §§ 56-11-105(e) and 56-11-106(b).

The following table lists each dividend amount and the date the Company notified the TDCI of the dividend.

Year	Ordinary (O) or Extraordinary (E)	Notification Date	Dividend Amount
2016	O	08/25/2016	$1,500,000
Total paid during period of Examination			$1,500,000

Subsequent to the examination period ending December 31, 2017, the Company received TDCI approval for an extraordinary dividend/distribution in the amount of $15,000,000 on March 27, 2018. See "Subsequent Events" section in this report.

CORPORATE RECORDS

The minutes of meetings of the Company's shareholders, Board, and Committees were reviewed for the period under examination. They were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

The original Charter of the Company was approved by the TDCI and became effective April 10, 1991. An Articles of Amendment was filed with the Tennessee Secretary of State (SOS) changing the statutory address and registered agent. An amended and restated Charter was filed with the SOS on July 3, 2000. Subsequently, the Charter was amended and restated, and approved by the TDCI on June 17, 2003. The amended and restated Charter was effective upon filing with the SOS on June 26, 2003.

The Bylaws of the Company in effect at December 31, 2017, are the Company's Amended and Restated Bylaws which were amended on December 14, 2010. The Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board, and its shareholder. The Company's Bylaws allows action to be taken by the Board without a meeting. The action must be evidenced by one (1) or more written consents describing the action taken. The written consents must be signed by each director in one (1) or more counterparts and indicate each signing director's vote or abstention on the action. The action is effective when the last director signs the consent. The meeting on August 7, 2016, was intended to be executed by written consent to approve the ordinary dividend of $1,500,000 to DGC. One (1) of the directors did not sign the written consent. See "Comments and Recommendations" section in this report.

AGREEMENTS WITH PARENT AND AFFILIATES

The Company had the following significant agreements with its parent and affiliated companies in effect, as of December 31, 2017:

Reinsurance Trust Agreement

In a letter dated May 30, 2017, the Company provided notice under Tenn. Code Ann. § 56-11-106(a)(2)(C) applicable to reinsurance agreements and related modifications to the Reinsurance Trust Agreement by and between the Company, Integon National Insurance Company (INIC), an affiliate, and J.P. Morgan Chase Bank, N.A. (JP Morgan Chase), a non-affiliate, in which J.P. Morgan Chase will govern the trust account into which INIC will transfer funds as collateral. The TDCI issued a letter of non-disapproval of this transaction dated June 30, 2017. The Company maintained $23,357,419 held in trust on December 31, 2017.

Reinsurance Agreement

Effective January 1, 2017, the Company and the other four (4) property & casualty company subsidiaries of DGC ("Ceding Companies") entered into a Reinsurance Agreement with INIC and National General Management Corp (NGMC). The Ceding Companies cede and transfer to INIC, which reinsures and assumes as its own obligation, one hundred percent (100%) of the Ceding Companies' respective in force business as of, and subsequent to, the effective date. The TDCI issued order TID No. 16-090 approving the transaction dated October 31, 2016.

Management Services Agreement

Effective November 1, 2016, all six (6) insurance company subsidiaries of DGC, including the Company, the other four (4) property & casualty companies, and a life insurance company ("DGC subsidiaries") entered into a Management Services Agreement with NGMC. NGMC will provide certain underwriting duties, claims services, actuarial services, policyholder services, accounting, information technology, and certain other administrative functions. NGMC acts as underwriting manager for the DGC subsidiaries, in particular, to underwrite, rate, quote, bind, accept, and reject insurance risks. The compensation for providing the services is based upon actual cost without a profit factor built into that cost. Amounts allocated to the Company under the agreement in 2017 were $9,359,760. The TDCI issued order TID No. 16-084 approving the transaction dated October 31, 2016.

Tax Allocation Agreement

Effective November 1, 2016, the DGC subsidiaries entered into a consolidated tax allocation agreement with NGHC. Each company's liability for all tax payments or entitlements to federal, state, or local tax refunds is based upon the amount of its tax liability or entitlement to a refund as calculated on a separate return basis and recorded accordingly in the corresponding period. The TDCI issued order TID No. 16-084 approving the transaction dated October 31, 2016.

Asset Management Agreement

Effective November 1, 2016, the DGC subsidiaries entered into an Asset Management Agreement with All Insurance Management Limited (AIM), a Bermuda corporation. AIM performs investment management services on behalf of each company in accordance with each company's Investment Guidelines. The TDCI issued order TID No. 16-084 approving the transaction dated October 31, 2016. However, order TID No. 16-084 did not approve Section 6, the compensation section, which NGHC withdrew. The Company paid $125,697 in investment fees in 2017. The Company amount was refunded in the first quarter of 2018. The agreement was terminated in 2018.

Intercompany Producer Agreements

The Company was party to producer agreements with its affiliated insurance agencies, DGIA and RCIA. The agreements authorize the agencies to produce business for the affiliated insurance companies and sets forth the related duties, limitations, and compensation. A copy of each of the producer agreements was reviewed during the examination.

Intercompany Premium Finance Settlement Agreement

The Company and its affiliated premium finance companies, Direct General Financial Services, Inc. and Direct General Premium Finance Company were parties to a Intercompany Premium Finance Settlement Agreement dated April 24, 2006, as amended May 1, 2014. This agreement documents the duties between the parties relating to the settlement of accounts for financed insurance premiums and return unearned premiums arising out of insurance premium finance agreements. There were no settlements under this agreement in 2017.

TERRITORY AND PLAN OF OPERATION

TERRITORY

The Company is a stock, for-profit property and casualty insurance company domiciled in Tennessee. The Company is licensed to write business in Tennessee, Arkansas, and South Carolina; however, it only writes in Tennessee and Arkansas. The Company has no plans to expand to any other states. Its Certificate of Authority from the TDCI was reviewed and found to be in force at December 31, 2017.

PLAN OF OPERATIONS

The Company writes private passenger auto and auto physical damage. The majority of business, ninety-nine and one-half percent (99.5%) is written in the State of Tennessee, with the remaining written in Arkansas. During the period of examination, the Company's net written premiums were reduced to $0, due to the one hundred percent (100%) assumption agreement with affiliate INIC, as described in the "Agreements with Parents and Affiliates" section above.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, according to its annual statements as filed with the TDCI:

Year	Admitted Assets	Liabilities	Capital and Surplus	Gross Premiums	Net Income
2017	$64,717,520	$41,031,114	$23,686,406	$72,135,155	$2,934,790
2016	$80,558,132	$57,010,173	$23,547,959	$67,382,296	$371,880

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements, the ratios of losses and loss adjustment expenses (LAE) incurred to earned gross premiums for the period subject to this examination were as follows:

Year	Losses and LAE	Earned Premiums	Loss Ratio
2017	$0	$0	0%
2016	$44,245,610	$65,603,569	67.44%

REINSURANCE AGREEMENTS

The Company cedes one hundred percent (100%) of gross written premiums, effective January 1, 2017, to INIC. See Reinsurance Agreement in "Agreements with Parent and Affiliates" above.

ACCOUNTS AND RECORDS

During the course of the examination, certain balances were tested and amounts were traced from the Company's trial balance to the annual statement. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. The Company has a custodial agreement with JP Morgan Chase, which was not authorized by a resolution of the Board or an authorized committee as required by Tenn. Comp. R. & Regs. 0780-01-46. The Company authorized the Chief Financial Officer and the Treasurer to enter into such agreements. See "Comments and Recommendations" section in this report.

The Company was approved to file a combined audited financial statement as permitted by Tenn. Comp. R. & Regs. 0780-1-65-.09 for the 2017 reporting year.

The Company failed to file unclaimed property reports for both years under examination as required by Tenn. Code Ann. §66-29-123. The Company did file an unclaimed property report for 2018. See "Comments and Recommendations" section in this report.

All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. These test checks and reviews revealed no material discrepancies.

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

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a market conduct review was performed, as of December 31, 2017. The following areas were reviewed:

Operations and Management Standards

Company anti-fraud initiatives were examined to determine if they are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts in compliance with Tenn. Code Ann. § 56-53-111. Company procedures and policies relating to privacy were reviewed to determine compliance with Tenn. Code Ann. § 56-8-104(19) and Tenn. Comp. R.& Regs. 0780-01-72. No exceptions were noted.

Complaint Handling Standards

The Company maintains a complaint register, as required by various state Unfair Trade Practices Acts. The Company's complaint procedures and complaint register were examined in accordance with requirements of Tenn. Code Ann. § 56-8-104(11) and the NAIC 2017 *Market Regulation Handbook* and were found to be in full compliance.

Marketing and Sales

The Company has an advertising program that includes television, radio, billboards, printer flyers, and the internet. Advertising materials were reviewed with no material exceptions noted.

Producer Licensing

The Company primarily writes business through agents who are employees of the holding company with only a small percentage of agents who are independent of the holding company. The Company has no employees and producer activities for the Company are performed under related party agreements. Agent licensing records were selected for review during the examination.

In the review of producer terminations and files, there were a few instances of terminations having been mailed to the Department in excess of fifteen (15) days, as required in Tenn. Code Ann. § 56-6-117(e). See "Comments and Recommendations" section in this report.

Policyholder Services

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

Underwriting and Rating Standards

In the examination of the Company's underwriting procedures and policy administration, policy files for open and closed policies were reviewed in accordance with established Company guidelines. During the examination of these contracts, there were no instances of unfair methods of competition or unfair or deceptive acts found. Underwriting procedures and policy administration conducted by the Company appear to be in compliance with established Company guidelines.

A sample of the policy forms used by the Company during the period of examination were reviewed. All rates were noted, without exception, as having been filed with the TDCI prior to their use in accordance with Tenn. Code Ann. § 56-35-111. The filings are consistent in form and included appropriate documents.

Claims Review

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

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. The Company paid $15,000,000 in stockholder dividends/distribution. The amount was extraordinary, and the Company received TDCI approval on March 28, 2019. The allocation was approximately sixty-two and sixty-two one hundredths percent (62.62%) as extraordinary dividend and thirty-seven and thirty-eight one hundredths percent (37.38%) as extraordinary distribution, between unassigned surplus and gross paid in and contributed surplus, respectively.

Other than the extraordinary dividend described above, no subsequent events were noted that required additional disclosure in this examination report. Our review confirmed the Company's disclosures in its 2017 Annual Statement and in its Letter of Representation. Management stated in their Letter of Representation that they were not aware of any events subsequent to December 31, 2017, that could have a material effect on the Company's financial condition.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income, as of December 31, 2017, together with a reconciliation of capital and surplus for the periods 2013-2017, as reported by the Company in its 2017 Annual Statement.

ASSETS

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$20,758,691		$20,758,691
Real Estate:			
Properties occupied by the company	161,743		161,743
Cash and cash equivalents	2,556,809		2,556,809
Investment income due or accrued	235,871		235,871
Premiums and considerations:			
Uncollected premiums and agents balances in the course of collection	5,811,427		5,811,427
Deferred premiums and agents balances and installments booked but deferred and not yet due	29,070,416		29,070,416
Reinsurance:			
Amounts recoverable from reinsurers	3,357,886		3,357,886
Current federal income tax recoverable	1,286,039		1,286,039
Net deferred tax asset	246,250		246,250
Receivables from parent, subsidiaries and affiliates	1,222,618		1,222,618
Aggregate write-ins for other than invested assets	9,770		9,770
Totals	$64,717,520		$64,717,520

LIABILITIES, SURPLUS, AND OTHER FUNDS

Ceded reinsurance premiums payable		$41,031,114
Total Liabilities		$41,031,114
Common capital stock	$2,519,175	
Gross paid in and contributed surplus	11,823,125	
Unassigned funds (surplus)	9,344,106	
Total Surplus as regards policyholders		23,686,406
Totals		$64,717,520

STATEMENT OF INCOME

Underwriting Income		
Premiums earned		$0
Other underwriting expenses incurred	$5,389	
Total underwriting deductions		5,389
Net underwriting gain/(loss)		(5,389)
Investment Income		
Net investment income earned	520,915	
Net realized capital gains or (losses)	(124,283)	
Net investment gain/(loss)		396,632
Other Income		
Net income before dividends to policyholders, after capital gains tax and before federal income taxes		391,243
Net income, after dividends to policyholders, after capital gains tax and before federal income taxes		391,243
Federal income taxes incurred		(2,542,790)
Net Income		$2,934,033

CAPITAL AND SURPLUS ACCOUNT

	2017	2016	2015	2014	2013
Capital and Surplus					
December 31, previous year	$23,547,959	$24,987,139	$24,759,042	$24,922,255	$20,684,645
Net income or (loss)	2,934,033	371,880	289,653	2,515,892	3,611,753
Change in net unrealized capital gains or (losses)	0	(509,117)	(217,275)	(239,098)	302,479
Change in net deferred income tax	(2,930,920)	191,766	148,002	96,532	7,204
Change in non-admitted assets	135,334	6,291	7,717	(36,539)	316,174
Dividends to stockholders	0	(1,500,000)	0	(2,500,000)	0
Net change in capital and surplus for the year	138,447	(1,439,180)	228,097	(163,213)	4,237,610
Capital and Surplus					
December 31, current year	$23,686,406	$23,547,959	$24,987,139	$24,759,042	$24,922,255

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Surplus as Regards Policyholders	$23,686,406

Total surplus as regards policyholders, as established by this examination, is the same as what was reported by the Company in its 2017 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed, as of December 31, 2017.

COMMENTS AND RECOMMENDATIONS

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

Comments

1. The Company's Bylaws requires the Board to designate a Chairman of the Board, CEO, President, and Secretary. The Company did not elect a Chairman or a CEO during the examination period.

   We suggest the Board of Directors designate a Chairman of the Board and CEO no later than the next scheduled Board meeting and at each annual meeting going forward in accordance with the Company's Bylaws.

2. The Company's Bylaws requires the officers' compensation, including salaries, to be fixed by the Board. This action was not completed for 2016.

   We suggest the Board of Directors set the officers' compensation, including salaries, annually going forward.

3. The Company's Bylaws allows action to be taken by the Board without a meeting. The action must be evidenced by one (1) or more written consents describing the action taken, signed by each director in one (1) or more counterparts and indicating each signing director's vote or abstention on the action. The action is effective when the last director signs the consent. The meeting on August 7, 2016, was intended to be executed by written consent to approve the ordinary dividend of $1,500,000 to DGC. One (1) of the directors did not sign the written consent.

   Going forward, we suggest the Company obtain signatures from each Director indicating the Director's vote or abstention on the action for each action taken by the Board of Directors without a meeting.

Recommendations

1. The Company was not in compliance with Tenn. Comp. R. & Regs. 0780-01-46, which requires custodial agreements to be authorized by a resolution of the Board or an authorized committee. The custodial agreement with JP Morgan Chase dated December 14, 2016, was not authorized by the Board.

   We recommend the custodial agreement be authorized by a resolution of the Board or an authorized committee.

2. The Company failed to file unclaimed property reports to the State of Tennessee Treasurer for 2016 and 2017 as required by Tenn. Code Ann. § 66-29-123.

   We recommend the Company annually report and distribute unclaimed property to the State of Tennessee.

3. The Company failed to properly timely notify the terminated producers within fifteen (15) days to the last known address on several terminations as required in Tenn. Code Ann. § 56-6-117.

   We recommend the Company provide a copy of the notification to the terminated producer within fifteen (15) days.

CONCLUSION

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

In such manner, it was found that, as of December 31, 2017, the Company had admitted assets of $64,717,520 and liabilities, exclusive of surplus, of $41,031,114. Thus, there existed for the additional protection of the policyholders, the amount of $23,686,406 in the form of common capital stock, gross paid in and contributed surplus, and unassigned funds (surplus). Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum capital of $1,000,000 and minimum surplus of $1,000,000. For this examination, as of December 31, 2017, the Company maintains sufficient capital and surplus as required pursuant to Tenn. Code Ann. §§ 56-2-114 and 56-2-115.

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

In addition to the undersigned, Jessica Lynch, Insurance Examiner and David Palmer, Supervising Insurance Examiner of Lewis & Ellis, Inc., participated in the work of this examination.

Respectfully submitted,

Omar D. Akel, CFE
Examiner-in-Charge
Lewis & Ellis, Inc.
Representing the State of Tennessee

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

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Direct Insurance Company located in Nashville, Tennessee, dated April 30, 2019, and made as of December 31, 2017, 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.

Omar D. Akel, CFE
Examiner-in-Charge
Lewis & Ellis, Inc.
Representing the State of Tennessee

State Nevada

County Clark

Subscribed to and sworn before me

this 5 day of June, 2019

(NOTARY)

My Commission Expires: 4/8/2020

ROBB PAPAGNO
Notary Public-State of Nevada
APPT. NO. 16-2212-1
My App. Expires April 08, 2020

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Direct Insurance Company located in Nashville, Tennessee, dated April 30, 2019, and made as of December 31, 2017, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information and belief.

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

State Tennessee

County Davidson

Subscribed to and sworn before me

this 7th day of June, 2019

Mindy C Walker
(NOTARY)

My Commission Expires: 7-6-2020

MINDY C WALKER
STATE OF TENNESSEE
NOTARY
PUBLIC
DAVIDSON COUNTY
MY COMMISSION EXPIRES 7-6-2020

EXHIBIT B

National General General
Insurance

June 11, 2019

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1135

RE: **Report of Examination – Direct Insurance Company**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for **Direct Insurance Company,** made as of December 31, 2017.

By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

Jeffrey Weissmann

Jeffrey Weissmann, General Counsel

National General Insurance
5630 University Parkway P.O. Box 3199 Winston-Salem, NC 27102-3199
336.435.2000 Fax 336.435.2122 www.NationalGeneral.com